The Office of the Chief Economist of the South Asia Region

April 2024

South Asia Development Update

Jobs for Resilience

WORLD BANK GROUP

Four Questions

1   **What is the growth outlook for South Asia?**

2   **How do households and firms adapt to climate risks?**

3   **What is holding back job creation in South Asia?**

4   **What are the policy implications?**
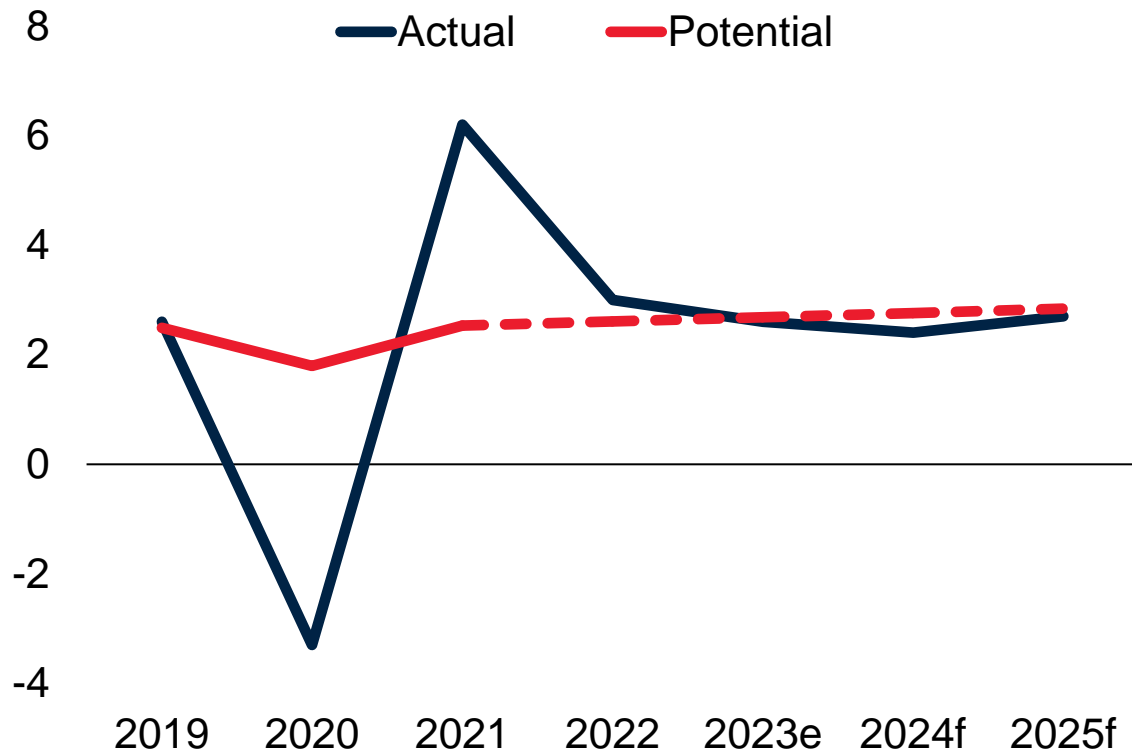
Four Questions

1 **What is the growth outlook for South Asia?** *Better than in other EMDEs, mostly due to strength in India, and more reliant on public sector than in other EMDEs. Risks remain to the downside, including due to climate shocks.*
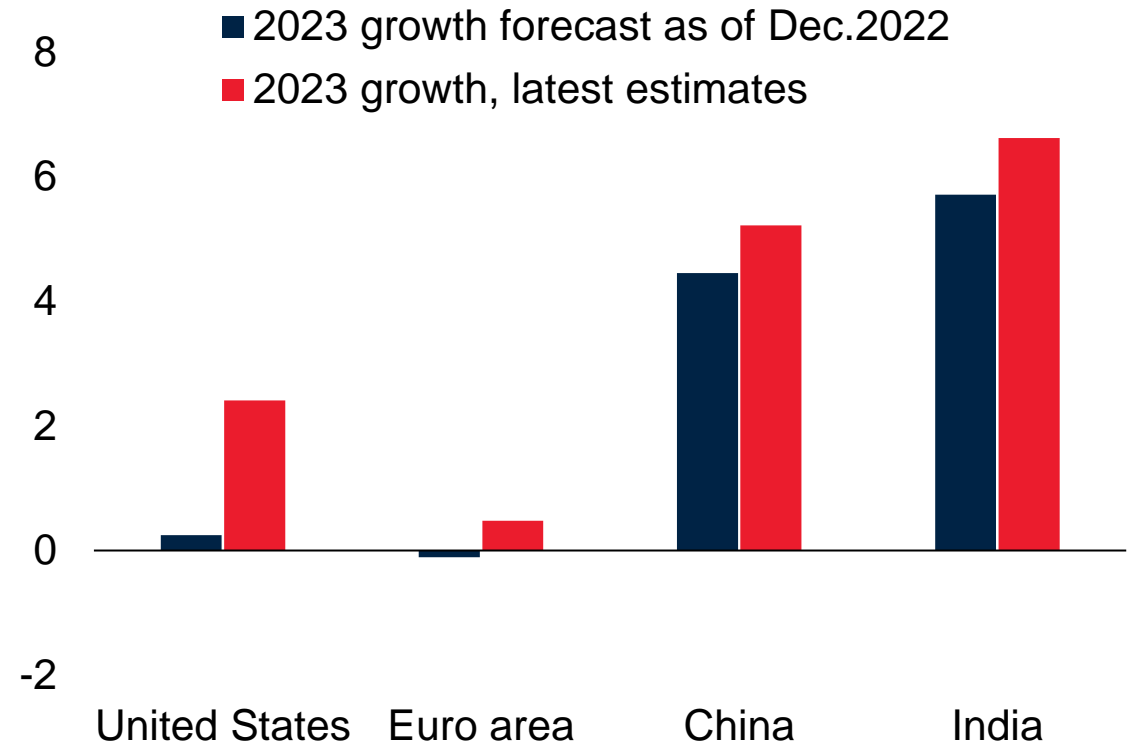
Global Economic Environment
Global output growth is converging to its potential

Global actual and potential output growth
(Percent)

Legend: Actual (navy line), Potential (red line)

X-axis: 2019, 2020, 2021, 2022, 2023e, 2024f, 2025f
Y-axis: -4 to 8

Growth forecast and estimates for major economies
(Percent)

Legend:
- 2023 growth forecast as of Dec.2022 (navy)
- 2023 growth, latest estimates (red)

X-axis: United States, Euro area, China, India
Y-axis: -2 to 8

Sources: Consensus Economics; Haver Analytics; Kose and Ohnsorge (2023)
Left Panel: Red dash line is computed as the interpolation between the 2021 value from Kose and Ohnsorge (2023) and WEO 2028 GDP forecast.
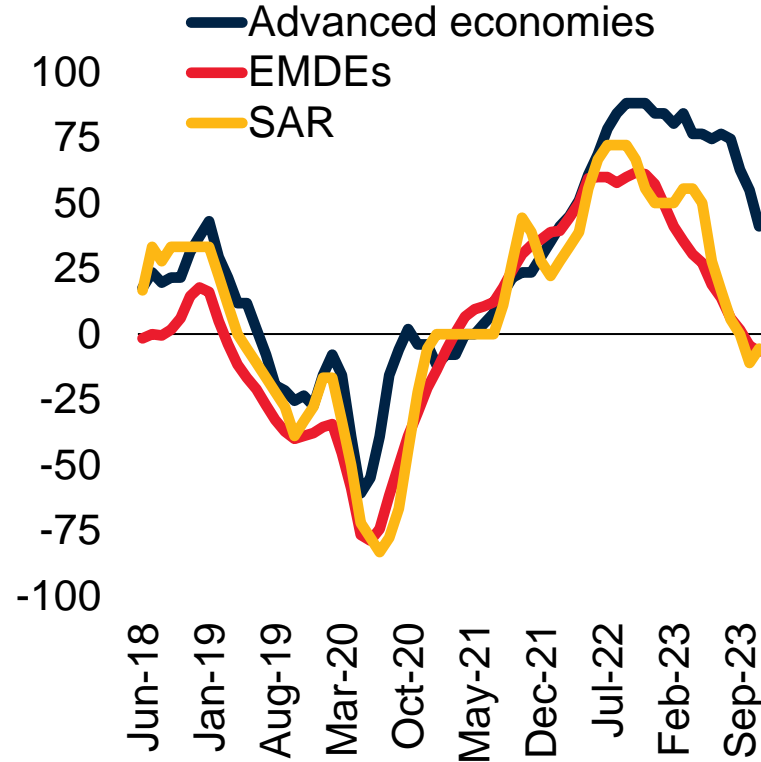
Global Financial Conditions
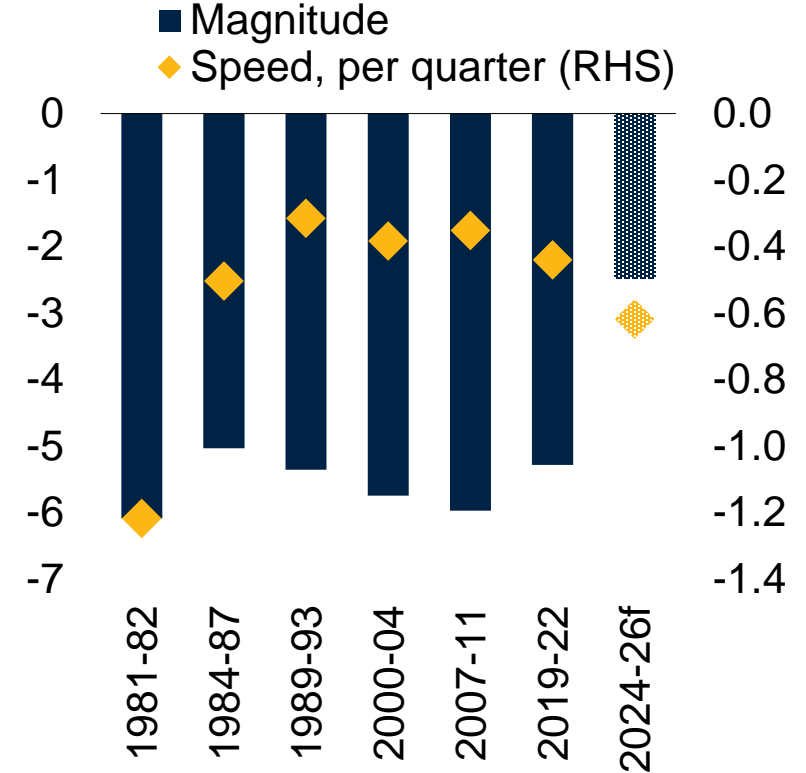## Inflation and Monetary Policy Normalizing

Headline consumer price inflation
(Percent)

Legend: Global, AEs, EMDEs, SAR
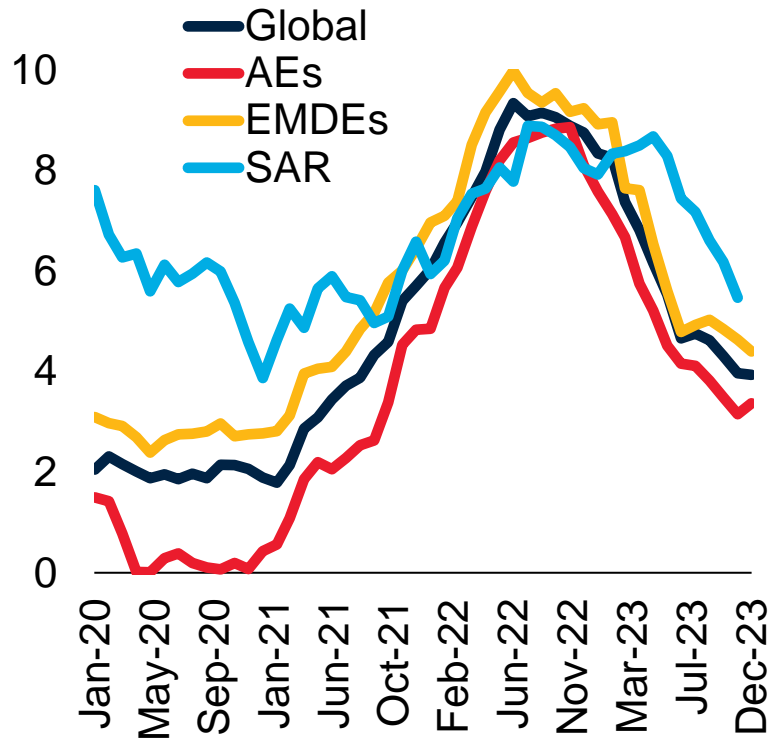
Monetary policy rate changes
(Percent)

Legend: Advanced economies, EMDEs, SAR

Pace of U.S. monetary policy loosening cycles
(Percentage points)
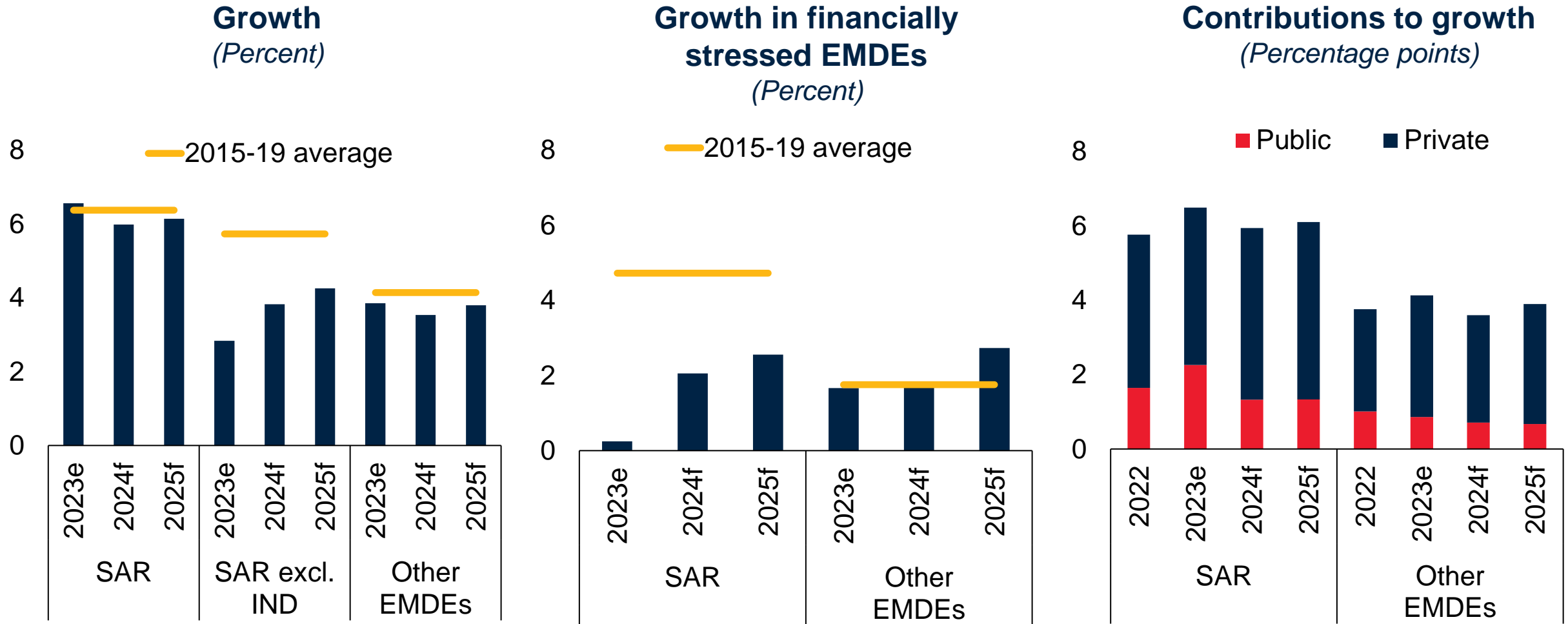
Legend: Magnitude, Speed, per quarter (RHS)

