South Asia continues to be adversely affected by spillovers from the invasion of Ukraine, rising global interest rates, and weakening growth in key trading partners. Regional growth is estimated to have slowed to 6.1 percent in 2022 and is projected to slow further to 5.5 percent in 2023—below previous projections on global spillovers—before picking up to 5.8 percent in 2024. Risks to the outlook continue to be tilted to the downside, including further pressure from tightening global financial conditions; higher-than-projected inflation leading to lower real incomes and spending; and the reemergence of financial sector stress. Dwindling international reserves and rising sovereign spreads increase the risk of more economies falling into crisis.

Recent developments

The economies of the South Asia region (SAR) continue to be adversely affected by shocks emanating from the Russian Federation’s invasion of Ukraine, including higher food and energy prices, and by the tightening of global financial conditions as central banks in the region and elsewhere act to fight high inflation. The repercussions of these developments led to contractions in trade, hospitality, and manufacturing in SAR, as household’s real incomes came under pressure (figure 2.5.1.A).

In some economies, the deterioration in economic conditions has led to a substantial rise in poverty (Afghanistan, Pakistan, Sri Lanka; World Bank 2022j). Many households are consuming less nutritious food, and rolling electricity blackouts have become common as fuel has been rationed (World Bank 2022h). The combination of limited foreign exchange buffers and widening external current account deficits encouraged several countries (Bangladesh, Pakistan) to approach the International Monetary Fund (IMF) for help in bolstering foreign exchange reserves and mitigating external financing pressures. In parallel, governments have tightened fiscal policies and, in some cases, imposed import controls and food-export bans.1

In India, which accounts for three-fourths of the region’s output, growth expanded by 9.7 percent on an annual basis in the first half of fiscal year 2022/23, reflecting strong private consumption and fixed investment growth (World Bank 2022o). Consumer inflation spent most of last year above the Reserve Bank’s upper tolerance limit of 6 percent, prompting the policy rate to be raised by 2.25 percentage points between May and December. India’s goods trade deficit has more than doubled since 2019, and was $24 billion in November, with deficits for crude petroleum and petroleum products ($7.6 billion) and other commodities (for example, ores and minerals at $4.2 billion) accounting for the widening (figure 2.5.1.B).

Bangladesh was hard hit by spillovers from the changing global environment. The country was priced out of global energy markets and unable to meet the energy needs of households and businesses. Rising energy costs and supply constraints saw industrial production contract in September from its peak in March. The rising cost of imports about doubled the trade deficit since 2019. The deficit could have been even larger had

1 See tables 1.2 and 1.3 in World Bank (2022n) for details on policy interventions.
rapidly rising inflation and tightening financial conditions have undermined activity in retail trade, hospitality, and manufacturing. Trade deficits have doubled since 2019 in some countries as food and energy prices have soared and export growth has slowed. International arrivals are yet to recover in the region, although country experiences vary. The region’s currencies have depreciated further since June as capital outflows have increased, international reserves have collapsed, and current account deficits have widened. Inflation expectations have shifted further away from inflation targets. Sovereign spreads are rising rapidly in vulnerable economies.

In Pakistan, an already precarious economic situation, with low foreign exchange reserves and large fiscal and current account deficits, was exacerbated last August by severe flooding, which cost many lives. About one-third of the country’s land area was affected, damaging infrastructure, and directly affecting about 15 percent of the population (Benhassine et al. 2022; World Bank 2022p). Recovery and reconstruction needs are expected to be 1.6 times the FY2022/23 national development budget (Government of Pakistan et al. 2022). The flooding is likely to have seriously damaged agricultural production—which accounts for 23 percent of GDP and 37 percent of employment—by disrupting the current and upcoming planting seasons and pushed between 5.8 and 9 million people into poverty (World Bank 2022p). Policy uncertainty further complicates the economic outlook.

