



# Contraction in GDP of India in 2020-21: World Bank

## Why in News

Recently, the [World Bank](#) released its [South Asia Economic Focus report](#) which estimated that India's [Gross Domestic Product](#) (GDP) can contract **by 9.6% in 2020-21**.

- This estimate is way below the earlier forecast of 3.2% contraction, made in June.

## Key Points

### ▪ Contraction of Indian Economy in 2020-21

- The contraction is due to the impact of the [national lockdown](#) against the outbreak of the [Covid-19 pandemic](#) and the income shock experienced by households and small urban service firms.
- The **manufacturing and exporting industries** are likely to be depressed, and the **construction** sector is also likely to experience a protracted slowdown.
  - This is due to a **limited pipeline of public sector infrastructure projects** and reliance of these industries on [migrant workers](#) who have not yet returned to cities where they worked.
- Significant disruptions to jobs are likely to boost the **poverty rate**, with 2020 rates back to levels in 2016.
  - The [biennial Poverty and Shared Prosperity Report](#) was recently released by the World Bank which stated that Covid-19 can add around 27-40 million **new poor** in **Sub-Saharan Africa** and around 49-57 million in **South Asia** region, causing over 1.4% of the world's population to fall into **extreme poverty**.
- The demand slowdown could lead to [rising loan non-repayment](#) and **risk aversion** impacting the financial markets.
- Other concerns include [health care system capacity constraints](#), [rising food prices](#), [sharp drops in earnings of informal workers](#), [impact on the MSMEs](#) etc.

### ▪ South Asian Scenario:

- The **entire South Asia region** may face its **worst-ever recession**.
  - The regional GDP is estimated to contract by 7.7% in 2020, which stayed above 6% annually in the past five years.
  - This recession will be **different from previous ones** as earlier downturns were mainly due to **falling investment and exports** but this pandemic-induced recession is due to a **decline in private consumption**.
- **Private consumption**, which has been traditionally the backbone of demand in South Asia and a core indicator of economic welfare, will **decline by more than 10%**. This will **spike poverty rates**.
- A **decline in remittances** is also expected to accelerate the loss of livelihoods for the poorest in some countries.
- **Other South Asian Countries:** Countries like the Maldives, Sri Lanka are going to see a

contraction in their economies while Pakistan, Bangladesh, Bhutan will witness slow growth in 2020-21.

- The collapse of South Asian economies during Covid-19 has been the worst of all for **small businesses and informal workers** who suffer sudden job losses and vanishing wages.

#### ▪ **Rebound of Economy in 2021-22**

- India's growth is estimated to **rebound to 5.4%** in 2021-22.
  - However, this will be reflecting base effects and are based on the assumption that Covid-related restrictions will be completely lifted by 2022.
  - **Base Effect:** It is the distortion in a monthly inflation figure that results from abnormally high or low levels of inflation in the year-ago month.
- South Asia's growth is projected to rebound to 4.5% in 2021.
  - However, due to population growth, per-capita income in the region will remain 6% below 2019 estimates.
- The expected **rebound will not offset the lasting economic damage** caused by the pandemic.
- However, the pandemic could spur innovations that improve South Asia's future participation in global value chains.
  - The **Supply Chain Resilience Initiative** is a step in this direction which would reduce the dependence on imports from a handful of countries.
- The comparative advantage that South Asia and **India have in tech services** and niche tourism will likely be in higher demand as the global economy becomes more digital.

#### ▪ **Other Related News**

- India's **eight core industrial sectors contracted by 8.5%** in August 2020 compared to **August 2019**, marking the sixth month in a row of shrinking output.
- According to the recent **National Statistical Office (NSO)** data, India's **GDP growth contracted by 23.9%** in the first (April-June) quarter of 2020 compared to the same period (April-June) in 2019.

### **Way Forward**

- The World Bank urged governments to design universal social protection as well as policies that support greater productivity, skills development, and human capital.
- Amid a sudden and steep economic impact from the pandemic, South Asian governments proactively stabilized the economy through monetary easing, fiscal stimulus, and supportive financial regulation, but the situation is fragile. The governments need to address the deep-seated vulnerabilities of their informal sectors through smart policies and allocate their scarce resources wisely.

**Source: IE**

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