



South Asia Development Update

Toward faster, cleaner growth

HIGHLIGHTS from Chapter 1: SOLID PROGRESS, BUT A LONG WAY TO GO

Key Points

- *At just under 6 percent, output growth in South Asia is expected to remain stronger than in other regions in 2023–25, even with weak growth in the countries recovering from recent balance-of-payments crises. Foreign exchange and financial markets in these countries have stabilized. But the financial systems of many countries in the region remain vulnerable and fiscal positions remain fragile. In some cases, restrictions on imports and foreign exchange transactions have yet to be fully unwound.*
- *The outlook represents a slowdown from pre-pandemic averages and is subject to downside risks from weak financial systems and fiscal positions, the possibility of a sharper-than-anticipated slowdown in China, and climate change-related natural disasters.*
- *In the short term, policy priorities include preserving financial stability and improving fiscal positions. In the longer term, priorities are to boost private investment, make economies more open to trade, and seize opportunities offered by the global energy transition.*

Outlook: Stronger than elsewhere, but not strong enough. South Asia's output growth is forecast to slow from 8.2 percent in 2022 to 5.8 percent in 2023 and remain broadly steady at 5.6 percent in 2024 and 2025. Growth in the region remains stronger than in any other EMDE region, supported by faster potential output, resilient exports, and increasing remittance inflows. However, in all South Asian countries, growth will remain below the 2015–19 pre-pandemic average, with the fading of post-pandemic rebounds accentuated by combinations of monetary tightening, fiscal consolidation, and slowing global demand growth. Current growth rates are not strong enough for most countries to reach high-income thresholds within a generation. Headline inflation has been declining in the rest of the world, but has remained elevated in South Asia.

Risks to the outlook: Financial sector strains and spillovers from China. A number of downside risks could derail growth from its projected path. Financial systems in several countries are fragile, with limited capital buffers, high exposure to heavily indebted sovereigns, and elevated levels of nonperforming loans. A deterioration in market sentiment could trigger renewed pressures on currencies, capital outflows, rebounds in inflation, and further increases in borrowing costs. The region would also be affected by any further slowdown in China's economy. Finally, South Asia is highly exposed to the adverse effects of climate change. More than 60 million people are affected by natural disasters every year, on average—far more than in any other region. South Asia is also vulnerable to disruptions to food markets, given its large agricultural sector and the fact that it has the highest share of food in consumption baskets of any EMDE region.

Policy challenges: Avoid crisis, boost growth. In the near term, policy priorities include preserving financial stability and restoring fiscal sustainability. In the longer term, a range of reforms will be needed to accelerate growth and job creation in a sustainable manner. In all countries in South Asia, private investment growth has slowed since the pandemic, or is forecast to do so. Accelerating the pace of catch-up with high-income countries will require policy makers to facilitate substantial new investment and increases in productivity. South Asian countries also impose more restrictions on trade and capital flows than countries in most other regions. Lowering these barriers could help the region integrate into the global marketplace and boost long-term productivity. The global energy transition presents an opportunity for South Asia to upgrade technologies and lift productivity, cut pollution, reduce reliance on energy imports, and create jobs.



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TABLE 1.1. Growth in South Asia

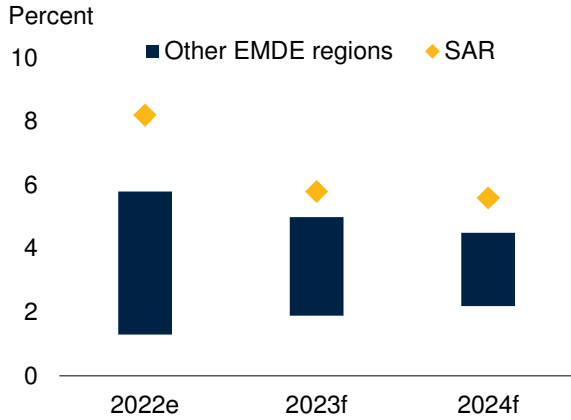
Country	Fiscal year	Real GDP growth at constant market prices (Percent)				Revision to forecast from April 2023 (Percentage point)	
		2022	2023(f)	2024(f)	2025(f)	2023(f)	2024(f)
Calendar year							
South Asia region (excluding Afghanistan)		8.2	5.8	5.6	5.6	0.2	-0.3
Maldives	January to December	13.9	6.5	5.2	5.5	-0.1	-0.1
Sri Lanka	January to December	-7.8	-3.8	1.7	2.4	0.4	0.7
Fiscal year basis		21/22	22/23(e)	23/24(f)	24/25(f)	22/23(e)	23/24(f)
Bangladesh	July to June	7.1	6.0	5.6	5.8	0.8	-0.6
Bhutan	July to June	4.8	4.6	4.0	4.6	0.1	0.9
India	April to March	9.1	7.2	6.3	6.4	0.3	0.0
Nepal	mid-July to mid-July	5.6	1.9	3.9	5.0	-2.2	-1.0
Pakistan	July to June	6.1	-0.6	1.7	2.4	-1.0	-0.3

