



## 4% Contraction in Growth: ADB

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### Why in News

According to the **Asian Development Outlook (ADO)** released by the **Asian Development Bank (ADB)**, the Indian economy is expected to contract by 4% during the current financial year (2020-21).

- Earlier, in April 2020, ADB had projected India's economy to grow at 4% in 2020-21.
- The ADO analyzes economic and development issues in developing countries in Asia. This includes forecasting the inflation and growth rates of countries throughout the region, including China and India.

# THE PROJECTIONS

for India's economy  
during 2020-21 (%),  
unless specified

Key Points

|                           |              |
|---------------------------|--------------|
| OECD                      | -3.7 to -7.3 |
| Bernstein                 | -7.0         |
| Goldman Sachs (for '20)   | -5.0         |
| Nomura                    | -5.0         |
| Fitch Ratings             | -5.0         |
| ICRA                      | -5.0         |
| CRISIL                    | -5.0         |
| India Ratings             | -2.1 to 1    |
| CII                       | -0.9 to 1    |
| Moody's Investors Service | -4.0         |
| World Bank                | -3.2         |
| IMF                       | 1.9          |
| Asian Development Bank    | -4.0         |

- **Reasons for Contraction:**

- Global health emergency created by the **Covid-19 pandemic**.
  - After the introduction of lockdowns in late March 2020, economic activity in South Asia came to standstill.
  - The lockdown also disrupted the supply chain.
- The **Gross Domestic Product (GDP)** slowed to 3.1% in the last quarter (Jan-March) of the financial year 2019-20. It is the slowest since early 2003.
- The overall economic growth slowed to 4.2% in 2019-20 as both exports and investment started to contract.
- The **Purchasing Managers' Index** fell to all-time lows in April 2020.
- Migrant workers have gone home to their villages after losing their jobs in the cities and will be slow to return to cities to work again.

- **Growth Projections for Developing Asia:**

Developing Asia refers to a group of over 40 countries, including India, that are members of the ADB. Growth of 0.1% is expected.

- This is down from the 2.2% forecast in April 2020 and would be the slowest growth for the region since 1961.
- However, China is expected to record a positive growth of 1.8% in 2020-21.

- **No V-shaped Recovery:**

- Even as lockdowns are slowly eased and select economic activities restart, economies in Asia and the Pacific will continue to feel the blow of the Covid-19 pandemic this year.
- Despite a higher growth outlook for the region in 2020-21, there will not be a **V-shaped recovery**.

- **Issues Involved:**

- The Covid-19 pandemic may see multiple waves of outbreaks in the coming period. This may lead to an increase in sovereign debt and worse to a financial crisis.
- There is also the risk of renewed escalation in **trade tensions** between the United States and China.

## **Asian Development Bank**

- ADB is a **regional development bank** established on **19<sup>th</sup> December 1966**.
- It has **68 members. India is a founding member**.
- As of 31 December 2019, ADB's five largest shareholders are **Japan and the United States (each with 15.6% of total shares)**, the People's Republic of China (6.4%), **India (6.3%)**, and Australia (5.8%).
- It aims to promote social and economic development in **Asia and the Pacific**.
- It is **headquartered in Manila, Philippines**.

## Way Forward

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- India should undertake policy measures to reduce the negative impact of Covid-19 and ensure that no further waves of the outbreak occur.
- As India has opened its economy, it needs to improve the supply chain which was disrupted due to lockdown.
- A labour market recovery will be a key to the economy running again.

## **Source: TH**