Sources: CEIC; Consensus Economics; Federal Reserve Bank of St. Louis; Haver Analytics

Left Panel: Solid lines show the median of year-over-year headline inflation. Last observation is November 2023. Center panel: Tightening/loosening is the percentage of central banks raising policy interest rates minus the percentage lowering policy rates in the prior three months, 3-month-rolling-moving average. Sample includes 17 advanced economies and 58 EMDEs, 6 of which are in SAR. Right Panel: "Magnitude" is the peak-to-trough change and "speed" is the average change per quarter during periods of loosening real rates. The real rate is the U.S. policy rate minus one-year-ahead expected inflation from consumer surveys, adjusted for persistent errors. Shaded bar shows the forecasted period. The shaded bar shows the market policy rate expectations for the 2024-26 period.

Growth Prospects
Above-Average Growth, But Mainly in India and Reliant on Public Sector

Growth
(Percent)

Growth in financially stressed EMDEs
(Percent)

Contributions to growth
(Percentage points)

Growth Prospects
Robust Growth in India, Accelerating Growth Elsewhere

| Calendar year basis	Country fiscal year	Real GDP growth at constant market prices (percent)				Revision to forecast from October 2023 (percentage point)	
		2022	**2023(e)**	**2024(f)**	**2025(f)**	**2024(f)**	**2025(f)**
South Asia region (excluding Afghanistan)		**5.7**	**6.6**	**6.0**	**6.1**	**0.4**	**0.3**
Maldives	January to December	13.9	4.0	4.7	5.2	-0.5	-0.3
Sri Lanka	January to December	-7.3	-2.3	2.2	2.5	0.5	0.1
Fiscal year basis		**21/22**	**22/23(e)**	**23/24(f)**	**24/25(f)**	**23/24(f)**	**24/25(f)**
Bangladesh	July to June	7.1	5.8	5.6	5.7	0.0	-0.1
Bhutan	July to June	4.8	4.6	4.9	5.7	0.9	1.1
India	April to March	9.7	7.0	7.5	6.6	1.2	0.2
Nepal	mid-July to mid-July	5.6	1.9	3.3	4.6	-0.6	-0.4
Pakistan	July to June	6.2	-0.2	1.8	2.3	0.1	0.0

Sources: World Bank Macro Poverty Outlook; World Bank staff calculations.

Note: (e) = estimate; (f) = forecast. GDP measured in average 2010-19 prices and market exchange rates. Pakistan is reported at factor cost. National accounts statistics for Afghanistan are not available. To estimate forecasts for regional aggregates in the calendar year, fiscal year forecasts are converted to the calendar year by taking the average of two consecutive fiscal years for Bangladesh, Bhutan, Nepal, and Pakistan because quarterly GDP forecasts are not available.
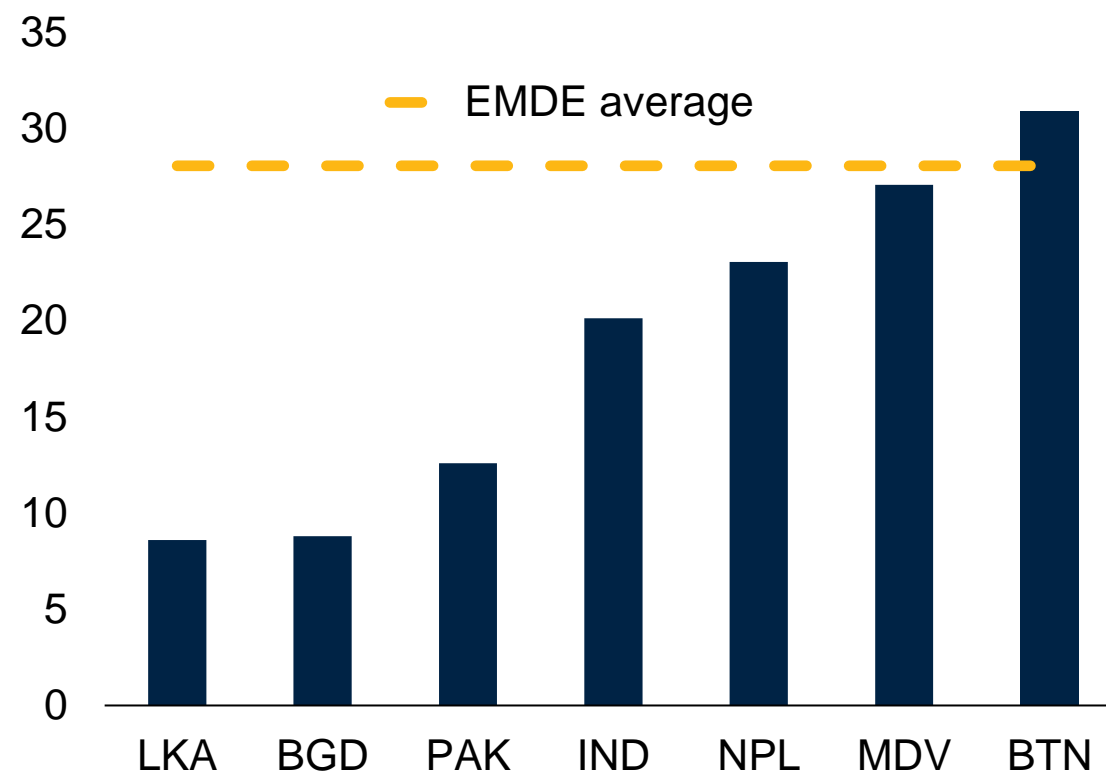
Fiscal Challenges
High Debt; Low Revenues

Government debt
(Percent of GDP)
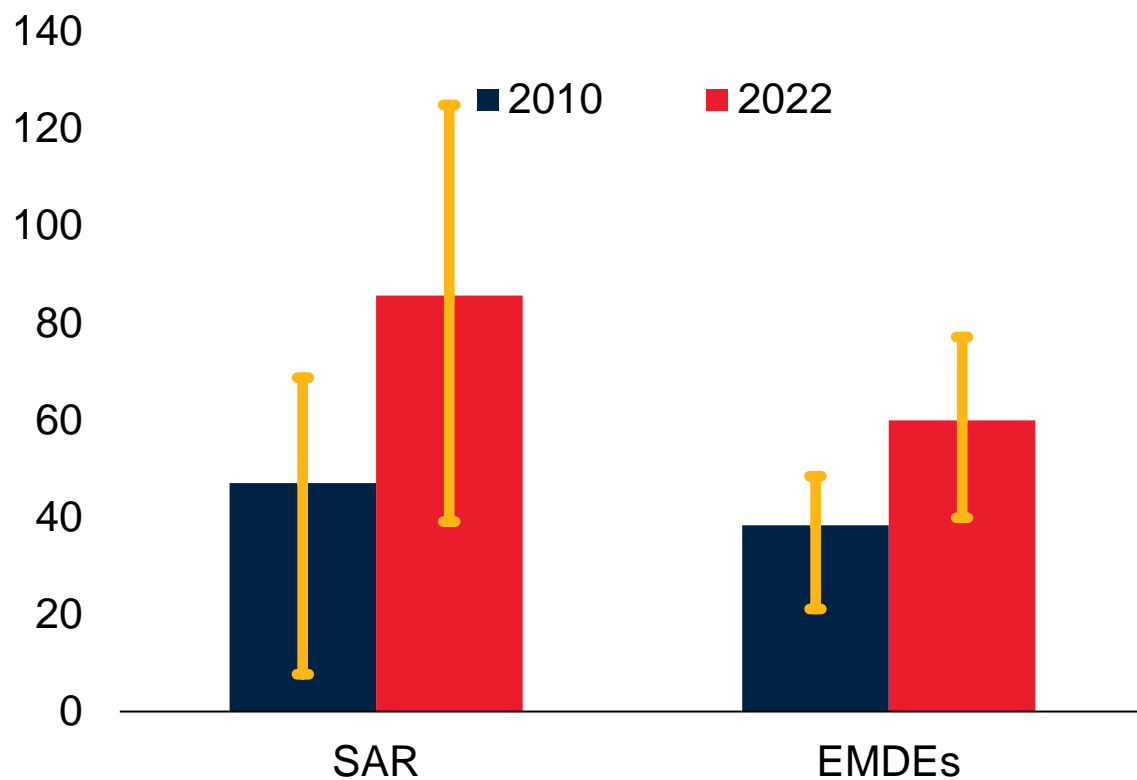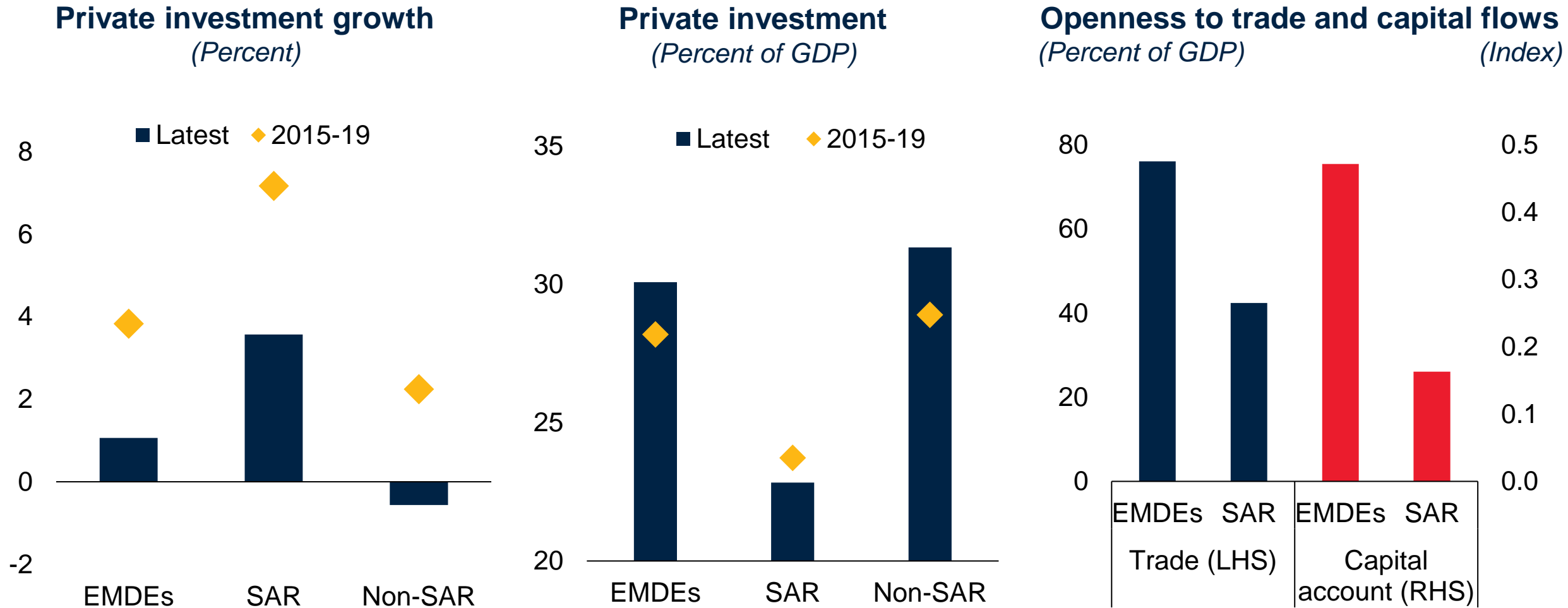
Government revenues, 2020-22 average
(Percent of GDP)

Sources: WEO (database); World Bank (Macro Poverty Outlook); World Bank South Asia Development Update; data available here.
Left Panel: Bars show unweighted averages. Yellow whiskers indicate minimum-maximum range for seven South Asian economies, and interquartile range for EMDEs. Right Panel: EMDE average computed using 2015 GDP as weights. Bars show 2020-22 averages of government revenue.

