



HIGHLIGHTS from Chapter 1: PROGRESS AND PERIL

Key Points

- *Growth in South Asia is on track to exceed earlier expectations and reach 6.6 percent in 2025. Growth is expected to slow to 5.8 percent in 2026.*
- *The region is making progress toward addressing vulnerabilities, but risks remain in the form of a persistent global economic slowdown, labor market shifts due to artificial intelligence, social unrest, or geopolitical tensions.*
- *Artificial intelligence (AI) and more open trade regimes could catalyze renewed growth momentum by encouraging private investment and productivity. This momentum would be strengthened if policymakers enhance the flexibility of their economies, improve connectivity, encourage upskilling of the workforce, and provide an appropriate safety net.*

Outlook: Slowdown in 2026. Growth in South Asia is expected to slow from 6.6 percent in 2025 to 5.8 percent in 2026. Growth forecasts for 2026 have been downgraded for India, Maldives, and Nepal, driven by weaker export prospects as a result of higher-than-expected U.S. tariffs, growing foreign exchange pressures, and social unrest, respectively. The forecasts for Bangladesh and Sri Lanka have been upgraded as crises in these countries recede and current account and fiscal balances improve, putting future growth on a stronger footing.

Risks to the outlook: Tilted to the downside. South Asia's growth prospects face heightened downside risks from an uncertain global environment, labor market shifts due to AI, geopolitical shocks, and social unrest. Public uprisings led to the collapse of the government in Nepal in September, in Bangladesh in August 2024, and in Sri Lanka in July 2022. The region has struggled to create sufficient jobs for its rapidly growing population. Over 2010-24, the working age population in South Asia grew by about 16 million every year, but the economy created only about 10 million additional jobs per year.

Policy challenge: Create more jobs. New technologies such as AI and more open trade regimes may lead to some labor market reallocation in the short term, but over the longer-term they could catalyze renewed growth momentum by encouraging private investment and productivity. South Asia's governments can support the adjustment of labor markets to new technologies and trade opportunities by proactively removing obstacles to workers' reallocation to new firms, occupations, and locations. Simultaneously, they could protect vulnerable workers during this period of change by streamlining and strengthening safety nets.



South Asia Development Update

Jobs, AI, and Trade

TABLE 1. Growth in South Asia

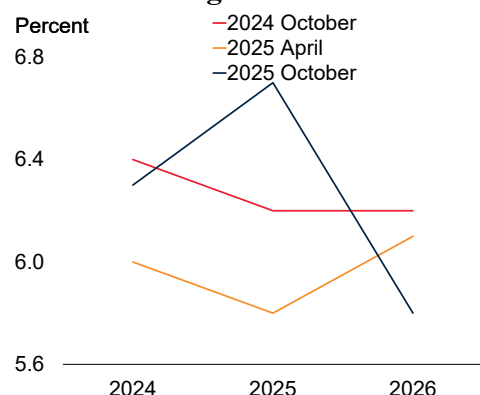
Country	Fiscal year	Real GDP growth at constant market prices (Percent)				Revision to forecast from April 2025 (Percentage points)	
		2024	2025(f)	2026(f)	2027(f)	2025(f)	2026(f)
Calendar year		2024	2025(f)	2026(f)	2027(f)	2025(f)	2026(f)
South Asia region		6.4	6.6	5.8	6.5	+0.5	-0.6
South Asia region excluding India		4.2	4.4	5.1	5.7	+0.3	+0.1
Maldives		3.3	4.2	3.9	4.0	-1.5	-1.4
Sri Lanka		5.0	4.6	3.5	3.1	+1.1	+0.4
Fiscal year basis		23/24	24/25(e)	25/26(f)	26/27(f)	25/26(f)	26/27(f)
Bangladesh	July to June	4.2	4.0	4.8	6.3	-0.1	+0.6
Bhutan	July to June	6.1	7.0	7.3	6.1	-0.3	+0.8
India	April to March	9.2	6.5	6.5	6.3	+0.2	-0.2
Nepal	mid-July to mid-July	3.7	4.6	2.1	4.7	-3.1	-0.8

Sources: World Bank, Macro Poverty Outlook, and staff calculations.

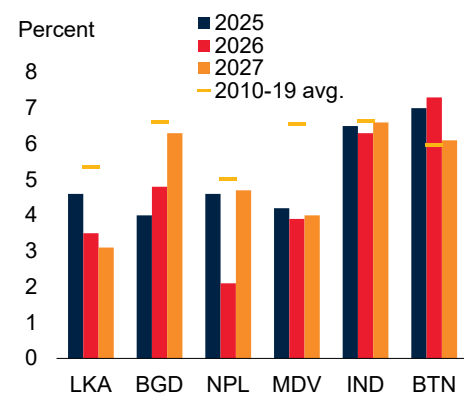
Note: (e) = estimate; (f) = forecast. As of July 1st, 2025, Afghanistan and Pakistan have been made part of the Middle East and North Africa (MENA) region and are no longer grouped in the World Bank's South Asia region. GDP is measured in average 2010–19 prices and market exchange rates. Because quarterly GDP forecasts for Bangladesh, Bhutan and Nepal are unavailable, the average of two consecutive fiscal years is used for regional aggregates.