In Sri Lanka, output is estimated to have fallen by 9.2 percent in 2022 as the government ran out of the foreign exchange needed to cover food and fuel imports, and to service external debt. The rupee plummeted, and imports contracted sharply. While the authorities are now implementing a stabilization program, the country faces continuing shortages of food, energy, and medical supplies. The crisis and its repercussions have increased poverty and reversed much of the country’s income gains over the past decade. Tourist arrivals, an important source of foreign exchange, continue to be depressed with international arrivals last October about one-third of their 2019 level (figure 2.5.1.C). Nepal also saw international arrivals drop, particularly from Chinese tourists affected by COVID-related restrictions. In contrast, tourism in Maldives rebounded robustly in 2022, returning its GDP to its pre-pandemic level more quickly than previously expected; growth for the year is expected to be 12.4 percent.
Between June and December, the region’s currencies have depreciated against the U.S. dollar by an average of 10 percent, above the EMDE average (figure 2.5.1.D). In conjunction with rising global commodity prices, consumer price inflation has continued to rise, and one-year-ahead inflation expectations remain well above central bank targets (figure 2.5.1.E). Since early June, the Bangladeshi taka has depreciated by 18 percent and foreign exchange reserves have declined by $8 billion, pushing inflation to 8.7 percent (year-on-year) in December. Pakistan, with low foreign exchange reserves and rising sovereign risk, saw its currency depreciate by 14 percent between June and December and its country risk premium rise by 15 percentage points over this same period (figure 2.5.1.F). Pakistan’s consumer price inflation reached 24.5 percent in December on an annual basis, recently coming off its highest rate since the 1970s. India used its international reserves (at $550 billion in November, or 16 percent of GDP) to curb excess exchange rate volatility helping to limit Rupee depreciation, and its sovereign spread has remained broadly stable at 1.4 percent in December, similar to average levels in the five years before the pandemic.

**Outlook**

Growth in SAR is projected to slow to 5.5 percent in 2023 on slowing external demand and tightening financial conditions before picking up slightly to 5.8 percent in 2024 (table 2.5.1). Growth is revised lower over the forecast horizon and is below the region’s 2000-19 average growth of 6.5 percent (figure 2.5.2.A and 2.5.2.B). This pace reflects still robust growth in India, Maldives, and Nepal offsetting the effects of the floods in Pakistan and the economic and political crises in Afghanistan and Sri Lanka. The deteriorating global environment, however, will weigh on investment in the region (figure 2.5.2.C).

Growth in India is projected to slow from 8.7 percent in FY2021/22 to 6.9 percent in FY2022/23, the latter revised 0.6 percentage point lower since June (table 2.5.2). The slowdown in the global economy and rising uncertainty will weigh on export and investment growth. Governments increased infrastructure spending and various business facilitation measures, however, will crowd-in private investment and support the expansion of manufacturing capacity. Growth is projected to slow, to 6.6 percent in FY2023/24 before falling back toward its potential rate of just above 6 percent. India is expected to be the fastest growing economy of the seven largest EMDEs.

In the region excluding India, growth in 2023 and 2024—at 3.6 percent and 4.6 percent, respectively—is expected to underperform its average 2000-19 pre-pandemic rate. This is mainly due to weak growth in Pakistan, which is projected at 2.0 percent in FY2022/23, half the pace that was anticipated last June. Pakistan faces challenging economic conditions, including the repercussions of the recent flooding and continued policy and political uncertainty. As the country implements policy measures to stabilize macroeconomic conditions, inflationary pressures dissipate, and rebuilding begins following the floods, growth is expected

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**FIGURE 2.5.2 SAR: Outlook**

Domestic crises, global growth spillovers, and tightening financing conditions continue to buffet economies, contributing to a downgrade in growth prospects. Fixed investment is likely to be set back further by recent developments. Monetary and fiscal policy has tightened significantly in Pakistan and Sri Lanka to address domestic vulnerabilities in the former, and the ongoing economic crisis in the latter.
pronounced than in much of the rest of the region, as adequate policy buffers have provided breathing room to support the ongoing recovery and boost public investment. Pakistan and Sri Lanka have had to tighten policies more rapidly in pursuit of macroeconomic stability.

Risks

Risks to the outlook remain predominantly to the downside, including those related to the repercussions of the invasion of Ukraine, tightening global financing conditions, legacies from the pandemic, and country-specific vulnerabilities of several regional economies. The potential for crises in more countries is also rising but varies based on the availability of adequate policy buffers, and institutional and macroeconomic management strengths and weaknesses, among other factors. The projections for several economies are predicated on their ability to secure foreign exchange funding and implement policies to resolve balance of payments pressures. Other downside risks include a deeper-than-projected global economic slowdown, a more persistent period of elevated inflation, and financial sector stress. Additional deceleration in growth in China (and any additional mobility restrictions), Europe, and the United States would undermine many countries’ exports as well as the tourism earnings of SAR’s tourism-dependent economies (Maldives, Sri Lanka).

