SOUTH ASIA ECONOMIC FOCUS
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Coping with Shocks
Migration and the Road to Resilience

LATEST ECONOMIC DEVELOPMENTS AND OUTLOOK

- In South Asia, regional growth is projected to average 5.8 percent this year- a downward revision of 1 percentage point from the forecast made in June. This follows growth of 7.8 percent in 2021, when most countries were rebounding from the pandemic slump.

- Beset with Sri Lanka's economic crisis, Pakistan's catastrophic floods, a global slowdown, and impacts of the war in Ukraine, South Asia faces an unprecedented combination of shocks on top of the lingering scars of the COVID-19 pandemic. Growth in the region is dampening, underscoring the need for countries to build resilience.

- While economic distress is weighing down all South Asian countries, some are coping better than others.
    - The halting of data collection in **Afghanistan** precludes the possibility of a more precise forecast estimate. The economy is now re-adjusting after the discontinuation of large aid flows and the emergence of new domestic political realities. The World Bank estimates that real GDP could contract between 16 to 19 percent in 2022.
    - In **Bangladesh**, GDP growth is projected to decelerate slightly to 6.1 percent in FY2022/23, as higher inflation and rolling electricity blackouts dampen the post-COVID recovery in consumption and investment.
    - In **Bhutan**, the recovery is supported by the easing of mobility restrictions—amid one of the highest vaccination rates in the world. However, slower domestic demand recovery due to high inflation and delayed hydro investments are expected to decelerate growth to 4.1 percent in FY22/23.
    - In **India**, the region's largest economy, exports and the services sector have recovered more strongly than the world average while its ample foreign reserves served as a buffer to external shocks. Economic growth will slow down in the fiscal year ending March 2023, as the country is coming off a strong recovery in FY2022 (April 2021-March 2022).
    - Real GDP in **Maldives** is projected to grow, in real terms, by 12.4 and 8.2 percent in 2022 and 2023, respectively, driven by a robust recovery of the tourism sector. Greater capacity in the tourism sector will support this expansion.
    - In **Nepal**, the forecast projects growth moderating to 5.1 percent in FY2022/23 and 4.9 percent in FY2023/24, reflecting monetary policy normalization, and the end of pandemic-era support measures. A rebound in tourism is projected to support the services sector, although higher interest rates are likely to weigh on demand in other sectors.
    - In **Pakistan**, growth in FY2022/23 has been downgraded due to the floods from 4.0 percent in June to 2.0 percent, as coping with the aftermath of the flooding will complicate and delay overdue macroeconomic adjustment.

- **Sri Lanka's** unsustainable debt and severe balance of payments crisis will continue to have an impact on growth over the forecast period. Real GDP is expected to fall by 9.2 percent in 2022 and a further 4.2 percent in 2023.

Inflation in South Asia, caused in large part by the impact of elevated global food and energy prices and trade restrictions that worsened food insecurity in the region, is expected to rise to 9.2 percent this year before gradually subsiding. The resulting squeeze on real income is severe, particularly for the region's poor who spend a large share of their income on food, and is also slowing down gains on poverty reduction

MIGRATION AND THE ROAD TO RESILIENCE

- There are two main economic drivers of migration, and both are central to the process of economic development. The first is reallocation of labor to places where it is more productive. The second is adjustment to local economic shocks, such as weather-related shocks, to which South Asia's rural poor population is highly vulnerable.

- Mobility costs—pecuniary and non-pecuniary—and frictions in credit and labor markets have hindered these benefits of labor mobility from being fully tapped. The flat pre-COVID trends in international and long-distance internal migration in South Asia are indicative of the persistence of barriers to mobility.

- Poor migrant workers often face precarious labor and housing market conditions, and lack access to social protection.

- Migrants were disproportionately affected when restrictions to movement were imposed during COVID-19. However, the later phase of the pandemic has highlighted the crucial role migration can play in facilitating recovery. Survey data from the report suggests that in late 2021 and early 2022, migration flows are associated with movement from areas hit hard by the pandemic to those that were not, thus helping equilibrate demand and supply of labor in the aftermath of the COVID-19 shock.

- Slow, uneven recovery in migration raises concerns about a potential scarring effect of the pandemic. This could be due to lingering uncertainties or liquidity problems. A more troubling possibility is that the pandemic shock has had long-term impacts on the costs and frictions associated with migration, perhaps because of disruptions in social networks and intermediary markets that ease the process of moving and finding jobs.

POLICY RECOMMENDATIONS

- Policies during the pandemic have left countries with limited fiscal space. Countries have already undertaken measures to increase revenue and reduce expenditure such as fuel subsidies. Yet, spending needs are rising due to higher food subsidy costs as global prices remain elevated. The sequence of shocks highlights the importance of building fiscal buffers to increase countries' resilience.

- Various structural changes are occurring in South Asian countries, which create opportunities for the region's long-term resilience. Financial innovations and changes in the labor market that give workers more flexibility can provide people with tools to withstand future shocks and increase the region's resilience.

- With elevated global energy prices, net energy importers of South Asia face the trade-off between short-term strategy and long-term energy goals. In the short term, countries want to limit energy costs and secure energy access, by increasing the production of non-renewable energy and reducing the burden on households through fuel subsidies. In the longer-term, transition to a greener economy is important for energy security and climate co-benefits.

- Reducing frictions to labor mobility, including those that have increased during the COVID crisis, is vital for South Asia's recovery from the pandemic and its long-run development.
    - International migrants from South Asia often face high explicit moving costs for transportation, visa and passport fees, and agent (broker) fees. Explicit migration costs vary substantially between migration corridors and sometimes are prohibitive.
    - Bilateral and multilateral agreements could reduce migration costs.
    - The cost of moving can be high for internal migrants too, but limited knowledge of the exact sources of these costs hinders effective policy design. One-time expenses such as travel costs, recurring expenses such as higher cost of urban living, and non-monetary or psychological costs of living away from home can add up for internal migrants.
    - Policies that indirectly deter internal labor mobility deserve attention. Although South Asian countries do not place explicit restrictions on internal migration, certain policies might restrict mobility indirectly. For example, in India, given the possibility that low interstate portability of social protection schemes for poor households might deter interstate migration, policies to make social protection benefits more portable could be helpful.
    - Strengthening the remittance infrastructure could further unlock gains from migration and make it more attractive.

- Measures to de-risk migration and make it more resilient to future shocks should be integrated into migration-supporting policies and institutions.
    - More-flexible visa policies could help host countries manage labor market shocks by facilitating job mobility of migrant workers.
    - Migrant welfare funds and inclusion of mechanisms to support migrant workers during shocks in bilateral migration agreements could also help de-risk international migration.
    - Measures to preserve access to urban housing and introduction of urban temporary workfare programs that are open to migrant workers could help prevent costly, unnecessary displacement of internal migrants during shocks.
    - Comprehensively extending social protection systems to the informal sector would also reduce risks for migrants without access to social protection programs.
    - The design of new social protection programs for the informal sector and their supporting data infrastructure should consider how to include internal migrants without inadvertently deterring mobility.