Private Investment
## *Weak, Held Back By Lack of Openness, Institutional Quality*

Private investment growth
(Percent)

Legend: Latest, 2015-19

Categories: EMDEs, SAR, Non-SAR

Private investment
(Percent of GDP)

Legend: Latest, 2015-19

Categories: EMDEs, SAR, Non-SAR

Openness to trade and capital flows
(Percent of GDP)   *(Index)*

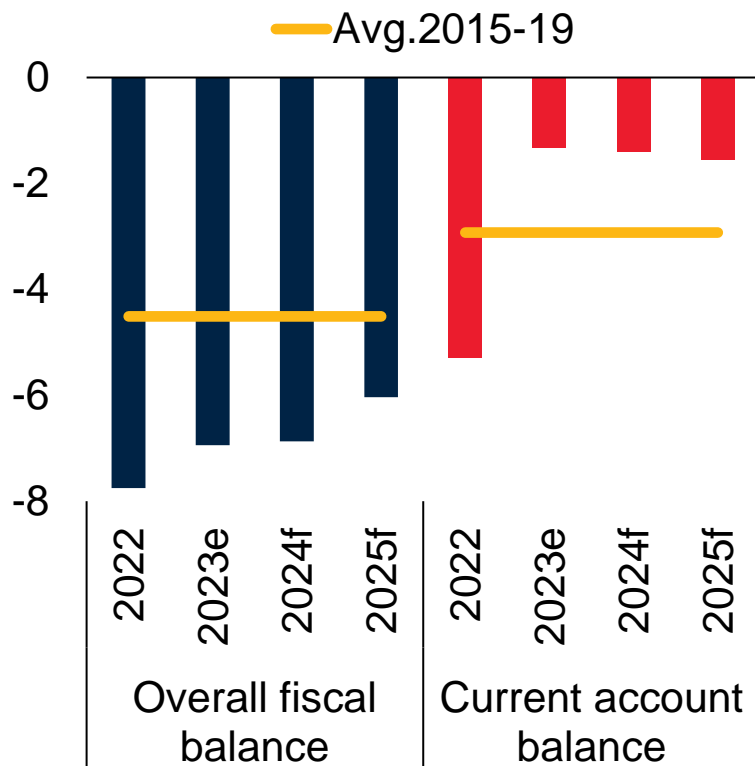Categories: EMDEs, SAR (Trade (LHS)); EMDEs, SAR (Capital account (RHS))

Risks to the Outlook
Renewed Currency Crises - 1

Currency depreciation, 2021-23
(Percent)
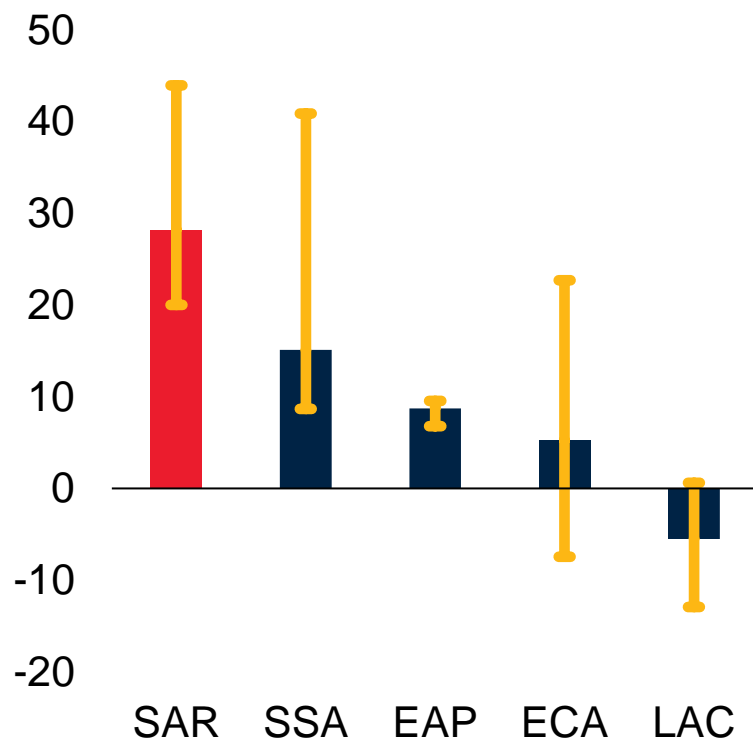
Fiscal and current account balances
(Percent of GDP)

Avg.2015-19

Overall fiscal balance | Current account balance

Financial soundness indicators, 2018-22
(Percent)

- Regulatory capital to risk assets
- Avg. Regulatory capital to risk assets - EMDEs
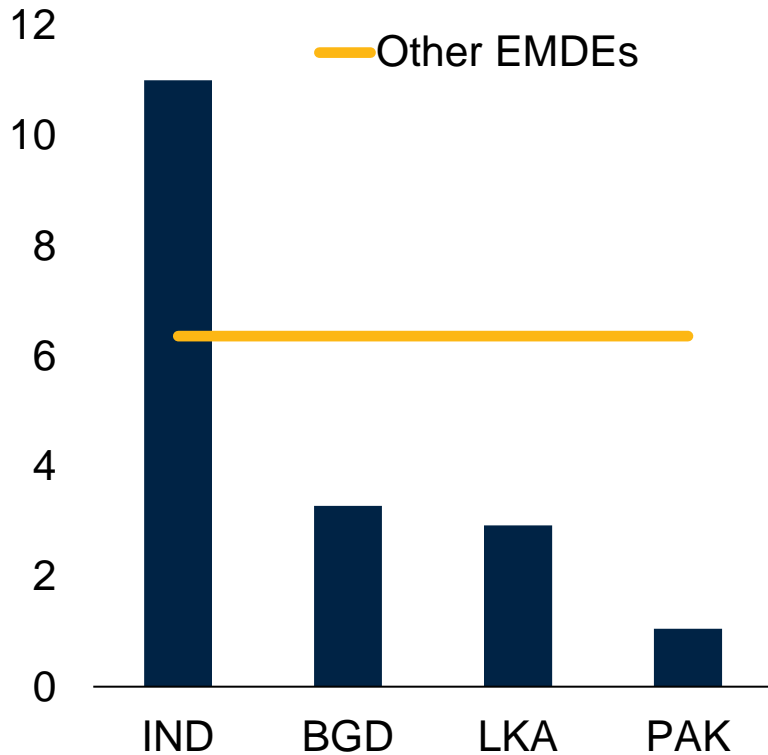- Return to assets (RHS)
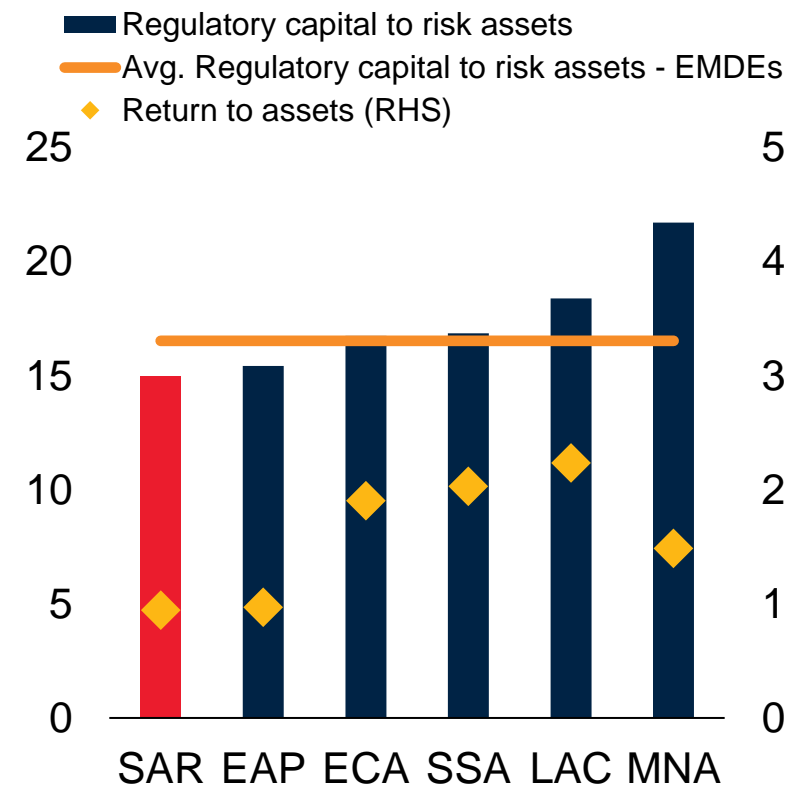
Sources: AREAR (database); Haver Analytics; IMF; World Economic Outlook database; World Bank, Macro Poverty Outlook. Left Panel: Sample includes 35 countries with floating exchange rate arrangements of which 4 are in EAP, 11 in ECA, 10 in LAC, 3 in SAR, and 6 in SSA. Bars show the median end of period currency depreciation (units of local currency per U.S. dollar). A positive value means depreciation of the local currency against the U.S. dollar. Whiskers provide the interquartile range. Last observation is December 2023. Center Panel: Bars represent the median of current and fiscal balances. Sample includes 6 countries for the overall fiscal balance and 7 countries for the current account balance. Right Panel: Blue bars show the average regulatory capital-to risk-weighted assets using constant GDP weights at average 2010–19 prices and market exchange rates.
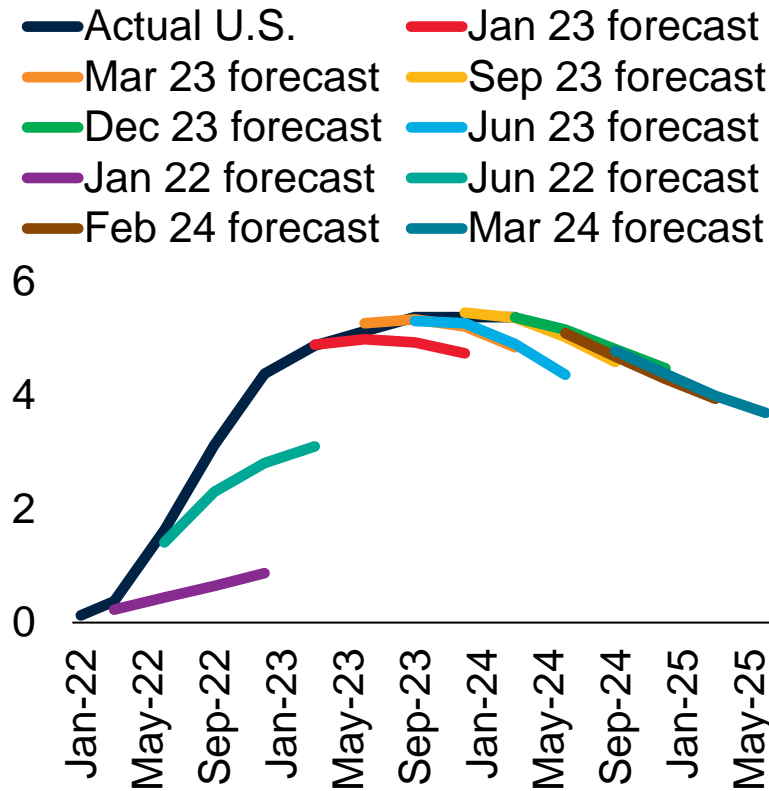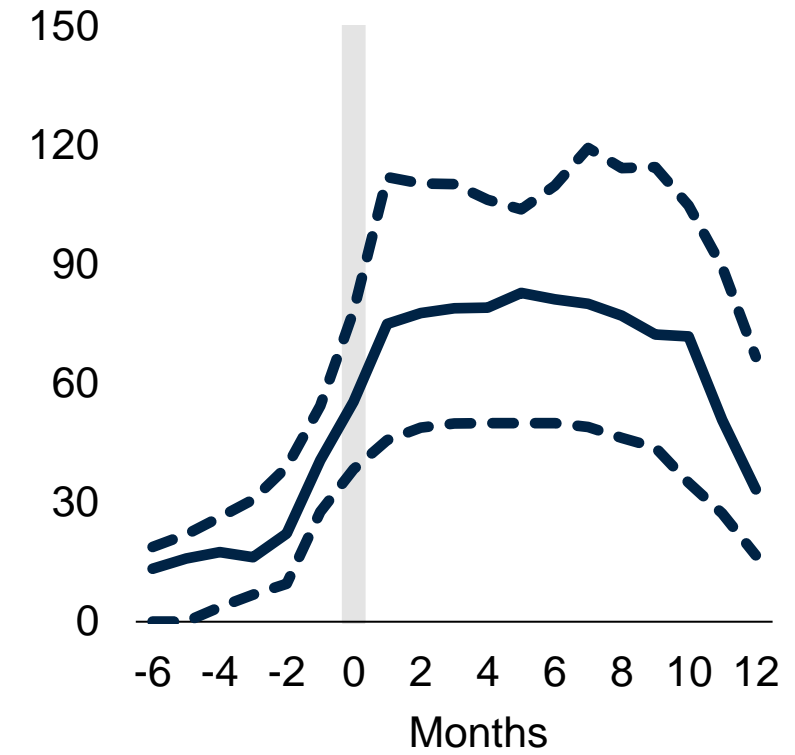
Risks to the Outlook
Renewed Currency Crises - 2

International Reserves
(Months of imports)

Legend: Other EMDEs

X-axis: IND, BGD, LKA, PAK

Federal Funds rate
(Percent)

Legend:
- Actual U.S.
- Mar 23 forecast
- Dec 23 forecast
- Jan 22 forecast
- Feb 24 forecast
- Jan 23 forecast
- Sep 23 forecast
- Jun 23 forecast
- Jun 22 forecast
- Mar 24 forecast

X-axis: Jan-22, May-22, Sep-22, Jan-23, May-23, Sep-23, Jan-24, May-24, Sep-24, Jan-25, May-25

Exchange rate depreciation after currency crises
(Percent)

X-axis: -6, -4, -2, 0, 2, 4, 6, 8, 10, 12 — Months

Sources: Consensus Economics; Haver Analytics; Laeven and Valencia (2020); World Bank.

