

Reshaping Norms: A New Way Forward

SOUTH ASIA ECONOMIC FOCUS | SPRING 2022

LATEST ECONOMIC DEVELOPMENTS AND OUTLOOK

- The South Asia region is projected to grow by **6.6 percent in 2022 and 6.3 percent in 2023¹**. The **2022 forecast has been revised downward by 1.0 percentage point** compared to the January projection, **due to the impacts of the war in Ukraine**.
- The **recovery in the region, already uneven and fragile**, will be weakened by the impact of war in Ukraine, contributing **to inflation and deteriorating current account balances**, amid increasing indebtedness.
- All countries in the region will face challenges ahead, grappling with rising commodity prices, supply disruptions, and vulnerabilities in financial sectors.
 - In **Afghanistan**, the halting of data collection precludes the possibility of a forecast. However, higher food prices will exacerbate food insecurity and complicate humanitarian aid to the country.
 - In **Bangladesh**, GDP growth is expected to remain strong at 6.4 percent in FY21/22. However, a slowing import demand in Europe could hamper export growth.
 - In **Bhutan**, growth is projected to be 4.4 percent in FY21/22 as flows of international tourists and migrant workers begin to return to normal levels.
 - **India's** economy, South Asia's largest, is expected to grow by 8 percent in FY22/23. The recovery in household consumption will be constrained by the incomplete recovery in the labor market and inflationary pressures.
 - In **Maldives**, real GDP is projected to stay strong, growing by 7.6 percent in 2022, though the country will face vulnerabilities due to its large imports of fossil fuels as share of GDP and a reduction in tourists from Russia and Ukraine.
 - In **Nepal**, GDP is projected to grow by 3.7 percent in FY21/22, led by the recovery of the services sector and a strong outlook for remittances.
 - In **Pakistan**, GDP growth is expected to slow to 4.3 percent in FY21/22, amid monetary tightening measures, continued high inflation, and high base effects from the previous

¹ Afghanistan country data not included in both regional forecasts. Sri Lanka country data not included in 2023 regional forecast.

year. An increase in fuel prices could potentially pose a tough fiscal challenge, as energy subsidies as a percent of GDP are the highest in the region.

- In **Sri Lanka**, growth for 2022 is estimated at 2.4 percent, though the debt and balance-of-payments crisis and widespread shortages makes any forecast highly uncertain.
- Though GDP growth continues to be solid, the **recoveries have been uneven across sectors, countries, and groups of people**. While production and exports of digital services have risen, other sectors like construction, transportation, and tourism have not fully recovered in most countries.
- Inflation is expected to rise in all countries in 2022 before subsiding in 2023. For the region as a whole, **headline inflation is expected to be 7.0 percent in 2022** (up from 6.7 percent in 2021).
- **Poverty rates for the region are expected to recover** in line with growth recovery. However, there is also a risk that poverty rates will not improve due to food insecurity if agricultural production yields are hampered by high global fertilizer prices.
- Almost all countries in the region will be **adversely affected by higher and unpredictable energy prices**, underscoring the need to become less dependent on fossil-fuel imports.

RESHAPING SOCIAL NORMS FOR GENDER EQUALITY

- **Traditional attitudes and deeply rooted social norms towards gender have persisted** or become more conservative over time. They can be a key obstacle towards gender equality, the welfare of children as well as broader economic growth.
- **Women continue to face great disadvantages in accessing economic opportunities** in the region, despite decades of economic growth, rising education, and declining fertility. And the COVID-19 crisis has exacerbated these existing gender disparities.
- Many South Asian countries rank among the **lowest in the world in terms of female labor force participation**, as well as other forms of gender disparities, such as freedom of movement, social interactions, asset ownership, and son preference.
- Across the world, at higher levels of development women tend to spend less time doing household chores and more time in paid employment. However, **for most South Asian women engagement in economic activity is lower than what would be expected given the level of development of the region**.
- With few exceptions, **conservative beliefs about household labor division in South Asian countries account for a large share of these gaps in women's economic engagement**.

