

Recent developments: Growth in the **South Asia** region held steady at an estimated 6.8 pace in 2016, buoyed by robust domestic demand. Limited global integration has shielded South Asia from negative external spillovers.

India, which accounts for four-fifths of the region's GDP, is expected to grow at an estimated 7.0 percent in fiscal year 2017, which ends March 31, reflecting the direct and indirect benefits of a normal monsoon following two years of sub-par rains, and solid private and public consumption. India's slight growth slowdown from the preceding fiscal year reflects the short-term impact of the unexpected exchange of most of the bank notes in circulation. Ongoing weakness in private investment also weighed on activity.

Pakistan's growth is expected to reach 5.2 percent, at factor cost, in FY2017, which ends June 30, lifted by rising domestic demand and reforms that have improved the business climate. The successful conclusion of an International Monetary Fund Extended Fund Facility (EFF) program to support reforms and reduce fiscal and external vulnerabilities, contributed to increased consumer and investor confidence.

Sri Lanka's growth held steady at 4.8 percent in 2016, boosted by the construction and services sectors and resumption of the Colombo Port City real estate project. Weak exports, flooding, and a deceleration in private investment weighed on activity. Bangladesh is expected to ease to 6.8 percent growth rate in FY2017, which ends on June 30, amid domestic security challenges and sluggish external demand. A slowdown in remittances dampened private consumption and investment in both Bangladesh and Sri Lanka.

Outlook: Regional growth is expected to pick up modestly to 7.1 percent in 2017 with continued support from strong growth in India. Excluding India, growth is expected to edge up to 5.5 percent in 2017, helped by robust private and public consumption, infrastructure spending, and a rebound in private investment. The region's growth projections will likely be affected by heightened uncertainty and subdued growth in its key export markets, the United States and the Euro Area.

India is expected to regain its growth momentum to 7.6 percent in FY2018 as reforms loosen domestic supply bottlenecks and increase productivity. Moderate inflation, and a civil service pay raise should continue to support real incomes and consumption. Private investment is expected to recover as firms and banks deleverage and the effects of important structural reforms such as the Goods and Services Tax and the Insolvency and Bankruptcy Code start being felt.

Pakistan is projected to accelerate to 5.5 percent, at factor cost, in FY2018, reflecting improvements in agriculture and infrastructure spending. Bangladesh's growth is foreseen to edge slightly lower to 6.5 percent in FY2018, reflecting receding remittances inflows and weak exports. Growth in Sri Lanka is forecast to climb to 5 percent in 2017, supported by increased private consumption and a rise in foreign direct investment.

Risks: Risks to the outlook are on balance tilted to the downside. Most of the risks are domestic. Slippages in addressing fiscal imbalances and further deterioration in financial and corporate sector stability could slow growth in Bangladesh and India. Rising debt levels could weaken prospects in India, Pakistan and Sri Lanka. Security challenges and political tensions could pull back growth in Afghanistan, Pakistan and Sri Lanka. Uncertainty about fiscal consolidation could weigh on confidence in the near-term in Bangladesh, India, and Sri Lanka.

Although the region's global integration is relatively limited, heightened policy uncertainty in the United States and Euro Area, unexpected tightening of financial conditions, a jump in energy prices, and prolonged sluggish growth in key export markets could slow growth.

South Asia Country Forecasts

(annual percent change unless indicated otherwise)

	2014	Est. 2015	Forecast 2016	2017	2018	2019
GDP at market prices (2010 US\$)						
Calendar Year Basis^a						
Afghanistan	1.3	0.8	1.2	1.8	3.0	3.6
Bhutan	5.7	6.5	7.4	9.9	11.7	11.7
Maldives	6.5	1.9	3.5	3.9	4.6	4.6
Sri Lanka	4.9	4.8	4.8	5.0	5.1	5.1
Fiscal Year Basis^a						
	14/15	15/16	16/17	17/18	18/19	19/20
Bangladesh	6.6	7.1	6.8	6.5	6.7	7.0
India	7.2	7.6	7.0	7.6	7.8	7.8
Nepal	2.7	0.6	5.0	4.8	4.7	4.7
Pakistan (at factor cost)	4.0	4.7	5.2	5.5	5.8	5.8

Source: World Bank.

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.