More persistent high inflation in advanced economies would require additional increases in their policy rates, which could lead to financial stress in the region and further exchange rate pressures (chapter 1). Addressing rising macroeconomic imbalances, which requires fiscal and monetary policy consolidation, is challenging when growth is slowing and human deprivation is rising. The complexities of such an environment can amplify the risk of policy mistakes that undermine economic activity, especially in circumstances of high domestic debt and dwindling foreign exchange reserves (figure 2.5.3.A).

External financing needs increased significantly in several SAR economies in 2022. External current account deficits widened and are forecast to average 7 percent of GDP in 2023, while short-term external debt has also been elevated in recent
years in some countries (figure 2.5.3.B). Several factors heighten the risk that countries may be unable to secure adequate financing at manageable costs. Apart from increases in interest rates, a rise in global risk aversion could see a re-pricing of debt as investors shift toward safer assets. This could lead to capital outflows from SAR economies, currency depreciations, and increases in financing costs. Domestic factors could aggravate this risk, including policy uncertainty.

Food prices have risen rapidly in SAR, especially in Pakistan and Sri Lanka, increasing the incidence of food insecurity in the region (figure 2.5.3.C). In Sri Lanka, for example, more than one-third of the population are food insecure, up from less than one-tenth in 2019 (WFP 2022c). Although global food price inflation appears to have subsided, risks of increased deprivation and inadequate nutrition remain elevated. High fertilizer and petroleum prices are likely to affect upcoming planting seasons, increasing the persistence of high food prices and threatening households’ ability to cope by depleting savings. Several countries in SAR have taken steps to try to insulate people from the effects of rising food and energy prices; however, some of these may prove unsustainable and could lead to unintended and costly consequences (Espitia, Rocha, and Ruta 2022). For example, import controls have now been implemented in several economies, worsening the business environment. Export bans on food, also increasingly prevalent, could have unintended consequences and exacerbate increases in global food prices. Afghanistan, Bangladesh, India, and Pakistan implemented export restrictions on food in 2022 including in rice, wheat, and sugar.

Climate change is a significant threat in the region. Increasingly frequent extreme weather events have already imposed substantial costs, with droughts and floods damaging livelihoods and increasing the volatility of food prices. Natural disasters have increased in frequency since 2000, and the average annual costs of damage in 2001-20 were double those in 1980-2000 (figure 2.5.3.D). The recent floods in Pakistan are estimated to have caused damage equivalent to about 4.8 percent of GDP (Government of Pakistan et al. 2022). Extreme weather events can exacerbate food deprivation, cut the region off from essential supplies, destroy infrastructure, and directly impede agricultural production. Estimates for Bangladesh suggest that current climate trends will see rice, vegetables, and wheat yields decline by 5-6 percent by 2050 compared to a no-climate-change scenario (World Bank 2022s). Extreme weather can also complicate the implementation of macroeconomic policies. For example, in India, more erratic monsoon rains have translated into more volatile food prices, destabilizing households’ inflation expectations, undermining the ability to forecast inflation, and muddling the formulation of monetary policy (Singh, Mishra and Shaw 2022; Dilip and Kundu 2020).
### TABLE 2.5.1 South Asia forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022e</th>
<th>2023f</th>
<th>2024f</th>
<th>Percentage point differences from June 2022 projections</th>
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<tr>
<td>EMDE South Asia, GDP</td>
<td>-4.5</td>
<td>7.9</td>
<td>6.1</td>
<td>5.5</td>
<td>5.8</td>
<td>-0.7 -0.3 -0.7</td>
</tr>
<tr>
<td>GDP per capita (U.S. dollars)</td>
<td>-5.5</td>
<td>6.8</td>
<td>5.2</td>
<td>4.5</td>
<td>4.7</td>
<td>-0.6 -0.3 -0.7</td>
</tr>
<tr>
<td>EMDE South Asia excluding India, GDP</td>
<td>2.7</td>
<td>6.4</td>
<td>3.8</td>
<td>3.6</td>
<td>4.6</td>
<td>-0.2 -1.1 -0.7</td>
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</table>

