



4% Contraction in Growth: ADB

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

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

Key Points [//](#)

▪ **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 **19th 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

- 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](#)

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