POLICY OPTIONS FOR GREEN, RESILIENT AND INCLUSIVE DEVELOPMENT

- Governments need to **carefully plan monetary and fiscal policies to counter external shocks and protect the vulnerable.**
 - Monetary policy needs to **contain inflation** without derailing nascent economic recovery.
 - Fiscal policy needs to **provide support to fragile sectors** without over-stimulating demand and jeopardizing fiscal sustainability.
 - Policymakers should **focus on the quality of government spending** by, for example, providing targeted income support for vulnerable households that are struggling with higher food and energy costs and steering away from price subsidies that tend to benefit wealthier households and deplete public resources.

- Countries should also **accelerate the transition to a low-carbon development path** and move towards a greener economy to reduce reliance on fuel imports.
 - Gradually **introduce green taxation and putting tariffs on products that cause environmental damage.** For example, taxing carbon-intensive fossil fuels would incentivize higher energy efficiency in consumption and encourage the transition toward renewable energy.
 - This can have multiple quantifiable benefits, including global climate benefits, less local pollution and less congestion and road accidents.
 - Greening of taxation can also **provide much-needed fiscal space in the region**, with additional revenues that could be utilized for adaptation against climate-related disasters, badly needed infrastructure that increases productive capacity, or strengthening social safety net systems.
 - If revenues from the carbon tax are redistributed as cash transfers, this could help compensate poorer households and improve income distribution.

- Countries need to implement interventions that **tackle barriers to women's economic participation, including norms that are biased against women.**
 - **Investing in infrastructure**, such as transportation and electrification, can help improve mobility and time allocation for women.
 - **Introducing policies that are sensitive to existing norms**, such as programs that address social and logistical constraints. This could include **economic incentives like transfers, subsidies, and access to financial instruments** that can help families make better choices, like keeping girls in school longer. Or, **introducing new sanctions and shifting the need to abide by socially prescribed behavior**, such as granting equal property rights to women.
 - **Information interventions that close knowledge gaps and correct misperceptions of societal attitudes** can be effective, such as providing families with information about what others in their community think or providing positive role models through women in leadership positions.

WORLD BANK SUPPORT TO SOUTH ASIA

- **The World Bank stands committed to the people of South Asia** as the region recovers from COVID-19 and other shocks.
- Since the start of the pandemic in March 2020, **our support to South Asia has reached more than \$23 billion**, of which \$11 billion was directly channeled for COVID-19 response.
 - The initial focus has been on the health emergency response and protecting the most vulnerable.
 - Going forward, our priority is to pave the way for a green, resilient, and inclusive recovery.
- The World Bank has made available more than **\$1 billion to support vaccine purchase and deployment** in six South Asian countries. More than **82 million doses have been contracted using World Bank financing, and nearly 60 million doses have been delivered.**
- **\$2.5 billion provided by the World Bank for 15 health projects** across South Asia helped establish or equip more than 23,000 hospitals and healthcare centers to provide better care for COVID-19 patients.
- More than **857 million vulnerable people directly benefited from \$2.73 billion of funding that supported cash transfers to the poorest families**, helping them buy medical supplies and food.
- Across South Asia, World Bank provided **\$2.80 billion for 12 education projects**, including support to respond to school disruptions, enhance digitization, expand access for remote learning, and provide needs-based training benefitting millions of students and teachers.
- More than **9 million micro, small, and medium enterprises across South Asia benefited from over \$800 million in World Bank support**. It includes financing, guarantees, and capacity building to help address COVID-19 impacts and establish a stronger system for micro, small, and medium enterprises financing and development in the region.
- **At least 1.8 million smallholders and farmers across South Asia will benefit from \$1.2 billion through 10 World Bank operations** to improve productivity for food security, strengthen market connectivity, and help develop resilience against climate change.