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

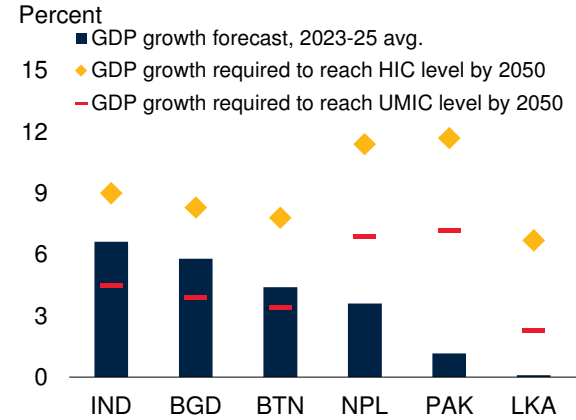
Note: (e) = estimate; (f) = forecast. GDP measured in 2015 prices and market exchange rates. Pakistan is reported at factor cost. National accounts statistics for Afghanistan are not available. To estimate regional aggregates in the calendar year, fiscal year data are converted to calendar year data by taking the average of two consecutive fiscal years for Bangladesh, Bhutan, Nepal, and Pakistan, as quarterly GDP data are not available.

Figure: Growth and policy challenges in South Asia

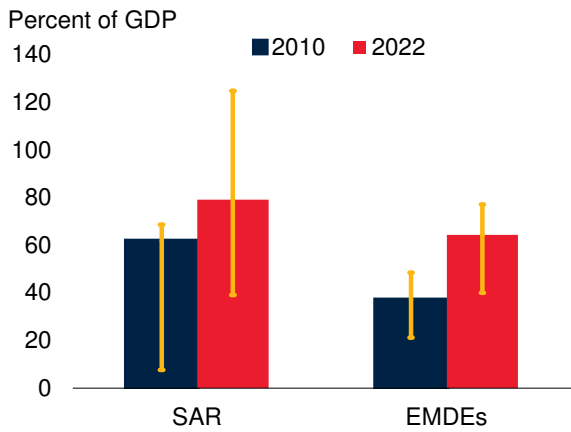
A. Output growth in South Asia



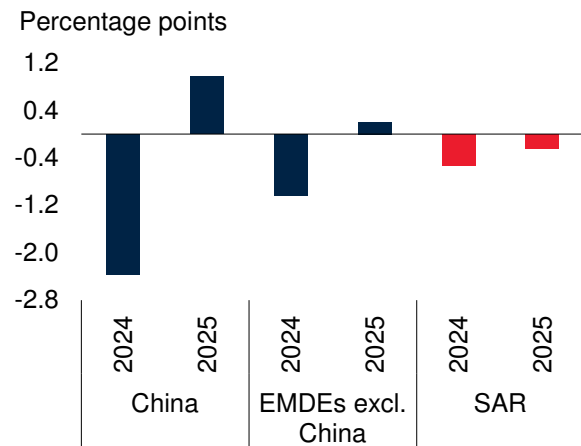
B. GDP growth rate required to reach higher income thresholds by 2050



