

January 2020

**Recent developments:** Growth in the region is estimated to have decelerated to 4.9% in 2019. The slowdown was pronounced in the two largest economies, India and Pakistan. Economic activity in India slowed sharply in the April-June and July-September quarters, registering 5.0% and 4.5% growth, respectively. Pakistan's GDP growth eased to 3.3% in FY2018/19. Weak confidence, liquidity issues in the financial sector in India and monetary tightening in Pakistan caused a sharp deceleration in fixed investment and a considerable softening in private consumption. Export and import growth moderated for the region as a whole, in line with a continued slowdown in global trade and industrial activity. Business confidence was hampered by subdued consumer demand in India and security challenges in Sri Lanka.

Bangladesh, the third-largest economy in the region, grew at an officially estimated 8.1% in FY2018/19, which ended June 30 of last year. Moderation in domestic demand was more than offset by a pickup in exports, partly as a result of trade diversion following bilateral tariff increases between the United States and China.

Growth in Sri Lanka continued to soften in 2019, to an estimated 2.7%, as tourist arrivals fell off. Growth in Nepal is estimated at 7.1% in FY2018/19, which ended July 15 of last year, the third consecutive year of growth of over 6 percent. Activity was underpinned by solid remittance inflows, buoyant tourist arrivals, and good monsoons.

**Outlook:** Growth in the region is expected to rise to 5.5% in 2020, assuming a modest rebound in domestic demand and as economic activity benefits from policy accommodation in India and Sri Lanka and improved business confidence and support from infrastructure investments in Afghanistan, Bangladesh, and Pakistan. The weak global trade outlook will continue to weigh on regional export growth in the near term.

In India, where weakness in credit from non-bank financial companies is expected to linger, growth is projected to slow to 5% in FY 2019/20, which ends March 31, and recover to 5.8% the following fiscal year. This forecast is predicated on the monetary policy stance remaining accommodative and assumes that stimulative fiscal and structural measures already taken will begin to pay off.

Macroeconomic adjustment in Pakistan, including a continuation of tight monetary policy and fiscal consolidation is expected to continue. Growth is expected to rise to 3% in the next fiscal year after bottoming out at 2.4% in FY2019/20, which ends June 30.

In Bangladesh, growth is expected to ease to 7.2% in FY2019/20, which ends June 30, and edge up to 7.3% the following fiscal year. A solid macroeconomic framework, political stability, implementation of planned public infrastructure projects, and ongoing reforms to improve the business environment underlie this projection. Growth in Sri Lanka is forecast to rise to 3.3% in 2020.

**Risks:** Risks to the growth outlook relate primarily to financial sector vulnerabilities, geopolitical tensions, and lack of progress on reforms. Although recent tensions between India and Pakistan have abated, a reescalation would damage confidence and weigh on investment in the region.

Non-performing assets in the financial sector remain high amid weakening regional growth and further deterioration of balance sheets of banks and corporates would threaten the funding of productive investments. The nonbank financial system in India has become increasingly vulnerable to stress.

A sharper-than-expected slowdown in major external markets such as United States and Euro Area, would affect South Asia through trade, financial, and confidence channels, especially for countries with strong trade links to these economies.

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### South Asia Country Forecasts

(Annual percent change unless indicated otherwise)

	2017	2018	2019e	2020f	2021f	2022f
<b>GDP at market prices (2010 US\$)</b>						
<b>Calendar Year Basis<sup>a</sup></b>						
<b>Afghanistan</b>	2.7	1.8	2.5	3.0	3.5	3.5
<b>Maldives</b>	6.9	6.7	5.2	5.5	5.6	5.6
<b>Sri Lanka</b>	3.4	3.2	2.7	3.3	3.7	3.7
<b>Fiscal Year Basis<sup>a</sup></b>						
	<b>16/17</b>	<b>17/18</b>	<b>18/19e</b>	<b>19/20f</b>	<b>20/21f</b>	<b>21/22f</b>
<b>Bangladesh</b>	7.3	7.9	8.1	7.2	7.3	7.3
<b>Bhutan</b>	6.3	3.8	3.9	5.6	7.6	6.2
<b>India</b>	8.2	7.2	6.8	5.0	5.8	6.1
<b>Nepal</b>	8.2	6.7	7.1	6.4	6.5	6.6
<b>Pakistan (factor cost)</b>	5.2	5.5	3.3	2.4	3.0	3.9

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.

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