Left panel: Number of months of imports that foreign reserves can cover. Last observation is January 2024 for SAR countries. For other EMDEs last observation is December 2023. Center panel: Dark blue line shows the mid-point of the U.S. Fed Funds Rate target range. Right panel: Solid line shows the median year-on-year depreciation for a sample of up to 97 EMDEs. Dashed lines represent the interquartile range. Shaded area shows the starting month of a currency crisis.
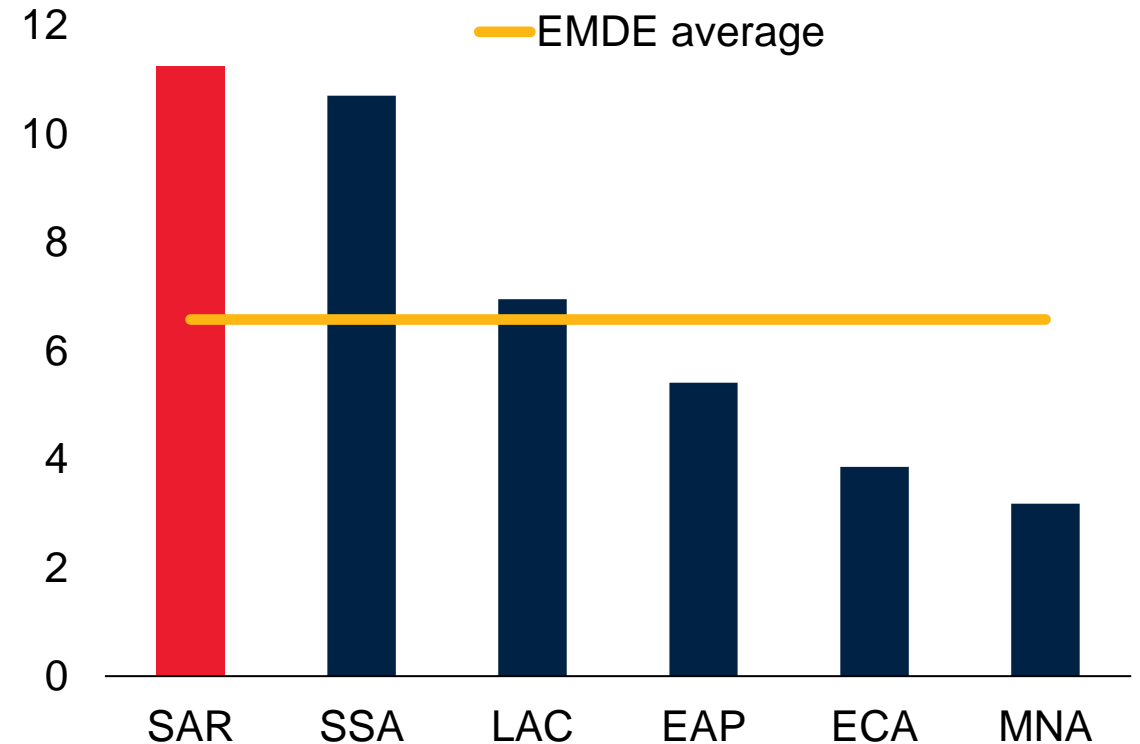
Boosting Growth

Loosen Financial Restrictions, Improve Fiscal Sustainability

Trend interest rate control index
(Index)
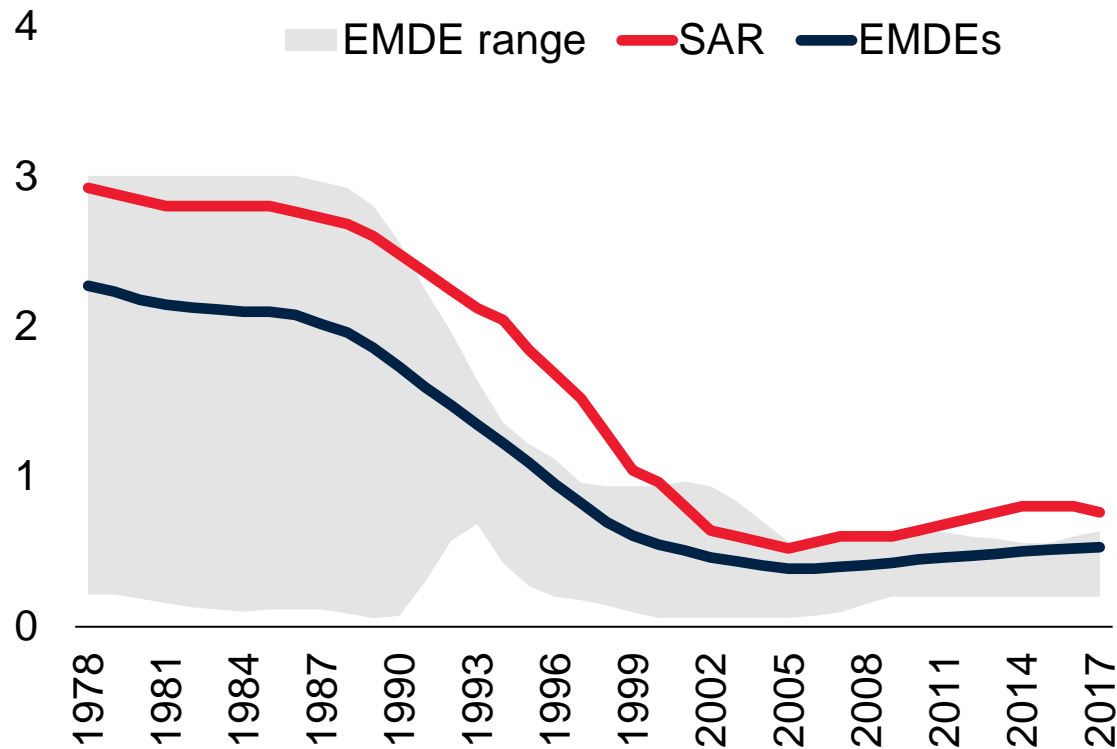
Share of revenues from trade taxes, latest available data
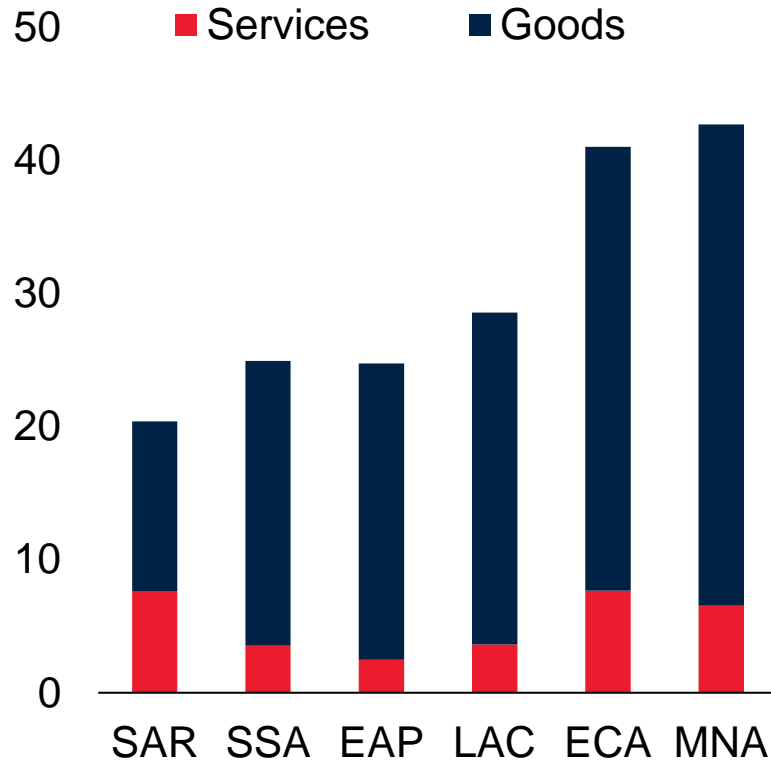*(Percent of revenues)*

Sources: Jafarov, Maino, and Pani (2019); Government Financial Statistics (database); World Bank.

Left panel: Figure shows the trend of interest rate control index (5-year moving average) for 90 countries from 1973 to 2017. Grey area indicates minimum-maximum range for non-South Asian EMDEs. Aggregates are unweighted averages. The index represents the presence and importance of administrative or legal controls on the interest rates that commercial banks apply to the deposits and loans of their customers. The index ranges from 3 (strictest controls) to 0 (banks are essentially free to set their own interest rates). For details, see Jafarov, Maino, and Pani (2019). Right panel: Sample includes 93 countries, including 21 countries in EAP, 18 in ECA, 25 in LAC, 14 in MNA, 8 in SAR and 41 in SSA. Regional aggregate is median. Last observed year is 2017 for Afghanistan; 2021 for Bangladesh, Maldives and Nepal; 2020 for Bhutan; 2018 for India; 2022 for Sri Lanka. "Trade taxes" include both customs tariffs and other trade-related taxes, including taxes on exports, on profits of export or import monopolies, on exchange profits, exchange taxes, and other taxes on international trade and transactions, based on IMF financial statistics definitions.
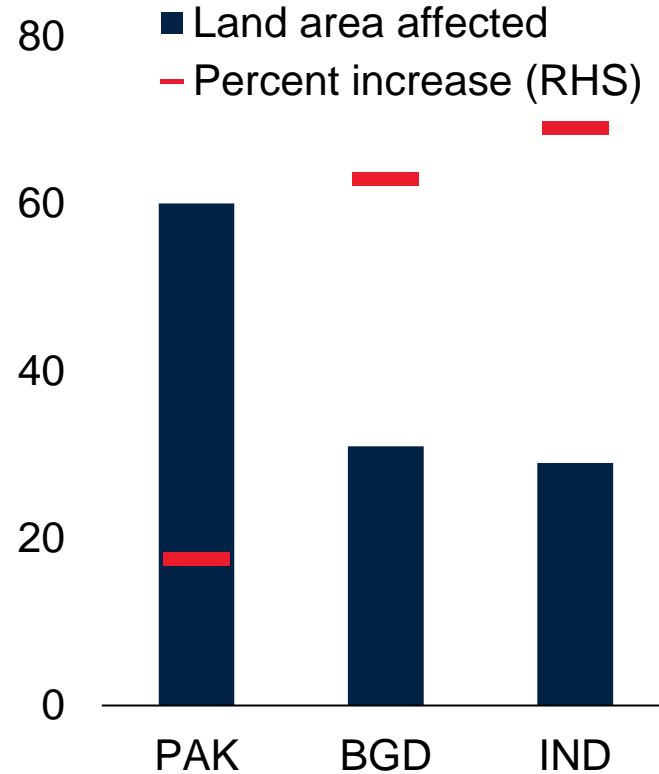
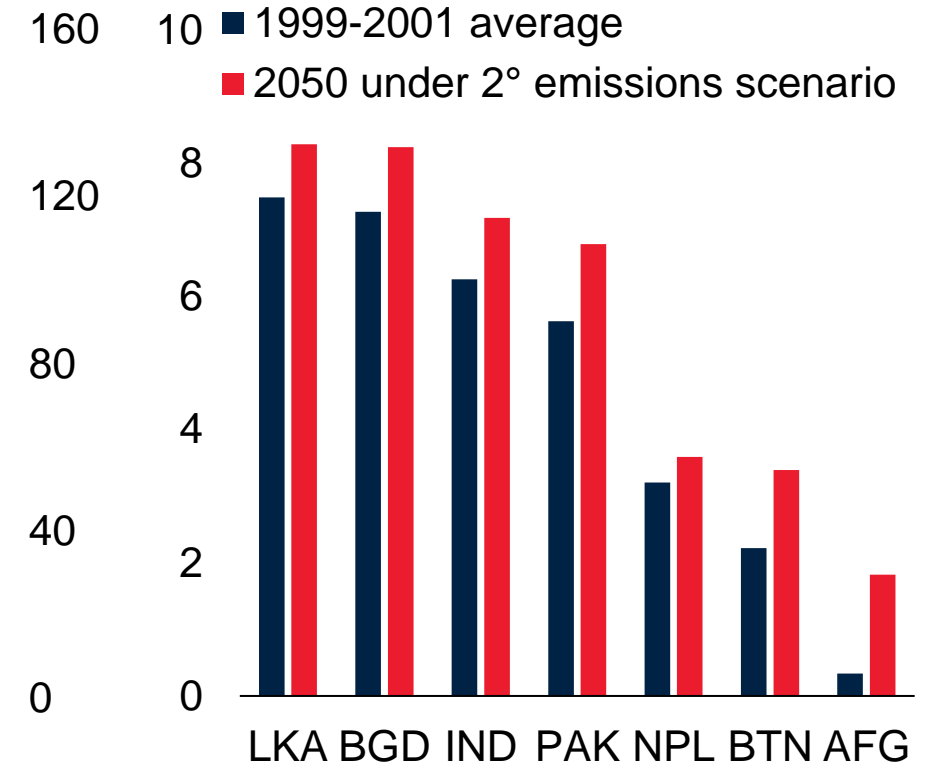# Risks to the Outlook
Trade Fragmentation, Climate Shocks

Exports
(Percent of GDP)

Services — Goods

SAR, SSA, EAP, LAC, ECA, MNA

Land area affected by extreme drought
(Percent)

Land area affected
Percent increase (RHS)

PAK, BGD, IND

Number of hours when it is too hot to work outside
(Hours per day)

1999-2001 average
2050 under 2° emissions scenario

LKA BGD IND PAK NPL BTN AFG

Sources: WDI (database); Lancet countdown on health and climate change data sheet (2023) available at www.lancetcountdown.org; World Bank.
Left panel: Bars show exports of goods and services (balance of payments, current U.S. dollars) as percent of GDP. Regional aggregates computed using GDP-weighted averages (at current U.S. dollars). Center panel: Total land area affected by extreme drought at least once per year, on average, in 2013-2022. Horizontal lines show percent increase of at least one month of extreme drought per year from 1951- 1960 to 2013-2022. Center panel: Number of hours (average per person per day) during which high heat posed at least a moderate heat stress risk during light outdoor physical activity, based on the "moderate" heat stress risk classification, as outlined in the 2021 Sports Medicine Australia Extreme Heat Policy, which categorizes estimated heat stress risk according to ambient temperature and relative humidity. Projections for 2050 for 2°C scenarios.

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Four Questions

1   **What is the growth outlook for South Asia?** *Better than in other EMDEs, mostly due to strength in India, and more reliant on public sector than in other EMDEs. Risks remain to the downside, including due to climate shocks.*

2   **How do households and firms adapt to climate risks?** *Households and farmers have less effective climate adaptation strategies than firms, in part because of limited employment options in non-agriculture.*

