

# SOUTH ASIA



*Growth in South Asia is projected to accelerate to 6.9 percent in 2018 from 6.6 in 2017, mainly reflecting fading disruptions to economic activity in India. Growth in the rest of the region is expected to stabilize at 5.6 percent in 2018. Over the forecast horizon, growth is projected to reach 7.1 percent on average in 2019-20, reflecting broad-based strengthening across the region. Despite the possibility of upside surprises to global activity, risks to the outlook are still tilted to the downside. Downside risks relate to both domestic factors, especially policy slippages amid sizable fiscal adjustment needs, and external factors, including the possibility of a faster-than-expected tightening of global financial conditions and increased global trade tensions.*

## Recent developments

Growth in South Asia slowed but remained strong at an estimated 6.6 percent in 2017 (Figure 2.5.1). Growth in the region has improved markedly since mid-2017 and continued to firm in early 2018, reflecting improved consumer and investor sentiment, higher investment, and firming exports (e.g., Bangladesh, India, Sri Lanka). Growth in South Asia continues to rely on domestic demand, with firming but modest support from export growth (e.g., Bangladesh, India). Import growth is accelerating amid strengthening domestic demand, while higher energy prices are also contributing to a further deterioration of trade and current account balances (e.g., India, Nepal, Pakistan).

Domestic and external financial market conditions have been generally supportive, but sovereign bond spreads have increased in 2018 amid rising inflation expectations and monetary policy normalization in advanced economies. Monetary policy in the region has remained broadly accommodative and supported fast credit growth (e.g., Bangladesh, Pakistan); however, the

State Bank of Pakistan recently hiked its policy rate to reduce growing external pressures. Inflation has been increasing in the region recently, and is close to or above targets in some countries (e.g., India, Sri Lanka). In many countries, budget deficits continue to be sizable or have widened further in 2018 reflecting both weaker-than-expected revenues and expansionary policies (e.g., Bangladesh, Nepal) with fiscal policies being generally pro-cyclical in the region.

India's GDP growth bottomed out in the middle of 2017 after slowing for five consecutive quarters, and has since improved significantly, with momentum carrying over into 2018 on the back of a recovery in investment. Although investment growth was still moderately lower in 2017 than in 2016, high-frequency indicators suggest that it accelerated into 2018. The temporary disruptions caused by the implementation of the Goods and Services Tax dissipated by mid-2017, and manufacturing output and industrial production have continued to firm since then (World Bank 2018m).<sup>1</sup>

Growth in the region excluding India has been mixed in the first half of 2018. In Bangladesh,

---

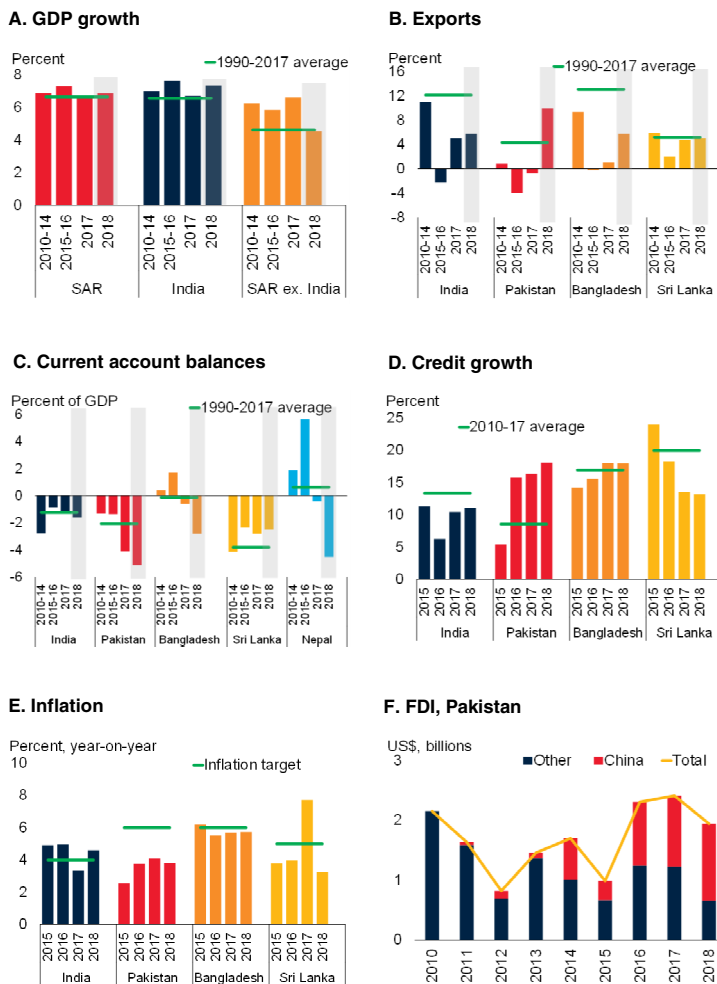
Note: This section was prepared by Temel Taskin with contributions from Ekaterine Vashakmadze. Brent Harrison provided research assistance.

