

January 2021

**Recent developments:** The COVID-19 pandemic has caused deep output losses and contributed to a sharp rise in poverty and unemployment in South Asia. Output in the region contracted by an estimated 6.7% in 2020, reflecting the effects of the pandemic and nationwide lockdowns, particularly in Bangladesh and India. Activity rebounded in the second half of last year, led by industrial production, as initial stringent lockdowns were eased.

In India, the pandemic hit the economy at a time when growth was already decelerating. Output is estimated to contract by 9.6% in Fiscal Year 2020/21, reflecting a sharp drop in household spending and private investment. The informal sector, which accounts for four-fifths of employment, has also been subject to severe income losses during the pandemic. Recent high frequency data indicate that the services and manufacturing recovery is gaining momentum. In the rest of the region, the economic impact of COVID-19 has been somewhat less severe but still significant. Economies that depend heavily on tourism and travel have been especially hard hit (Maldives, Nepal, Sri Lanka).

In Bangladesh, which had been one of the fastest growing emerging market and developing economies prior to the pandemic, growth is estimated to have decelerated to 2% in FY2019/20. In Pakistan, growth is estimated to have contracted by 1.5% in FY2019/20, reflecting the effects of localized COVID-19 containment measures as well as the impact of monetary and fiscal tightening prior to the outbreak.

**Outlook:** The region is projected to grow by 3.3% in 2021. Weak growth prospects reflect a protracted recovery in incomes and employment, especially in the services sector, limited credit provisioning constrained by financial sector vulnerabilities, and muted fiscal policy support. The forecast assumes that a vaccine will be distributed on a large scale in the region starting the second half of 2021 and that there is no widespread resurgence in infections.

In India, growth is expected to recover to 5.4% in 2021, as the rebound from a low base is offset by muted private investment growth given financial sector weaknesses. In the financial sector, non-performing loans were already high before the pandemic. In Pakistan, the recovery is expected to be subdued, with growth at 0.5% in FY 2020/21. Growth is projected to be held back by continued fiscal consolidation pressures and service sector weakness.

In economies that rely on external sources of growth such as manufacturing exports (Bangladesh) and tourism (Bhutan, Maldives, Nepal, Sri Lanka), the recovery is likely to be particularly modest. Tourism revenue is likely to remain significantly below pre-pandemic levels because of depressed demand as potential tourists remain wary of social interactions and continued restrictions on international travel, although recent vaccine news offers hope.

**Risks:** Risks to the outlook are tilted to the downside. They include more severe and longer-lasting infection rates from the pandemic, financial and debt distress caused by an abrupt tightening of financing conditions or possible widespread corporate bankruptcies, adverse effects of extreme weather and climate change, weaker-than-expected recoveries in key partner economies, and a worsening of policy- and security-related uncertainty.

Additional stress on domestic banks in the region could be triggered by the economic consequences of a more protracted recovery from the pandemic, which in turn could lead to a rise in bankruptcies and weaken the

balance sheets of the banking and non-banking sectors among several economies of the region (Bangladesh, Bhutan, India, Sri Lanka). Extreme weather events also remain an important regional risk.

[Download \*Global Economic Prospects\*](#)

### South Asia Country Forecasts

(Annual percent change unless indicated otherwise)

	2018	2019	2020e	2021f	2022f
<b>GDP at market prices (2010 US\$)</b>					
<b>Calendar Year Basis<sup>a</sup></b>					
<b>Afghanistan</b>	1.2	3.9	-5.5	2.5	3.3
<b>Maldives</b>	8.1	7.0	-21.5	9.5	11.5
<b>Sri Lanka</b>	3.3	2.3	-6.7	3.3	2.0
<b>Fiscal Year Basis<sup>a</sup></b>					
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20e</b>	<b>2020/21f</b>	<b>2021/22f</b>
<b>Bangladesh</b>	7.9	8.2	2.0	1.6	3.4
<b>Bhutan</b>	3.8	4.3	0.7	-0.7	2.3
<b>India</b>	7.0	6.1	4.2	-9.6	5.4
<b>Nepal</b>	6.7	7.0	0.2	0.6	2.5
<b>Pakistan (factor cost)</b>	5.5	1.9	-1.5	0.5	2.0

Source: World Bank.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

a. Please see regional annex for details on fiscal year reporting.

[Download the data](#)

### World Bank Group COVID-19 Response

The [World Bank Group](#), one of the largest sources of funding and knowledge for developing countries, is taking [broad, fast action](#) to help developing countries strengthen their pandemic response. It is supporting public health interventions, working to ensure the flow of critical supplies and equipment, and helping the private sector continue to operate and sustain jobs.

The World Bank Group is making available up to \$160 billion over a 15-month period ending June 2021 to help more than 100 countries protect the poor and vulnerable, support businesses, and bolster economic recovery. This includes \$50 billion of new IDA resources through grants and highly concessional loans and [\\$12 billion for developing countries](#) to finance the purchase and distribution of COVID-19 vaccines.