Vulnerability to Climate Change
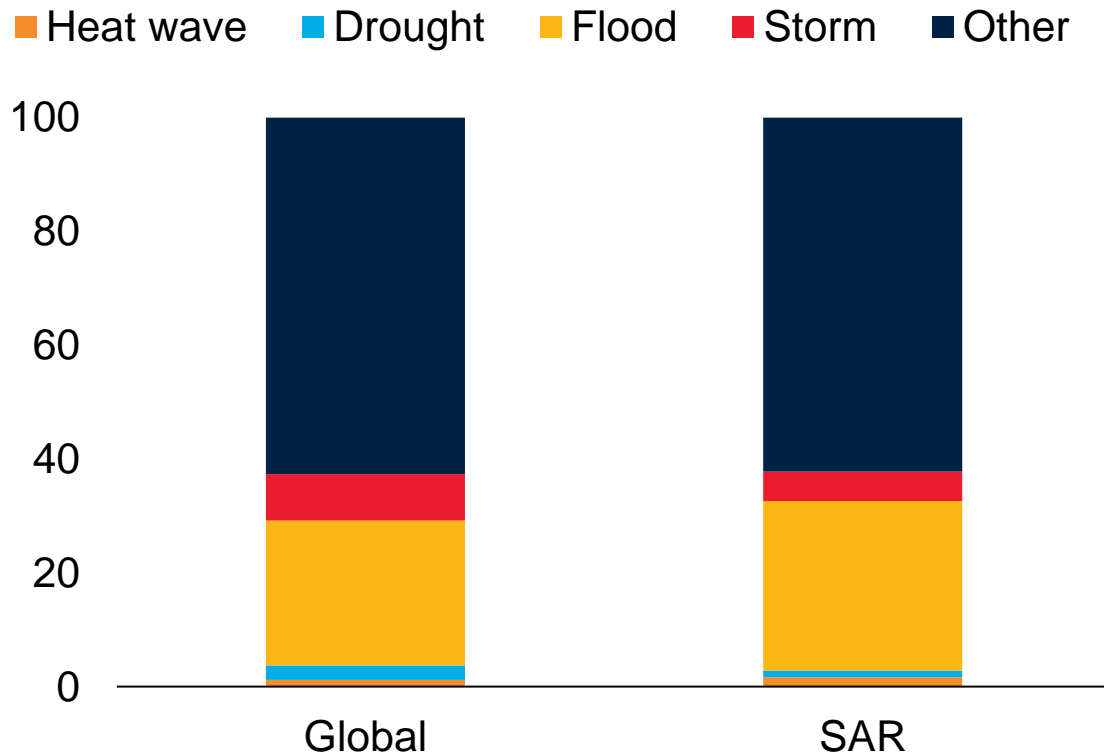## *South Asia is the Most Vulnerable EMDE Region*
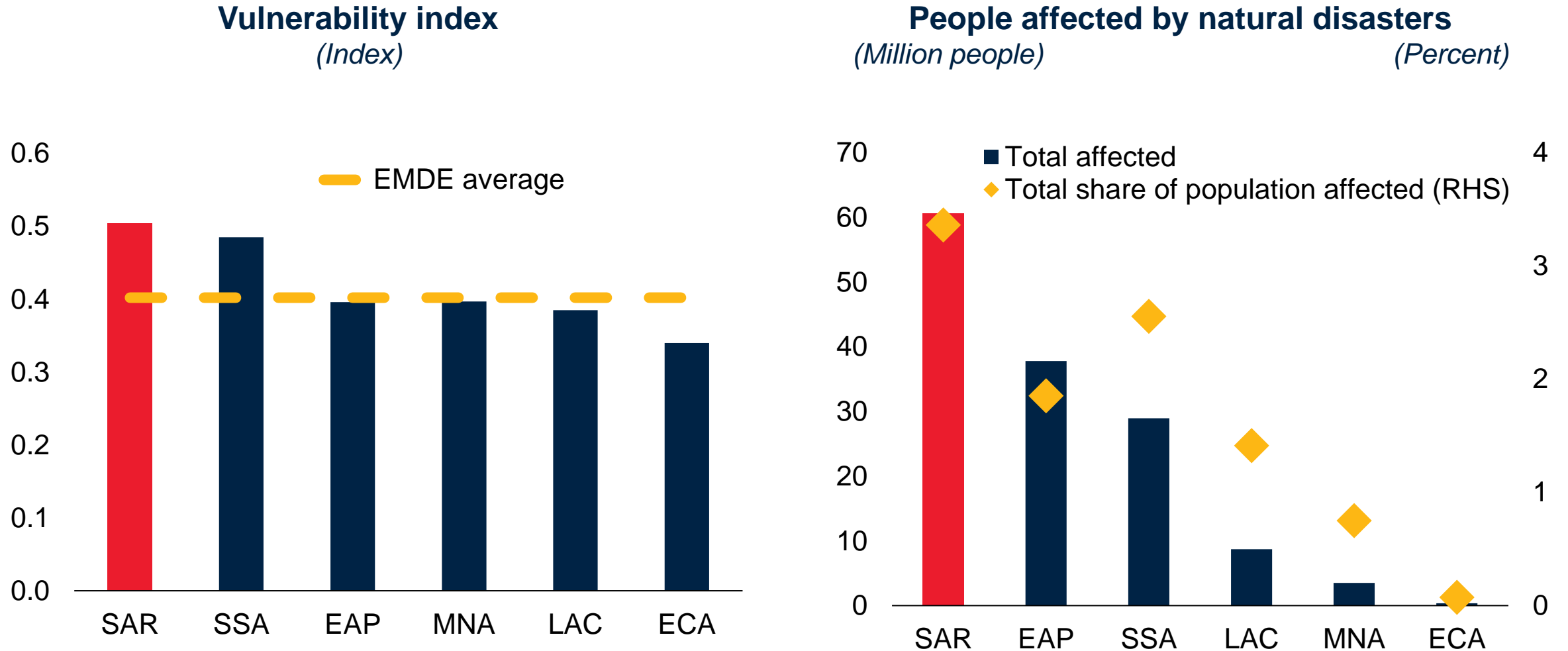
Vulnerability index
(Index)

People affected by natural disasters
(Million people)   *(Percent)*

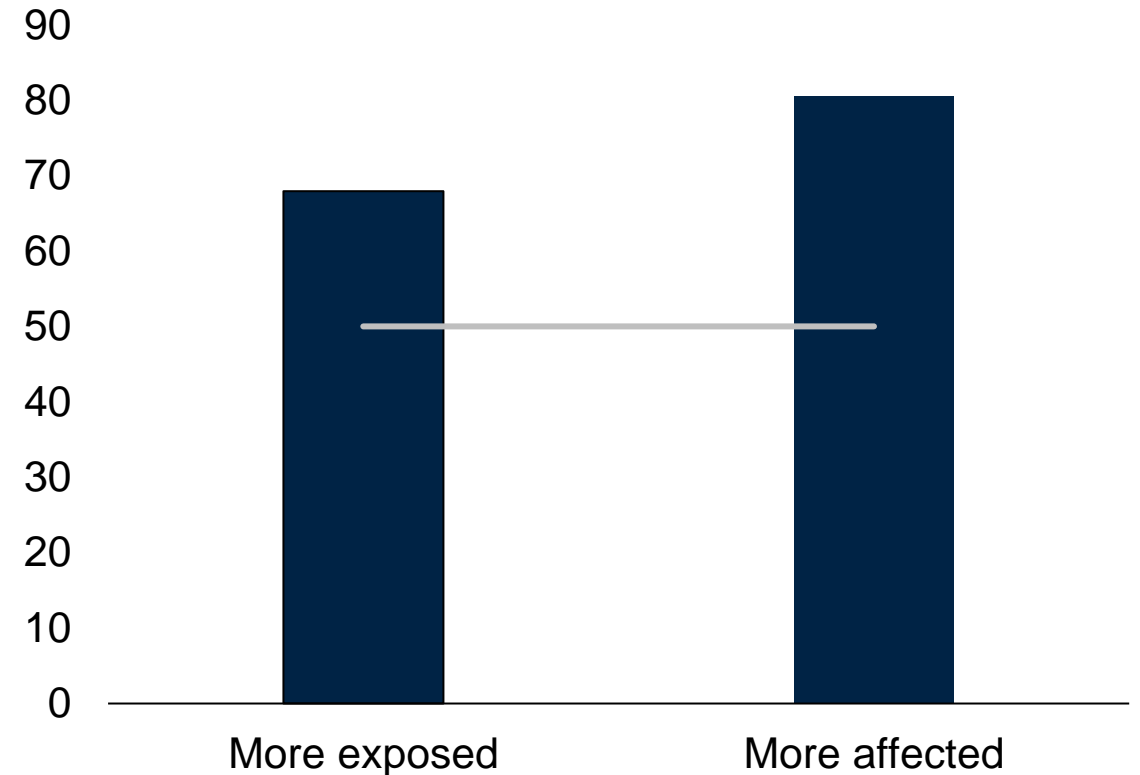# Impact of Climate Change
Poorer Households Often More Exposed, Usually More Hurt

Distribution of natural disasters
(Percent of disasters)

Legend: Heat wave ■ Drought ■ Flood ■ Storm ■ Other ■

Categories: Global, SAR

**Studies that report greater
exposure of, or greater impact on, the poor**
(Percent of studies)

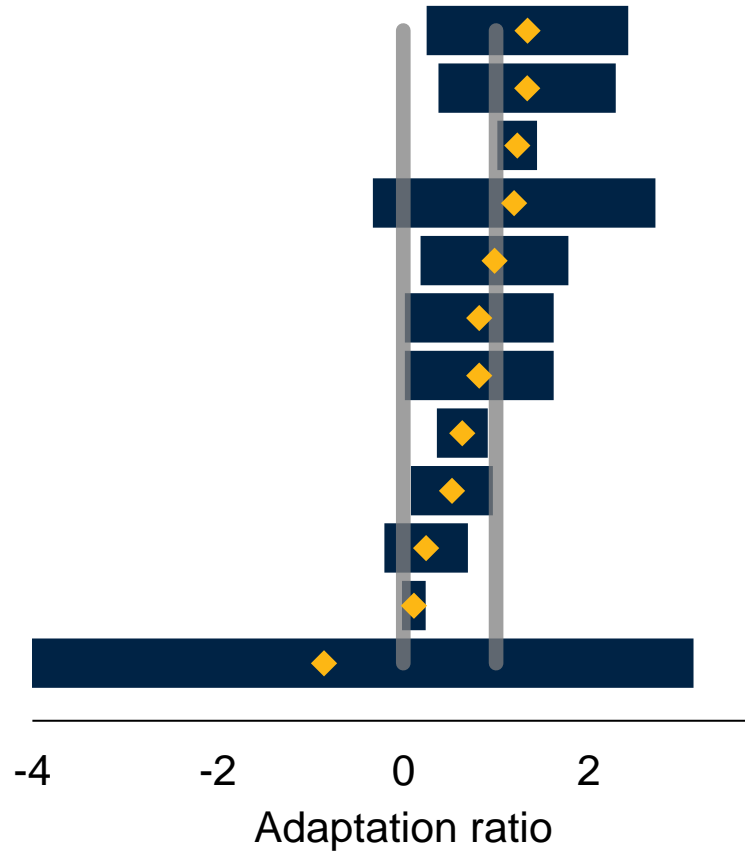Categories: More exposed, More affected

Adaptation To Reduce Climate Impact
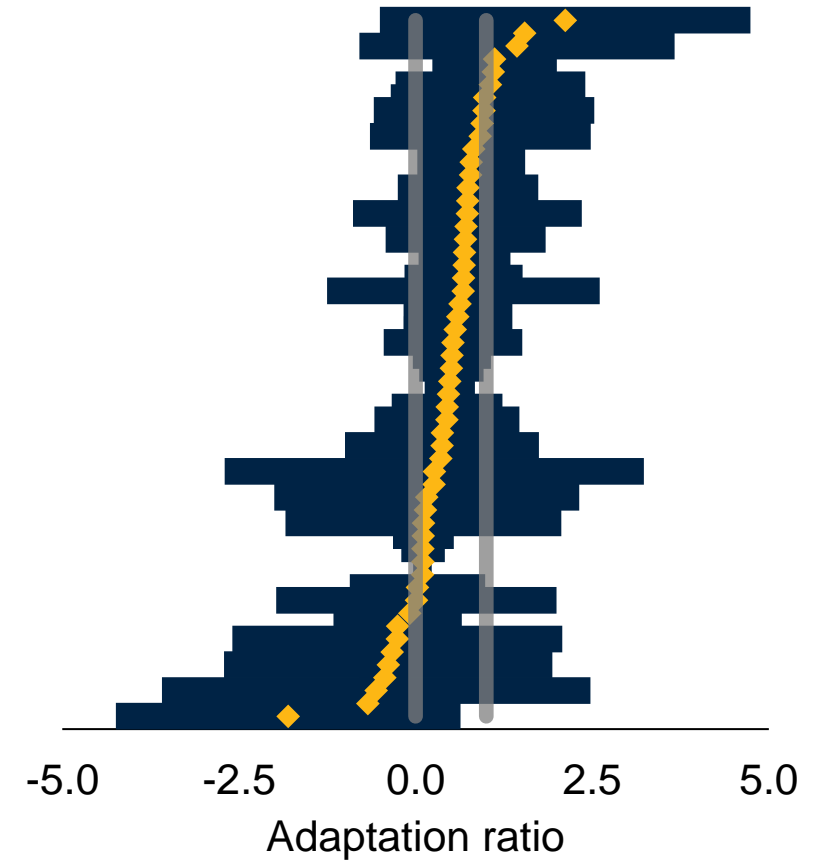## *46 Percent of Damage Reversed*

Adaptation ratio, households
(Share of climate impact)
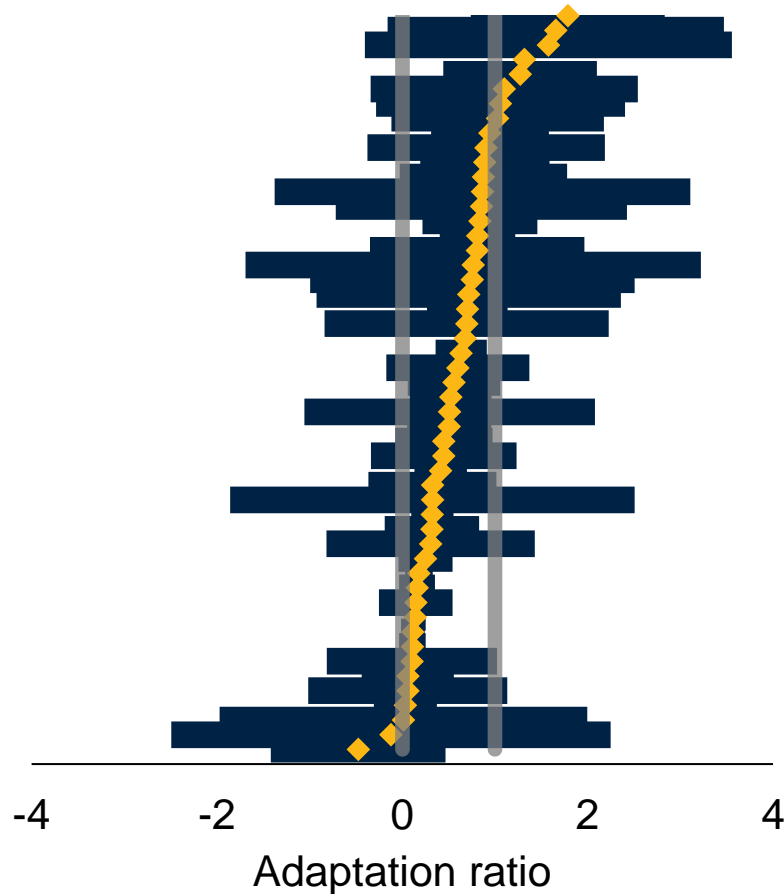
Adaptation ratio, firms
(Share of climate impact)

Adaptation ratio, farmers
(Share of climate impact)