---

<sup>1</sup>World Bank (2018m) presents a comprehensive section on the structure of Goods and Services Tax.

## FIGURE 2.5.1 SAR: Recent developments

Growth in South Asia moderated in 2017 to an estimated 6.6 percent. Economic activity in 2018 continues to rely mainly on domestic demand, with improved but modest support from export volume growth, despite a strong rebound in global trade. Current account balances have deteriorated due to higher imports and rising oil prices. Strong domestic demand has supported credit growth, and inflation is above or close to central bank targets. China's investment has been rising in the region, especially through the China-Pakistan Economic Corridor.



Sources: Haver Analytics, International Monetary Fund, Pakistan Board of Investment, World Bank. A. SAR stands for South Asia Region. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights. Shaded area indicates forecasts. Data for 2018 are forecasts.

B. Data refers to trade volume of goods and non-factor services. Shaded area indicates forecasts. Data for 2018 are forecasts. Data for Bangladesh, India, and Pakistan are based on fiscal year. Data for Sri Lanka are based on calendar year.

C. Shaded area indicates forecasts. Data for Bangladesh, India, and Pakistan are based on fiscal year. Data for Sri Lanka are based on calendar year.

D. Last observation is March 2018.

E. Last observation is April 2018.

F. 2018 (FY2017/18) figures are from July through February.

[Click here to download data and charts.](#)

2018 has been supported by a recovery in investment, especially in the construction and agriculture sectors, and related activities, following a slowdown in 2017 driven in part by adverse weather conditions.

Pakistan's GDP growth rose in FY2017/18, supported by infrastructure projects funded by the China-Pakistan Economic Corridor (CPEC), improvements in energy supply, and persistent private consumption growth. In Bhutan, growth has been moderating, partly owing to delays in hydropower projects. However, growth is still strong, at 5.8 percent in FY2017/18. In Afghanistan, the recovery continues to be disrupted by security challenges and political uncertainty.

## Outlook

Growth in South Asia is forecast to pick up to 6.9 percent in 2018, mainly reflecting the fading effects of temporary factors that weakened activity in India (Figure 2.5.2). The forecast is broadly unchanged from January 2018. Domestic demand is the key driver of growth in the region, although firming exports should provide additional support in 2018 (World Bank 2018n). The baseline scenario assumes a moderating recovery in global trade, higher commodity prices, and gradually tightening global financing conditions.

Growth in India is projected to accelerate to 7.3 percent in FY2018/19 and 7.5 percent on average in 2019-20, reflecting robust private consumption and firming investment, broadly in line with January projections. In the rest of the region, growth will remain stable at about 5.6 percent in 2018 and throughout the forecast horizon as ongoing recoveries in Bangladesh, Pakistan, and Sri Lanka are offset by slower growth in Afghanistan, Bhutan, and Maldives. In Pakistan, GDP growth is estimated to rise to 5.8 percent in FY2017/18, before moderating to 5.0 percent in FY2018/19, reflecting tighter policies to improve macroeconomic stability. In Bangladesh, growth is expected to recover from the effects of natural disasters in FY2017/18 and reach 6.7 percent in FY2018/19, supported in part by robust export growth and remittances. Sri Lanka's GDP is

growth has rebounded following the natural disasters of mid-2017 (e.g., severe floods and landslides), and activity has remained strong and broad-based in 2018. In Sri Lanka, activity in

projected to grow 4.6 percent on average over the period 2018-20, reflecting a recovery from the effects of last year's natural disasters on agriculture, as well as robust consumption and investment growth. After the strong rebound in FY2016/17 from the effects of the devastating earthquakes in FY2015/16, Nepal's GDP growth is forecast to moderate to 4.6 percent in FY 2017/18 and average 4.3 percent in 2019-20. In Bhutan and Maldives, growth will continue to benefit from construction and services, especially tourism, and average 7.4 and 5 percent respectively over the forecast horizon. In Afghanistan, growth will remain subdued due to continued security challenges and political uncertainty.