(Average including countries that report expenditure components in national accounts)

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<tr>
<th></th>
<th>2019/20</th>
<th>2020</th>
<th>2021</th>
<th>2022e</th>
<th>2023f</th>
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<td>7.8</td>
<td>6.1</td>
<td>5.5</td>
<td>5.8</td>
<td>-0.7</td>
<td>-0.3</td>
<td>-0.7</td>
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</tr>
<tr>
<td>PPP GDP</td>
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<td>6.1</td>
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<td>5.8</td>
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<td>-0.3</td>
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<td>6.7</td>
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<td>2.0</td>
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<tr>
<td>Exports, GNFS</td>
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<td>7.5</td>
<td>7.7</td>
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<td>-0.8</td>
<td>-0.2</td>
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<td>Imports, GNFS</td>
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<td>17.0</td>
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<td>9.4</td>
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<td>-0.6</td>
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<tr>
<td>Net exports, contribution to growth</td>
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<td>-3.8</td>
<td>-2.7</td>
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<td>-1.5</td>
<td>-0.7</td>
<td>0.2</td>
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Memo items: GDP

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<th>2022/23f</th>
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<td>-0.6</td>
<td>-0.5</td>
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<tr>
<td>Pakistan (factor cost)</td>
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<td>5.7</td>
<td>6.0</td>
<td>2.0</td>
<td>3.2</td>
<td>1.7</td>
<td>-2.0</td>
<td>-1.0</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>3.4</td>
<td>6.9</td>
<td>7.2</td>
<td>5.2</td>
<td>6.2</td>
<td>0.8</td>
<td>-1.5</td>
<td>-0.7</td>
</tr>
</tbody>
</table>


Note: e = estimate; f = forecast; PPP = purchasing power parity; EMDE = emerging market and developing economy. 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 differ at any given moment in time.

1. GDP and expenditure components are measured in average 2010-19 prices and market exchange rates. Excludes Afghanistan because of the high degree of uncertainty.

2. National income and product account data refer to fiscal years (FY) while aggregates are presented in calendar year (CY) terms. (For example, aggregate under 2020/21 refers to CY 2020). The fiscal year runs from July 1 through June 30 in Bangladesh, Bhutan, and Pakistan; from July 16 through July 15 in Nepal; and April 1 through March 31 in India.

3. Subregion aggregate excludes Afghanistan, Bhutan, and Maldives, for which data limitations prevent the forecasting of GDP components.

4. Exports and imports of goods and nonfactor services (GNFS).

### TABLE 2.5.2 South Asia country forecasts

(Real GDP growth at market prices in percent, unless indicated otherwise)

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022e</th>
<th>2023f</th>
<th>2024f</th>
<th>Percentage point differences from June 2022 projections</th>
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<tr>
<td>Calendar year basis</td>
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<td>-20.7</td>
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<td>Maldives</td>
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<td>8.2</td>
<td>8.1</td>
<td>4.8 -2.0 1.0</td>
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<td>Sri Lanka</td>
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<td>3.3</td>
<td>-9.2</td>
<td>-4.2</td>
<td>1.0</td>
<td>-1.4 -0.5 0.0</td>
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</tbody>
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<tbody>
<tr>
<td>Bangladesh</td>
<td>3.4</td>
<td>6.9</td>
<td>7.2</td>
<td>5.2</td>
<td>6.2</td>
<td>0.8</td>
<td>-1.5</td>
<td>-0.7</td>
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<tr>
<td>Bhutan</td>
<td>-2.3</td>
<td>-3.3</td>
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<td>5.7</td>
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<td>-2.0</td>
<td>-1.0</td>
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</table>


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.

1. Historical data is reported on a market price basis. National income and product account data refer to fiscal years (FY) with the exception of Afghanistan, Maldives, and Sri Lanka, which report in calendar year. The fiscal year runs from July 1 through June 30 in Bangladesh, Bhutan, and Pakistan; from July 16 through July 15 in Nepal; and April 1 through March 31 in India.

2. Data for Afghanistan beyond 2021 are excluded because of a high degree of uncertainty.
References