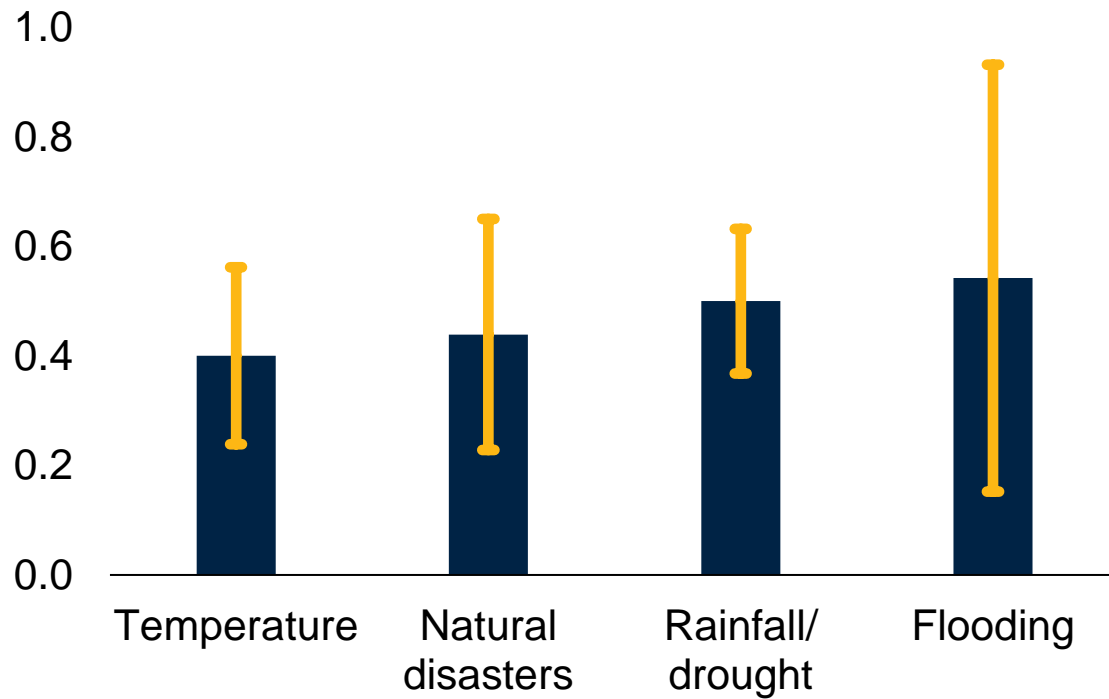Adaptation ratio

Adaptation ratio

Adaptation ratio

Sources: Rexer and Sharma (2024); World Bank. Charts plot all the adaptation ratios from household (panel B), firm (panel C) and farmer (panel D) studies—as estimated in Rexer and Sharma (2024). Each diamond represents an estimated adaptation ratio, and the corresponding horizontal blue bar represents its 95 percent confidence interval. Vertical lines indicate adaptation ratios of 0 (ineffective adaptation) and 1 (fully effective adaptation). In total, they represent 110 estimates from 51 papers. For visual clarity, drop 8 estimates with extremely large confidence intervals are dropped. Technical details are explained in Rexer and Sharma (2024).
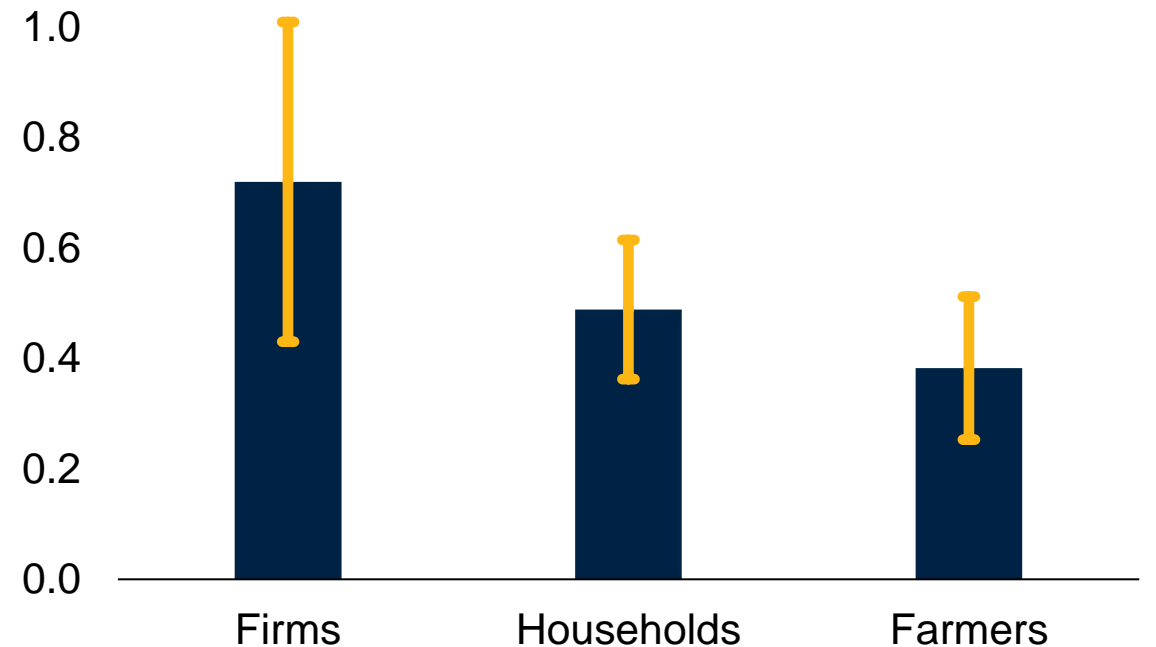
Climate Adaptation
More Effective for Firms than Households

Adaptation ratio, by shock
(Ratio)

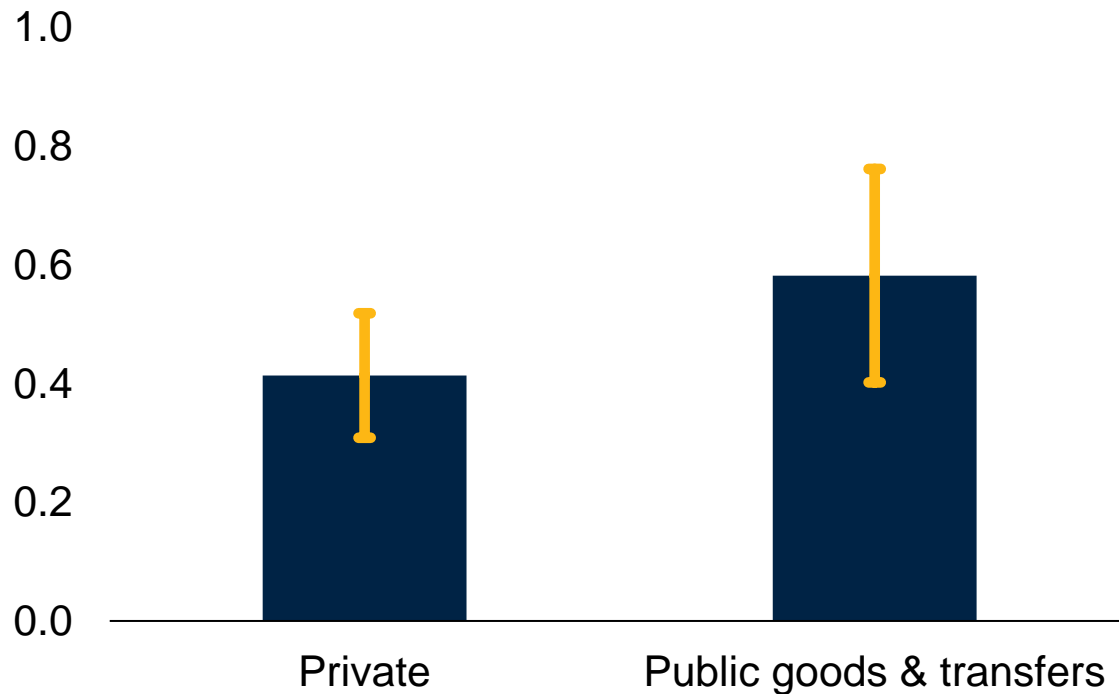
Adaptation ratio, by agent
(Ratio)

Sources: Rexer and Sharma (2024); World Bank.
Note: The bars represent the mean adaptation ratios disaggregated by different groups. The yellow whiskers represent the 95 percent confidence intervals. The total sample consists of 118 estimates from 52 papers included in the meta-analysis of adaptation in Rexer and Sharma (2024). Adaptation ratios measure the share of climate damage that is offset by climate adaptation. Technical details are explained in Rexer and Sharma (2024).
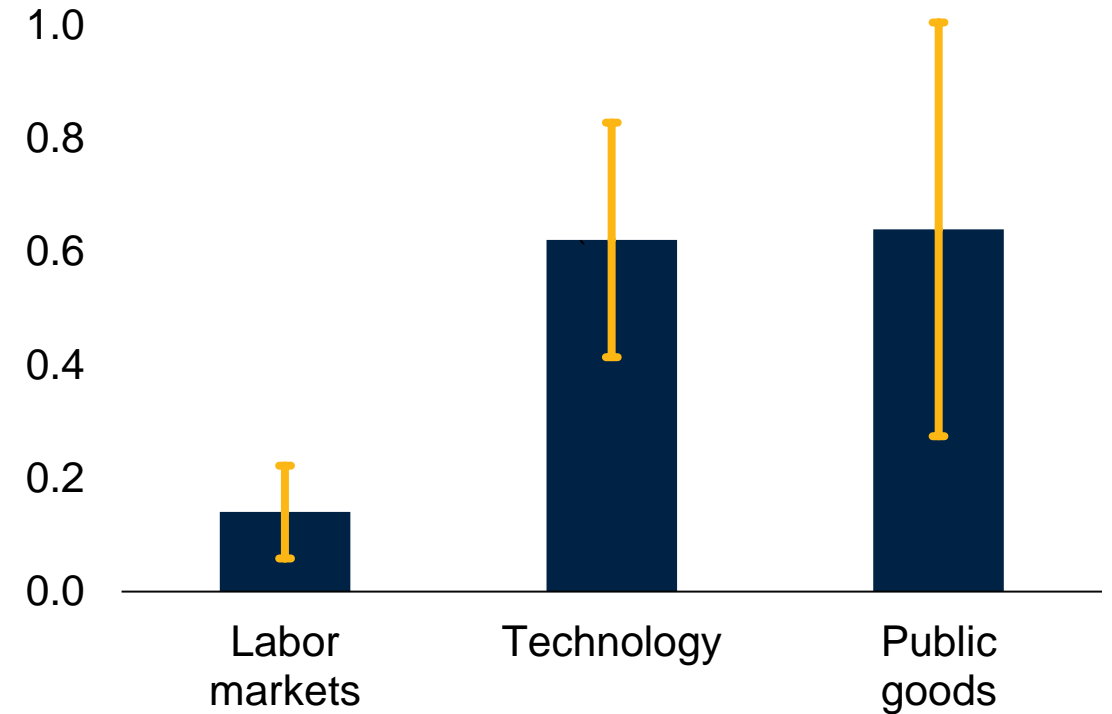
Improve Climate Resilience
Public Goods are More Effective Adaptation Strategies than Purely Private Strategies

Adaptation ratio, public and private
(Ratio)

Adaptation ratio, by strategy
(Ratio)

Sources: Rexer and Sharma (2024); World Bank.

Note: Adaption ratio is the share of the damage from a climate shock that is offset by adaptation. The yellow lines represent 95 percent confidence intervals. The total sample consists of 118 estimates from 52 papers included in the meta-analysis of adaptation in Rexer and Sharma (2024). Technical details are explained in Rexer and Sharma (2024).

Four Questions

1 **What is the growth outlook for South Asia?** *Better than in other EMDEs, mostly due to strength in India, and more reliant on public sector than in other EMDEs. Risks remain to the downside, including due to climate shocks.*

2 **How do households and firms adapt to climate risks?** *Households and farmers have less effective climate adaptation strategies than firms, in part because of limited employment options in non-agriculture.*

3 **Why is job creation weak in South Asia?** *South Asia's non-agricultural sector and women are converging toward significantly below-average employment ratios, due to factors including obstacles to firm growth.*
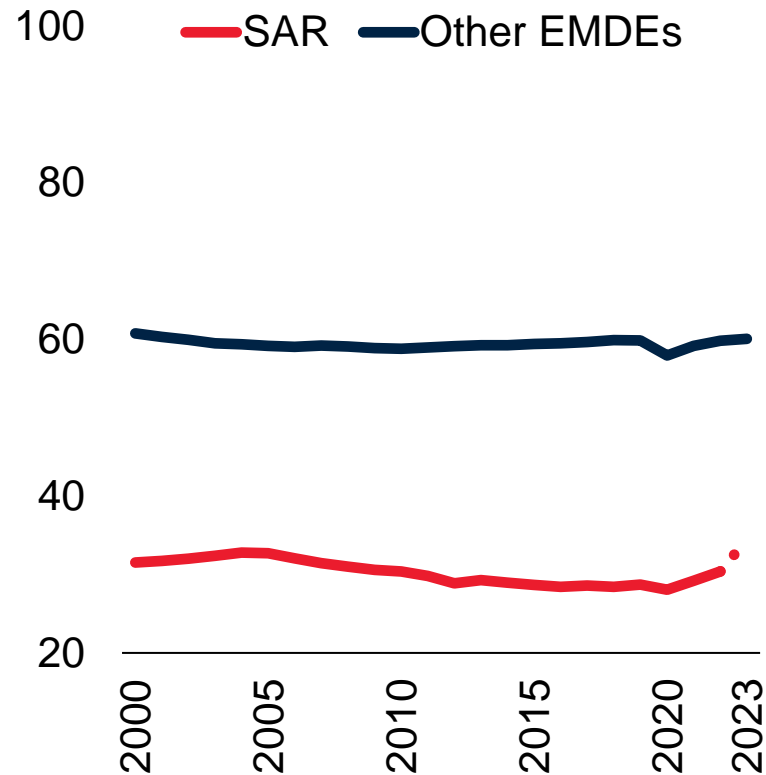
Employment Ratios
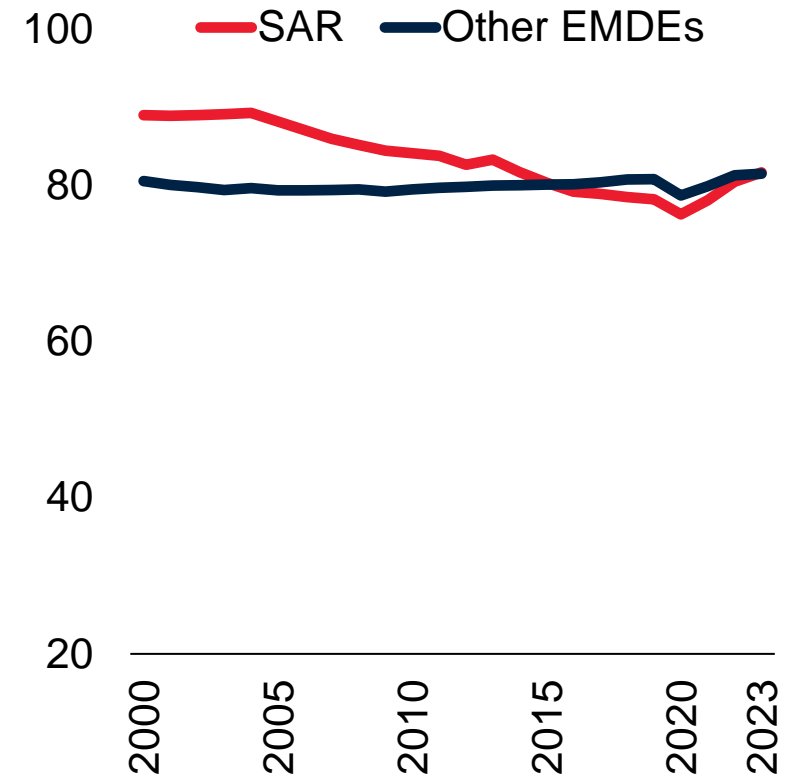## Employment Ratios Falling for Men, Low for Women