Per capita growth rates in the region are strong, and are expected to help bring down poverty in coming years, particularly in India. Nonetheless, addressing underlying structural weaknesses and macroeconomic vulnerabilities remain key challenges in the region (Farole and Pathikonda 2016; World Bank 2018c).

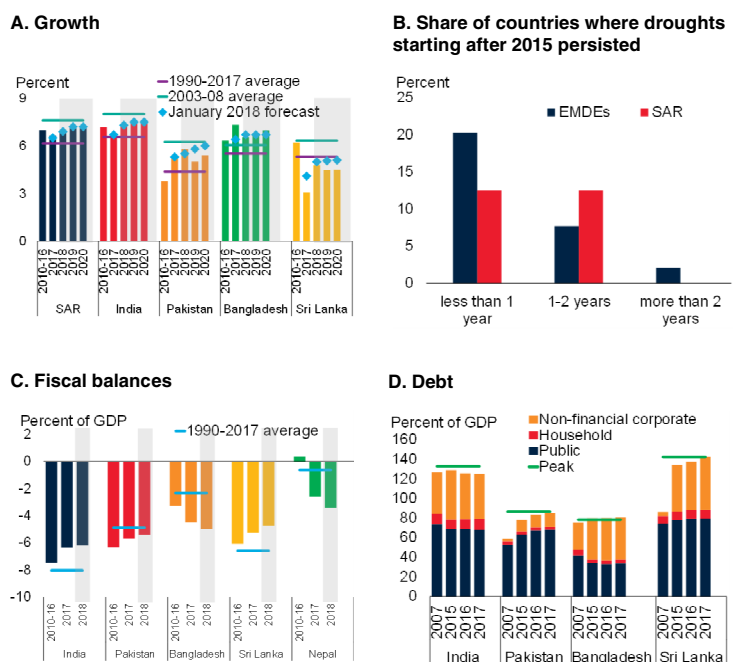
## Risks

Risks to South Asia outlook are tilted to the downside, although upside surprises to global growth remain a possibility in the short-term. These include domestic policy slippages, renewed security challenges, and natural disasters. The outlook could also be adversely affected by external shocks such as an abrupt tightening of global financial conditions and escalating trade protectionism, even though the region is relatively less open to trade. Since South Asia is net oil importer, a higher-than-expected rise in oil prices might amplify macroeconomic vulnerabilities and weigh on economic activity.

In a number of countries, a further deterioration in fiscal balances (e.g., India, Maldives, Pakistan, Sri Lanka), a continued buildup of debt, and widening current account deficits (e.g., Pakistan), present significant vulnerabilities to a tightening of domestic or external financing conditions (Basu, Eichengreen, and Gupta 2015). Furthermore, a setback in the implementation of reforms to resolve weakening corporate and financial sector

**FIGURE 2.5.2 SAR: Outlook and risks**

Growth in the region is predicted to pick up to 6.9 percent in 2018, and stabilize at around 7.1 percent over the medium term. Domestic demand will continue to be the main driver of growth. Natural disasters and persistent droughts remain a downside risk for economic activity. The region continues to face significant fiscal vulnerabilities.



Sources: Bank for International Settlements, Emergency Events Database (www.emdat.be, Brussels, Belgium), Institute of International Finance, International Monetary Fund, World Bank.  
 A. SAR stands for South Asia Region.  
 A.C. Shaded areas represent forecast. Data for Bangladesh, India, and Pakistan are based on fiscal year. Data for Sri Lanka is based on calendar year.  
 D. The peak is defined as the highest debt-to-GDP ratio since 2005Q1. It is identified to have occurred in 2009Q3 in India, 2017Q2 in Pakistan, in 2017Q3 in Bangladesh, and 2017Q3 in Sri Lanka. 2017 data reflects 2017Q3. Total debt comprised of credit to non-financial corporations, households, and general government debt. All data are based on calendar year.  
[Click here to download data and charts.](#)

balance sheets could hold back the investment recovery currently underway and dampen credit growth in the region.

An increase in political uncertainty (e.g., Afghanistan, Bangladesh, Pakistan, Sri Lanka) and further deterioration in the security environment in some countries (e.g., Afghanistan) might dampen confidence and set back growth. In recent years, the number of people and geographical areas affected by natural disasters such as drought, floods, and earthquakes have risen in the region. A rise in the prevalence of natural disasters, including those caused by climate change, could disrupt infrastructure, agricultural output, and economic activity in general (e.g., Bhutan, Nepal, Sri Lanka).