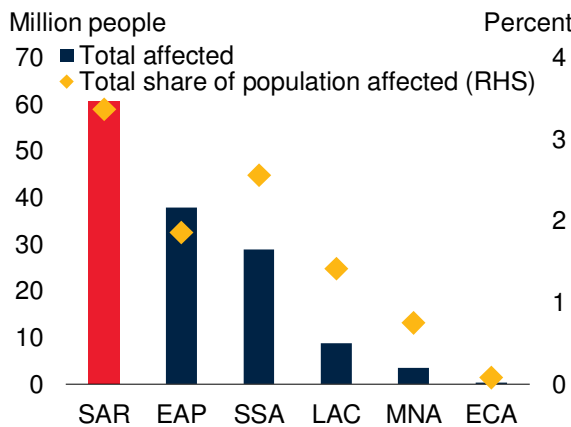
C. Government debt



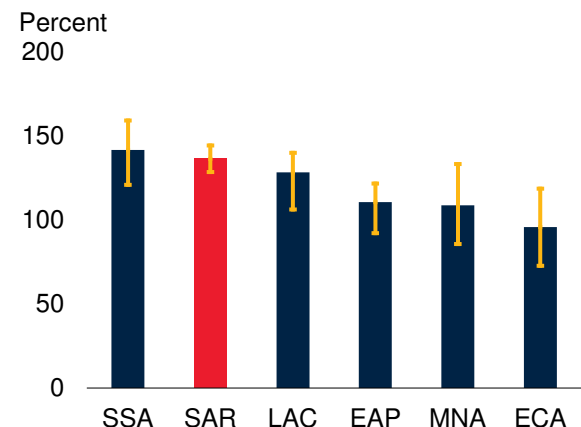
D. Growth impact of sharper slowdown in China



E. Number of people affected by natural disasters, 2013-22 average



F. Cost of trading in EMDE regions, 2019



Sources: Comtrade (database); ESCAP-World Bank Trade Costs Database; International Disaster Database (EM-DAT); WDI (database); WEO (database); World Bank (Macro Poverty Outlook); World Trade Organization.

Note: (e) = estimate; (f) = forecast; BGD = Bangladesh; BTN = Bhutan; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; HIC = High-income country; IND = India; LAC = Latin America and the Caribbean; LKA = Sri Lanka



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Lanka; MNA = Middle East and North Africa; NPL = Nepal; PAK = Pakistan; RHS = Right hand side; SAR = South Asia; SSA = Sub-Saharan Africa; UMIC = Upper middle-income country.

A. Blue bars reflect the range of growth in all the EMDE regions. Regional aggregate computed using 2015 GDP as weights. Sample includes 7 countries in SAR and 136 in other EMDE regions.

B. Figure shows the GDP growth rate forecast for 2023-25 and the GDP growth rate required to achieve high-income and upper middle-income status by 2050. Population growth is from United Nation population projections, and the threshold for high- and upper middle-income status is assumed to grow by 1.5 percent, its average growth rate between 1999 and 2019. The income threshold is based on GNI per capita in current U.S. dollars (Atlas method). Since the income threshold is based on GNI, while the forecast is based on GDP, this figure assumes equal growth rates of the two measures. Estimates for the required growth rate from other studies (e.g., Behera et al. 2023) assume an inflation rate differential and real appreciation between advanced economies and the corresponding country.

C. Bars show unweighted averages (at 2010–19 average prices and market exchange rates). Yellow whiskers indicate minimum-maximum range for seven South Asian economies, and interquartile range for EMDEs.

D. Bars show growth revisions between the China slowdown scenario and the baseline. SAR includes 6 countries.

E. Bars show the total population affected by natural disasters, and diamonds show the share of total population affected; annual averages over 2013-2022. Sample includes 144 EMDEs (22 in EAP, 20 in ECA, 31 in LAC, 18 in MNA, 8 in SAR, and 45 in SSA).

F. Bilateral trade costs (as defined in the UNESCAP/World Bank database) measure the costs of a good traded internationally in excess of the same good traded domestically and are expressed as ad valorem tariff equivalent. Bilateral trade costs are aggregated into individual country measures using 2018 bilateral country exports shares from the Comtrade database. Regional and sectoral aggregates are averages of individual country measures. Bars show unweighted averages, whiskers show interquartile ranges. Sample includes 53 EMDEs (9 in EAP, 12 in ECA, 16 in LAC, 4 in MNA, 2 in SAR, and 10 in SSA).