Employment ratio
(Percent of working-age population)
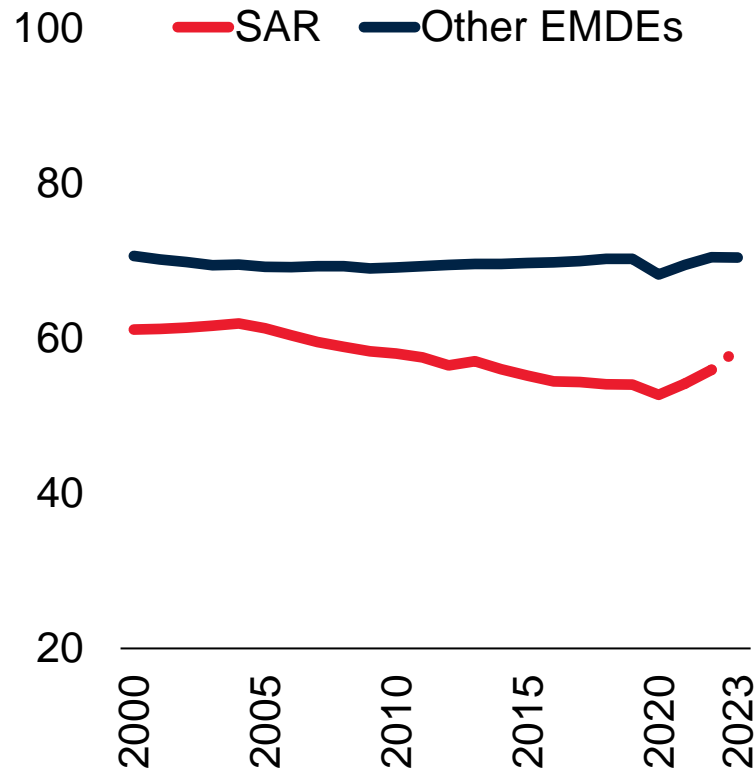
Women: Employment ratio
(Percent of female working-age population)

Men: Employment ratio
(Percent of male working-age population)

Sources: International Labor Organization; Penn World Tables (database); WDI (database); World Bank.
Note: Working-age population refers to persons aged 15 to 64. Employment ratios are defined as employment in percent of the working-age population. Working-age population weighted averages for country groups. Sample includes 128 EMDEs.
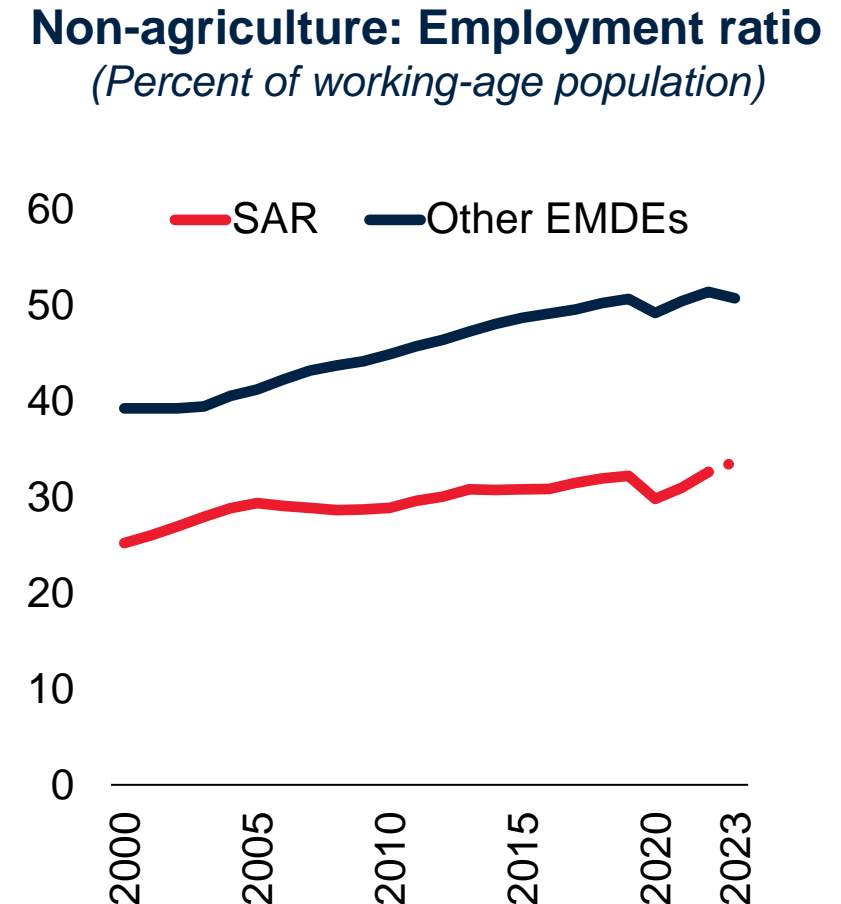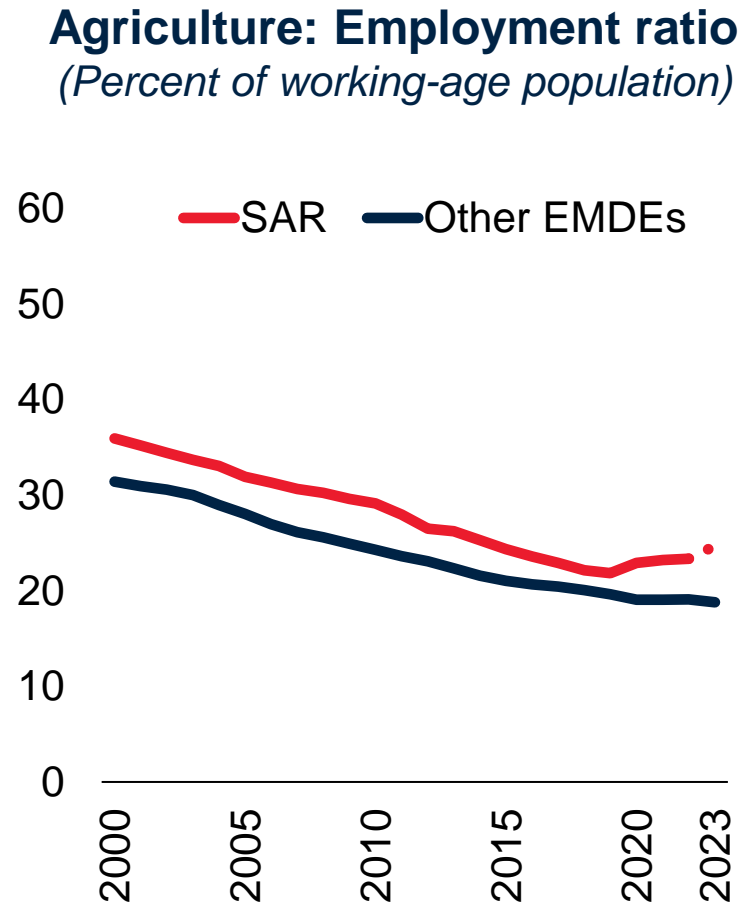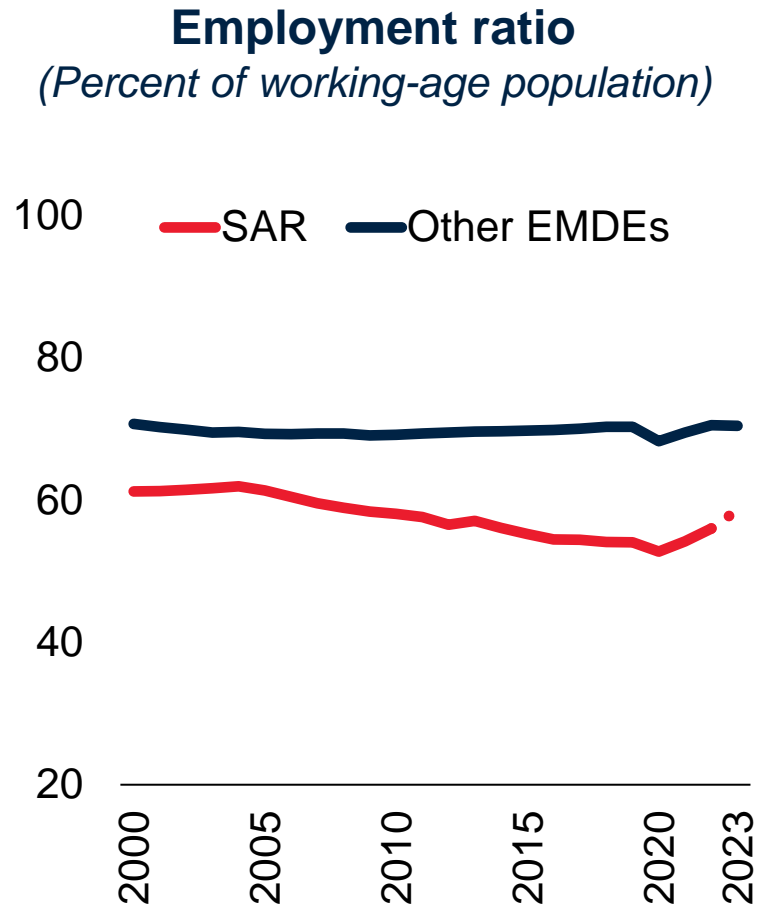
Employment Weakness in South Asia
Structural Transformation Stuck

Employment Ratios
Falling in Agriculture Like Elsewhere; Rising in Non-Agriculture Less Than Elsewhere

Employment ratio
(Percent of working-age population)

Agriculture: Employment ratio
(Percent of working-age population)

Non-agriculture: Employment ratio
(Percent of working-age population)

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Employment Ratios in Non-Agriculture
Smaller Increases and Lower than Elsewhere

Non-agriculture: Changes, 2000-22
(Percentage points of working-age population)
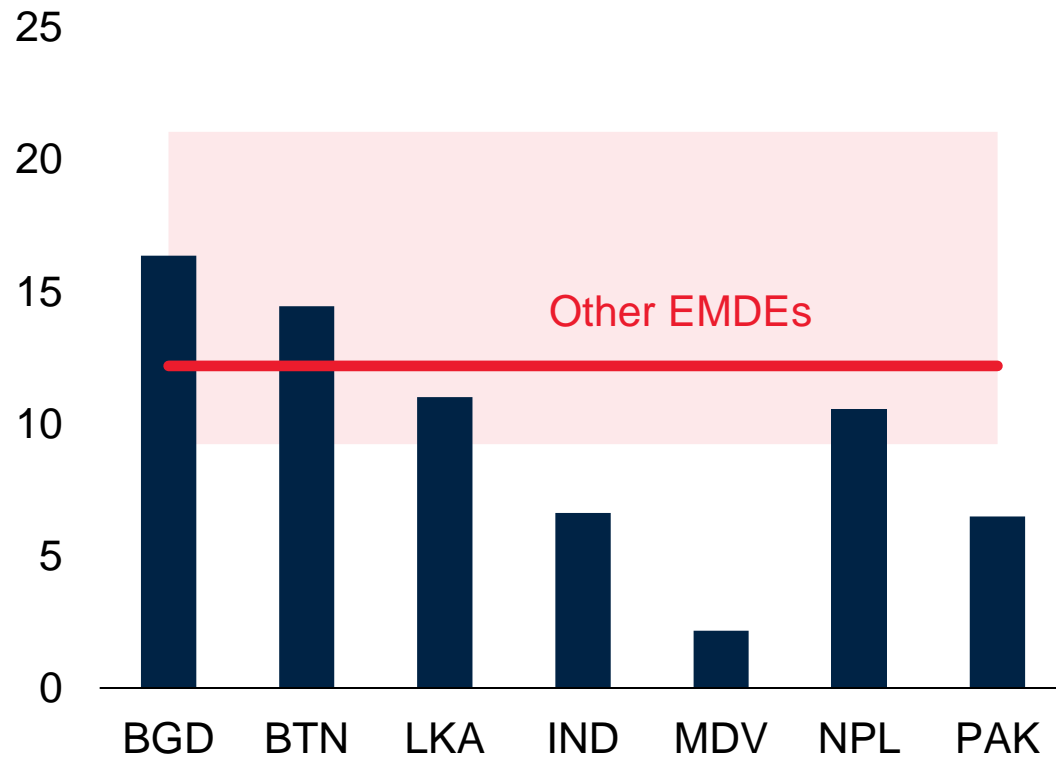
Non-agriculture: Employment ratio, 2022
(Percent of working-age population)

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Step 1: Long-Run Employment Ratios
SAR Converging Toward Below-Average Levels for Non-Agriculture, Women

Agriculture: Long-run employment ratio, deviation from EMDE average
(Percentage points of working-age population)

Non-agriculture: Long-run employment ratio, deviation from EMDE average
(Percentage points of working-age population)

Women: Long-run employment ratio, deviation from EMDE average
(Percentage points of female working-age population)