**TABLE 2.5.1 South Asia forecast summary**

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2015	2016	2017e	2018f	2019f	2020f	Percentage point differences from January 2018 projections		
				2018f	2019f	2020f	2018f	2019f	2020f
<b>EMDE South Asia, GDP<sup>1,2</sup></b>	<b>7.1</b>	<b>7.5</b>	<b>6.6</b>	<b>6.9</b>	<b>7.1</b>	<b>7.2</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>
(Average including countries with full national accounts and balance of payments data only) <sup>3</sup>									
EMDE South Asia, GDP <sup>3</sup>	7.1	7.5	6.7	6.9	7.2	7.2	0.0	0.0	0.0
GDP per capita (U.S. dollars)	5.8	6.2	5.4	5.6	5.9	6.0	-0.1	-0.1	0.0
PPP GDP	7.1	7.5	6.7	6.9	7.1	7.2	0.0	-0.1	0.0
Private consumption	5.5	8.4	7.6	6.6	6.9	7.0	-0.6	-0.2	-0.1
Public consumption	2.6	13.8	6.7	9.7	8.8	8.5	0.0	-0.4	-0.7
Fixed investment	5.5	4.7	10.3	7.6	7.7	7.7	1.5	0.7	0.0
Exports, GNFS <sup>4</sup>	-5.0	0.9	4.5	5.7	6.1	6.1	0.2	-0.4	-0.6
Imports, GNFS <sup>4</sup>	-3.8	0.3	6.2	7.5	6.5	6.1	2.1	0.8	0.2
Net exports, contribution to growth	-0.1	0.1	-0.6	-0.7	-0.4	-0.3	-0.5	-0.3	-0.2
<b>Memo items: GDP<sup>2</sup></b>	<b>15/16</b>	<b>16/17</b>	<b>17/18e</b>	<b>18/19f</b>	<b>19/20f</b>	<b>20/21f</b>	<b>18/19f</b>	<b>19/20f</b>	<b>20/21f</b>
South Asia excluding India	5.4	5.8	5.6	5.6	5.6	5.7	-0.2	-0.3	-0.3
India	8.2	7.1	6.7	7.3	7.5	7.5	0.0	0.0	0.0
Pakistan (factor cost)	4.6	5.4	5.8	5.0	5.4	5.4	-0.8	-0.6	-0.6
Bangladesh	7.1	7.3	6.5	6.7	7.0	7.0	0.0	0.3	0.3

Source: World Bank.

Notes: e = estimate; f = forecast. EMDE = emerging market and developing economy. 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 differ at any given moment in time.

1. GDP at market prices and expenditure components are measured in constant 2010 U.S. dollars.

2. National income and product account data refer to fiscal years (FY) for the South Asian countries, while aggregates are presented in calendar year terms. The fiscal year runs from July 1 through June 30 in Bangladesh, Bhutan, and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India.

3. Sub-region aggregate excludes Afghanistan, Bhutan, and Maldives, for which data limitations prevent the forecasting of GDP components.

4. Exports and imports of goods and non-factor services (GNFS).

For additional information, please see [www.worldbank.org/gep](http://www.worldbank.org/gep).

**TABLE 2.5.2 South Asia country forecasts**

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2015	2016	2017e	2018f	2019f	2020f	Percentage point differences from January 2018 projections		
				2018f	2019f	2020f	2018f	2019f	2020f
<b>Calendar year basis<sup>1</sup></b>									
Afghanistan	1.3	2.4	2.6	2.2	2.5	3.3	-1.2	-0.6	0.2
Maldives	2.2	6.2	6.2	5.5	4.5	4.9	0.6	-0.5	-0.1
Sri Lanka	5.0	4.5	3.1	4.8	4.5	4.5	-0.2	-0.6	-0.6
<b>Fiscal year basis<sup>1</sup></b>									
Bangladesh	7.1	7.3	6.5	6.7	7.0	7.0	0.0	0.3	0.3
Bhutan	7.3	7.4	5.8	5.4	6.0	8.7	-1.5	-1.6	1.1
India	8.2	7.1	6.7	7.3	7.5	7.5	0.0	0.0	0.0
Nepal	0.6	7.9	6.3	4.5	4.2	4.2	0.0	-0.3	-0.3
Pakistan (factor cost)	4.6	5.4	5.8	5.0	5.4	5.4	-0.8	-0.6	-0.6

Source: World Bank.

Notes: 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.

1. Historical data is reported on a market price basis. National income and product account data refer to fiscal years (FY) for the South Asian countries with the exception of Afghanistan, Maldives, and Sri Lanka, which report in calendar year. The fiscal year runs from July 1 through June 30 in Bangladesh, Bhutan, and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India.

For additional information, please see [www.worldbank.org/gep](http://www.worldbank.org/gep).