

Recent developments: Economic activity in South Asia has improved markedly since mid-2017 and continued to gain strength in early 2018, reflecting improved consumer and investor sentiment and stronger investment. Inflation has been increasing and is above target in India. In many countries, budget deficits have widened this year, reflecting weaker-than-expected revenues and expansionary policies, such as in Bangladesh or Nepal. India's GDP has improved significantly since the middle of last year and has carried momentum into 2018 thanks to a recovery in investment.

Growth in the region excluding India has been broadly stable. Activity in Bangladesh has been strong and broad-based this year. Sri Lanka has experienced robust economic activity helped by a recovery in investment. Growth in Pakistan has accelerated with the help of infrastructure projects related to the China Pakistan Economic Corridor.

Outlook: Growth in the region is projected to strengthen to 6.9 percent in 2018 and to 7.1 percent in 2019, mainly as factors holding back growth in India fade. Domestic demand is a key driver of growth in the region, and a pickup in exports should add additional support to economic growth.

Growth in India is projected to advance 7.3 percent in Fiscal Year 2018/19 (April 1, 2018-March 31, 2019) and 7.5 percent in FY 2019/20, reflecting robust private consumption and strengthening investment. In the rest of the region, ongoing recoveries in Bangladesh, Pakistan, and Sri Lanka are expected to be offset by slower growth in Afghanistan, Bhutan and Maldives.

Pakistan is anticipated to expand by 5 percent in FY 2018/19 (July 1, 2018-June30, 2019), reflecting tighter policies to improve macroeconomic stability. Bangladesh is expected to accelerate to 6.7 percent in FY 2018/19 (July 1, 2018-June30, 2019).

Per capita growth rates in the region are advancing at rates expected to help bring down poverty in coming years, especially in India.

Risks: Risks to the outlook are tilted to the downside. Even though the region is less open to trade than elsewhere, the outlook could be adversely affected by external shocks such as an abrupt tightening of global financial conditions or an escalation of trade protection. A higher-than-expected rise in oil prices could amplify macroeconomic vulnerabilities and weigh on economic activity in a region that is a net importer of oil.

Further deterioration of fiscal balances, a continued build-up of debt or a widening of current account deficits would leave countries of the region exposed in the event of tightening of domestic or external financing conditions. Reform setbacks could hold back the investment recovery that is underway and slow credit growth in the region.

An increase in policy uncertainty or deterioration of the security environment could dampen confidence and slow growth. The region has experienced an increased incidence of natural disasters in recent years, many of them associated with climate change, and further occurrences could disrupt economic activity.

South Asia Country Forecasts

(Annual percent change unless indicated otherwise)

	2015	2016	2017e	2018f	2019f	2020f
GDP at market prices (2010 US\$)						
Calendar Year Basis^a						
Afghanistan	1.3	2.4	2.6	2.2	2.5	3.3
Maldives	2.2	6.2	6.2	5.5	4.5	4.9
Sri Lanka	5.0	4.5	3.1	4.8	4.5	4.5
Fiscal Year Basis^a						
	15/16	16/17	17/18e	18/19f	19/20f	20/21f
Bangladesh	7.1	7.3	6.5	6.7	7.0	7.0
Bhutan	7.3	7.4	5.8	5.4	6.0	8.7
India	8.2	7.1	6.7	7.3	7.5	7.5
Nepal	0.6	7.9	6.3	4.5	4.2	4.2
Pakistan (factor cost)	4.6	5.4	5.8	5.0	5.4	5.4

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.

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