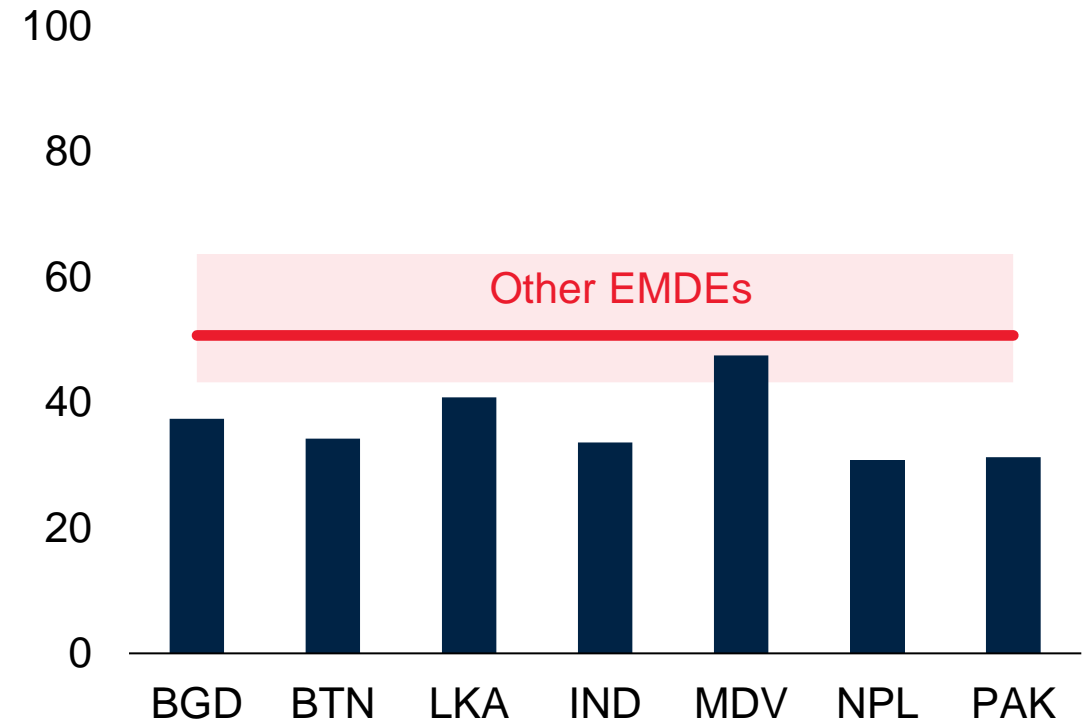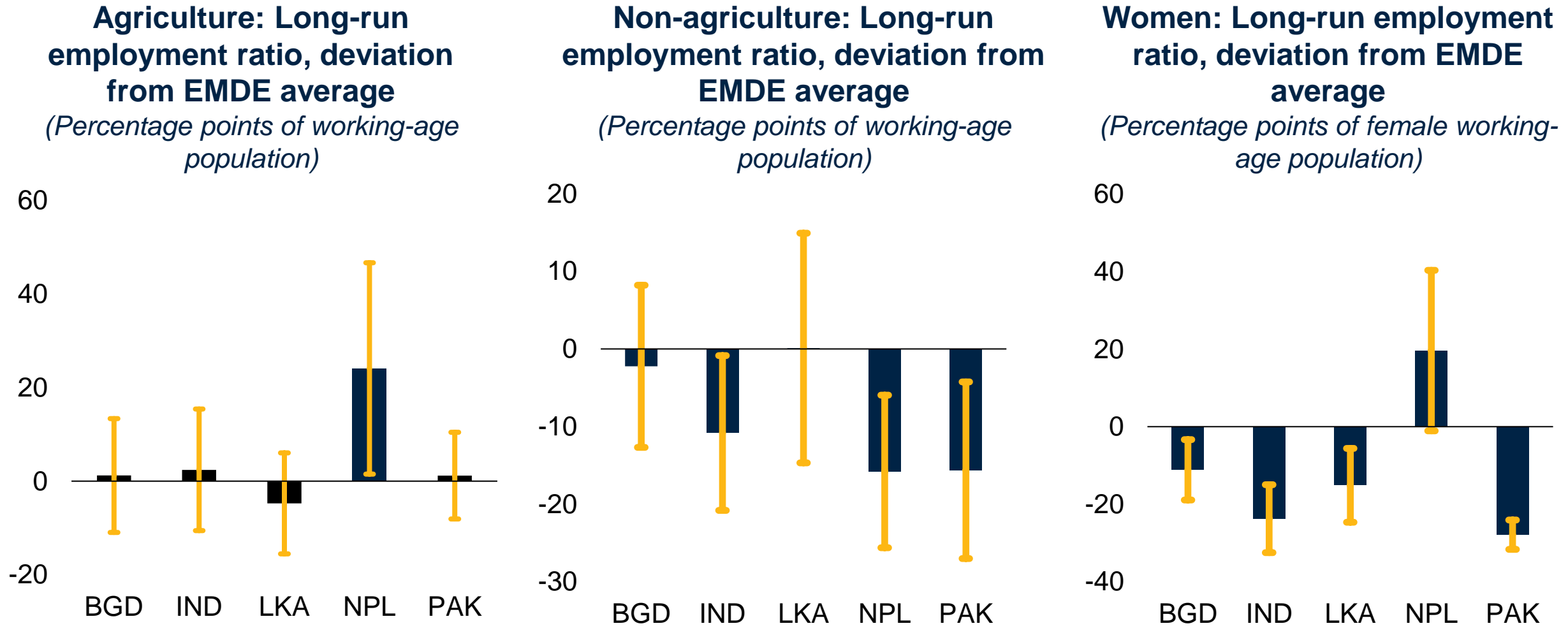Sources: GGDC/UNU-WIDER Economic Transformation Database; International Labour Organization; Penn World Tables (database); WDI (database); World Bank.

Note: Figures are based on the regressions from annex table A2.3.1 and depict the country fixed effects of five South Asian countries (Bangladesh, India, Nepal, Pakistan, and Sri Lanka) recovered from the regressions and scaled by the coefficient on the lagged employment ratio. These can be interpreted as the deviation of country-specific long-run employment ratios from the EMDE average. Employment ratios are defined as employment in percent of the working-age population. Bars show deviations from EMDE average in long-run employment ratios; yellow whiskers refer to 90 percent confidence interval. Sample includes 103 EMDEs.

Step 2: Correlates of Long-Run Employment Ratios
Range of Policies Needed

- Correlates of higher **aggregate** long-run employment ratios
  - Less onerous tax regime,
  - Less policy uncertainty.

- Correlates of higher **non-agricultural** employment
  - Larger firm sizes*,
  - Greater trade openness*,
  - Better education*,
  - Better access to land,
  - More flexible labor and product market policies,
  - Fewer restrictions on women's entrepreneurship.

- Additional correlates of higher **women's** employment
  - Legal protection of women's rights*.

Raising Long-Run Employment Ratios
Increase Firm Size, Trade Openness, Education

Factors correlated with high long-run employment ratios in non-agriculture

(Number of employees)
(Index)
(Percent of GDP)
(Percent)

Legend: SAR, Other EMDEs

Categories: Manu. estab. size, Serv. estab. size, Product market flexibility, Exports (RHS), Literacy (RHS)
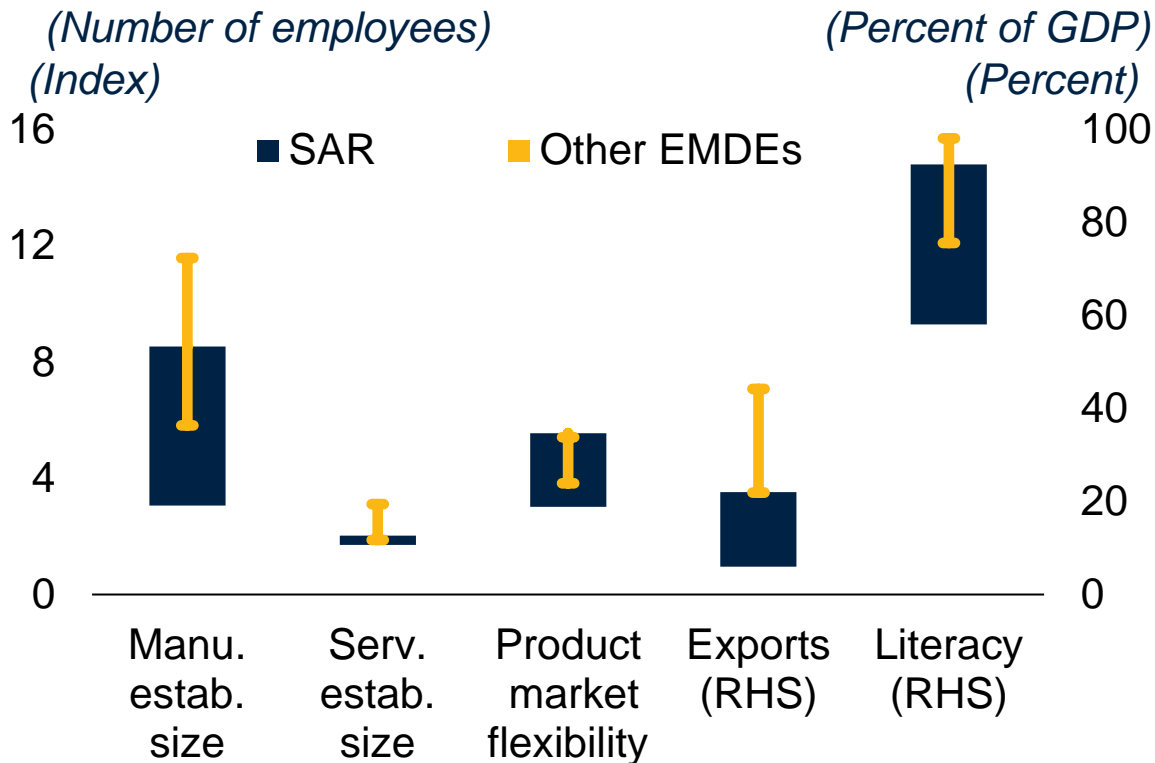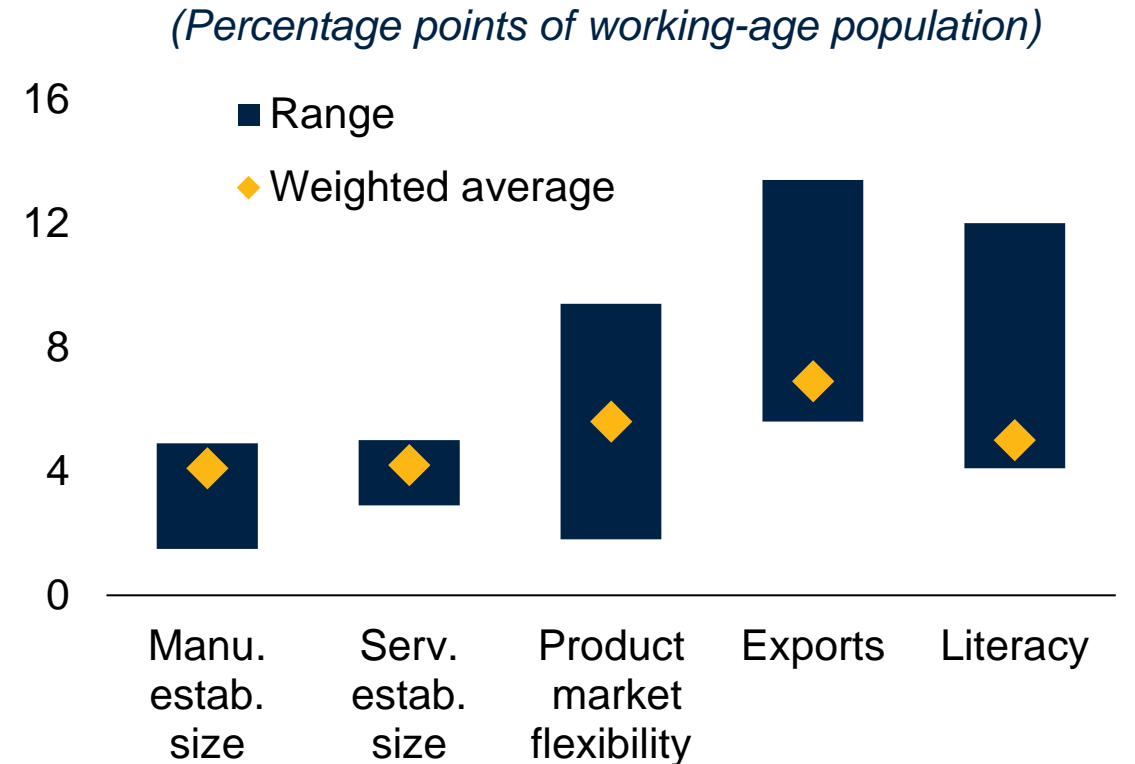
Increases in non-agricultural employment ratio if SAR had matched median of other EMDEs

(Percentage points of working-age population)

Legend: Range, Weighted average

Categories: Manu. estab. size, Serv. estab. size, Product market flexibility, Exports, Literacy

Left panel: SAR = range for Bangladesh, India, Nepal, Pakistan, and Sri Lanka for product market flexibility, exports, and literacy; Bangladesh, India, Nepal, and Sri Lanka for manufacturing establishment size; and Bangladesh, India, and Sri Lanka for services establishment size. Other EMDEs = interquartile range for a sample of 96 non-SAR EMDEs. Right panel: Chart is based on the regression results of annex tables A2.5.1-A2.5.3. Bars show the range of differences in the predicted deviations from EMDE-average long-run employment ratios in non-agriculture in South Asian countries, if they had the same establishment size, product market flexibility, exports, or literacy as median of other EMDEs. Diamonds show the employment-weighted average of the predicted deviations. Sample includes South Asian countries with variable values below the median of other EMDEs and excludes Nepal and Sri Lanka for manufacturing establishment size; India, Nepal, and Sri Lanka for product market flexibility; and Sri Lanka for literacy.

Four Questions and Answers

1   **What is the growth outlook for South Asia?** *Better than in other EMDEs, mostly due to strength in India, and more reliant on public sector than in other EMDEs. Risks remain to the downside, including due to climate shocks.*

2   **How do households and firms adapt to climate risks?** *Households and farmers have less effective climate adaptation strategies than firms, in part because of limited employment options in non-agriculture.*

3   **Why is job creation weak in South Asia?** *South Asia's non-agricultural sector and women are converging toward significantly below-average employment ratios, due to factors including obstacles to firm growth.*

4   **What are the policy implications?** *Vibrant, competitive firms are key to unlocking job creation, private investment, and private climate adaptation. Policies include greater trade openness, more efficient markets.*

Thank you!

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Chapter 1.   **Regional outlook: Deceptive strength**

Box 1.1   **Private investment accelerations**

Spotlight.   **Who bears the burden of climate adaptation and how?**

Chapter 2.   **Jobless development**

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