Recent developments: South Asia was the fastest-growing developing region in 2015. Economic activity has remained resilient despite headwinds from the global economy, as domestic demand, the main driver of growth, remained robust through the first half of the year. India, the region's largest economy, showed strengthening activity, as did Pakistan, Bangladesh and Bhutan. Most South Asian economies have benefitted from the decline in oil prices, low inflation, and steady remittance flows.

Foreign direct investment in India has surged over the 18-month period ending in February thanks to the government's "Make in India" campaign, with computer software and automotive industries the primary beneficiaries. Manufacturing activity accelerated and purchasing manager indicators showed buoyant sentiment. Increased public spending on power generation, roads, railways and urban infrastructure has contributed to an improved business environment.

Faster growth in Pakistan was supported by an improving security situation, lower oil prices, higher remittances, an acceleration in credit growth, and rising public investment. Output in Bangladesh was helped by increased public investment, public sector wage increases, and steady remittance flows. Growth in Sri Lanka remained steady. However risks to macroeconomic stability have risen. Sri Lanka reached a staff-level agreement with the International Monetary Fund in April for a $1.5 billion funding facility.

Outlook: Growth in South Asia is forecast to accelerate to 7.1 percent in 2016, 0.2 of a percentage point lower than the January forecast due in part to weaker-than-expected growth in advanced economies, which has dampened export growth in the region.

India is anticipated to grow at a 7.6 percent rate in fiscal year 2016/17. The outlook assumes rural incomes and spending will rebound with a return to normal monsoon rainfall after two years of poor rain. The opening-up of new sectors to foreign investment is expected to attract foreign investment.. Public spending on infrastructure and the planned streamlining of business procedures and the tax regime, and accommodative monetary policy are expected to be further conducive to private investment.

Pakistan's growth is forecast to accelerate to a 4.5 percent pace at factor cost in FY 2016/17, thanks to improvements in its power supply and security situation. Investments under the China Pakistan Economic Corridor should provide a boost to demand in the short run, and the project should ease transportation bottlenecks and energy shortages.

Sri Lanka is expected to see growth pick up to 5.3 percent in 2016, supported by infrastructure spending and foreign investment linked to the Port City and Western Province Megapolis initiatives. Growth in Bangladesh is expected to ease to 6.3 percent in FY 2016/17 from 6.5 percent the previous year, on account of poor harvests and slowing credit growth.

Risks: Setbacks to the implementation of key reforms could hamper growth in the region. Entrenched political obstacles could delay land and tax reforms in India or privatization efforts in Pakistan. Delays in these reforms could compromise future productivity and dampen growth prospects.

Vulnerabilities in large bank balance sheets could lead to financial stress and weigh on lending. Some corporate borrowers, particularly state-owned enterprises, are facing sizable losses, which could eventually turn into nonperforming bank loans and government liabilities.

Weaker than expected global trade or an unexpected tightening of global financing conditions could also slow growth, even though the region is less integrated with global markets than other developing regions. Remittance flows could slow sharply if Gulf Cooperation Council countries implement deeper-than-expected spending cuts, a risk in particular to Bangladesh, Nepal, Pakistan and Sri Lanka.

South Asia forecast summary

(annual percent change unless indicated otherwise)			**Est.**	**Forecast**		
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
GDP at market prices (2010 US$)						
Calendar year basis [a]						
Afghanistan	2.0	1.3	1.5	1.9	2.9	3.6
Bangladesh	6.1	6.3	6.4	6.6	6.4	6.0
Bhutan	3.9	5.8	6.7	6.8	8.0	8.0
India	6.4	7.1	7.5	7.5	7.6	7.7
Maldives	4.7	6.5	1.9	3.5	3.9	4.6
Nepal	4.9	4.4	1.7	2.7	4.5	4.4
Sri Lanka	3.4	4.9	4.8	5.3	5.3	5.3
Fiscal year basis [a]	**2013/14**	**2014/15**	**2015/16**	**2017/18**	**2018/19**	**2019/20**
Bangladesh	6.0	6.1	6.5	6.3	6.8	6.0
Bhutan	3.9	5.8	6.7	6.8	8.0	8.0
India	6.6	7.2	7.6	7.6	7.7	7.7
Nepal	3.8	6.0	2.7	0.6	4.7	4.4
Pakistan *(at factor cost)*	3.7	4.0	4.2	4.5	4.8	5.1

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. 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 (CY). 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. 2014 fiscal year data, as reported in the table for India, Pakistan, Bangladesh, Nepal, cover FY2014/15. GDP figures presented in calendar years (CY) terms for Bangladesh, Nepal, and Pakistan are calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity. Historical GDP data in CY terms for India are the sum of GDP in the four calendar quarters.