FIGURE 1. Growth outlook, risks, and policy challenges in South Asia

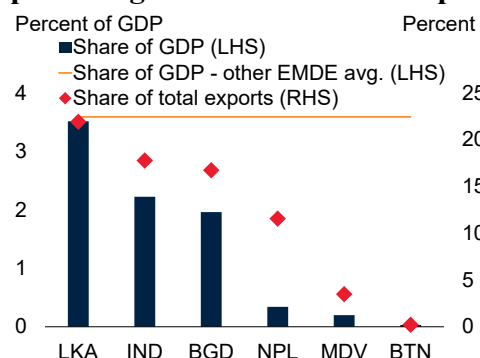
A. South Asia growth forecasts



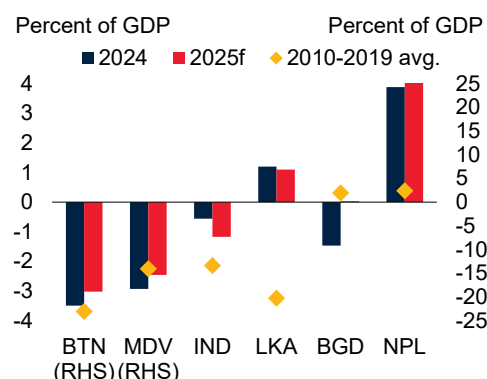
B. Growth in South Asian countries



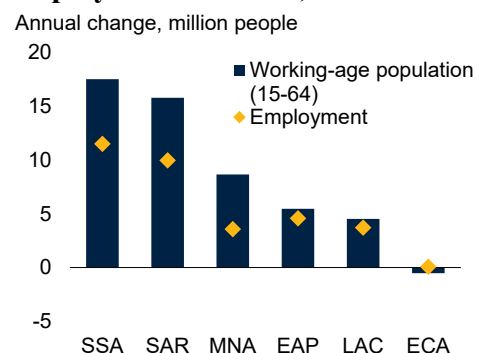
C. South Asian exports to the U.S. as a percentage of GDP and total exports



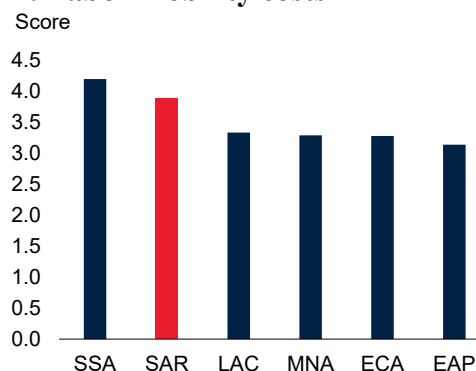
D. Current account balances



E. Annual working-age population and employment increase, 2010–24



F. Labor mobility costs



Sources: Artuc, Lederman and Porto (2015); CEPII, Database for International Trade Analysis (BACI); October 2024 South Asia Development Update; International Labour Organization; Penn World Table (database); United Nations World Population Prospects (database); World Bank Macro Poverty Outlook; World Bank; World Development Indicators (database).

Note: avg. = average; BGD = Bangladesh; BTN = Bhutan; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; IND = India; LAC = Latin America and the Caribbean; LKA = Sri Lanka; MDV = Maldives; MNA = Middle East and North Africa; NPL = Nepal; RHS = right-hand side; SAR = South Asia; SSA = Sub-Saharan Africa. For countries that use fiscal rather than calendar



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years, “2025” and “2026” represent FY24/25 and FY25/26, respectively. For India, “2025” and “2026” refer to FY25/26 and FY26/27.

A. Lines show the vintages of South Asia Development Update between 2024 and 2025.

B. For India, “2025”, “2026”, and “2027” refer to FY25/26, FY26/27, and FY27/28. For other countries that use fiscal rather than calendar years, “2025”, “2026” and “2027” represent FY24/25, FY25/26 and FY26/27.

C. Chart shows 2023 values. EMDE average calculated using total nominal exports and total GDP of 153 EMDEs.

D. Chart shows current account balances as a share of GDP.

E. Working age population defined as individuals between the ages of 15 and 64.

F. Higher scores indicate higher mobility costs. Bars show the median level across regional economies. SAR includes Bangladesh and India. Sample includes 33 EMDEs.