

June 2021

Recent developments: COVID-19 cases have surged in South Asia and the situation in India has been particularly difficult. For the region, peaks in daily new confirmed cases and deaths are multiple times higher than last year. Progress in vaccination has been slow, and the largest economies, Bangladesh, India, and Pakistan, have vaccinated only a small fraction of their populations.

Despite rising COVID-19 cases, the economic recovery has been faster than expected, with activity in most sectors overtaking pre-pandemic levels. In India, an enormous second COVID-19 wave is undermining the rebound in services and manufacturing activity. High frequency data, including a renewed drop in foot traffic around work and retail spaces, suggests that activity is again collapsing. Recoveries in Bangladesh and Pakistan also face new headwinds from the recent rise in COVID-19 cases and related restrictions. Sri Lanka, facing resurging COVID-19 cases and mounting government debt, has experienced significant exchange rate depreciation since the onset of the pandemic.

Following an aggressive policy response in 2020 that included cuts in interest rates, increases in government expenditure, extension of loans and guarantees, and steps to ensure financial stability, fiscal and monetary policies remain accommodative. India's Fiscal Year 2021/22 budget announced more than a doubling of health-related spending and a revised fiscal path intended to counteract the pandemic. Debt relief under the Debt Service Suspension Initiative will provide additional fiscal space for Afghanistan, Maldives, Nepal, and Pakistan.

Outlook: Growth is projected to rebound to a stronger-than-expected 6.8% in 2021, partly reflecting momentum from the end of last year. India accounts for most of the upgrade as strong services sector activity more than offsets the economic effects of the worsening pandemic. The outlook is underpinned by a rebound in private consumption. The recovery, however, has done little to narrow the gap with pre-pandemic trends; In 2022, GDP is expected to be 9% lower than projected prior to the pandemic.

India's growth for FY 2021/22, which began in April 2021, is forecast at 8.3%, supported by plans for higher spending on infrastructure, rural development, and health, and a stronger-than-expected recovery in services. Better growth prospects since January, however, masks significant damage to economic activity from COVID-19. The economy is expected to follow the same, yet less pronounced, collapse and recovery seen during the first wave. Growth in FY 2022/23 is expected to slow to 7.5%. In Bangladesh, the recovery is expected to be gradual, with growth of 3.6% in FY 2020/21, which starts in July, and 5.1% in FY 2021/22, as private consumption is supported by normalizing activity, moderate inflation, and rising garment exports. Pakistan is expected to grow 1.3% in FY 2020/21 as improving remittance flows and a rebound in confidence are offset by contracting investment and fiscal consolidation.

The pandemic is expected to leave a legacy of higher poverty in the region. Tens of millions of people are anticipated to fall below the \$1.90-a-day extreme poverty line this year. Further deprivation could come from higher food prices as global agricultural commodities have risen 30% over the past year. Adding to the adverse impacts, fixed investment is expected to be 10% below pre-pandemic trends, schools have been shut for about one-third of the duration of the pandemic, and an estimated one-tenth of labor hours have been lost.

Risks: With the recovery in early stages and the pandemic continuing to spread, the outlook is highly uncertain. Downside risks stem from high government debt, upward pressure on food prices, financial sector challenges, and the uncertain trajectory of COVID-19 and vaccination. Global financial conditions, while currently accommodative, could change if advanced economies tighten monetary policy before recoveries are entrenched elsewhere or global inflation rises unexpectedly. Domestic financial sector stress remains a significant downside risk in the region, as nonperforming loans were high prior to the pandemic in the region's

largest economies. The intersection of higher food prices and outbreaks of COVID-19 poses significant risks to vulnerable communities.

[Download Global Economic Prospects](#)

South Asia Country Forecasts

(Annual percent change unless indicated otherwise)

	2018	2019	2020e	2021f	2022f	2023f
GDP at market prices (average 2010-19 US\$)						
Calendar Year Basis^a						
Afghanistan	1.2	3.9	-1.9	1.0	2.6	3.0
Maldives	8.1	7.0	-28.0	17.1	11.5	8.3
Sri Lanka	3.3	2.3	-3.6	3.4	2.0	2.1
Fiscal Year Basis^a						
	2017/18	2018/19	2019/20e	2020/21f	2021/22f	2022/23f
Bangladesh	7.9	8.2	2.4	3.6	5.1	6.2
Bhutan	3.8	4.3	-0.8	-1.8	5.0	5.6
India	6.8	6.5	4.0	-7.3	8.3	7.5
Nepal	7.6	6.7	-2.1	2.7	3.9	5.1
Pakistan (factor cost)	5.5	2.1	-0.5	1.3	2.0	3.4

Source: World Bank.

Note: 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.

[Download the data](#)

World Bank Group COVID-19 Response

The [World Bank](#), one of the largest sources of funding and knowledge for developing countries, is taking [broad, fast action](#) to help developing countries respond to the health, social and economic impacts of COVID-19. This includes [\\$12 billion](#) to help low- and middle-income countries purchase and distribute COVID-19 vaccines, tests, and treatments, and strengthen vaccination systems. The financing builds on the broader [World Bank Group COVID-19 response](#), which is helping more than 100 countries strengthen health systems, support the poorest households, and create supportive conditions to maintain livelihoods and jobs for those hit hardest.