



HIGHLIGHTS from Chapter 1:

DECEPTIVE STRENGTH

Key Points

- *At about 6 percent, South Asia is expected to remain the fastest-growing region in 2024–25. However, this largely reflects strong growth in India, while the rest of the region is expected to remain well below pre-pandemic averages despite a recent pick-up in growth.*
- *More than elsewhere, growth in South Asia is being driven by the public sector.*
- *Many of the underlying vulnerabilities that had caused earlier balance-of-payments pressures remain and point to downside risks to growth such as renewed currency crises.*
- *Over the longer-term, stronger job creation and the easing of financial market restrictions could help boost output growth, private investment, and government revenues, and also facilitate climate adaptation.*

Outlook: Improved. South Asia's output growth is forecast to slow after better-than-anticipated growth in 2023, to 6.0 percent in 2024 and 6.1 percent in 2025 (table 1). Growth in the region remains faster than in any other emerging market and developing economy (EMDE) region, supported by resilient domestic demand (figure 1). However, this is attributable mostly to strong growth in India. In the rest of the region, growth in 2024 is expected to be weaker than in other EMDEs and below the average for 2015-19, amid headwinds from weak global demand, high inflation, and lingering impacts from previous trade and foreign currency restrictions.

Risks to the outlook: Renewed currency crises, trade fragmentation, climate shocks. Several downside risks could derail growth from its projected path. In the short term, a longer-than-anticipated period of restrictive monetary policy in major advanced economies could trigger renewed currency pressures in the region. Over the medium term, services trade, which accounts for more than one-third of exports in South Asia (the largest share of any EMDE region), could be depressed by global trade fragmentation. In addition, South Asia is highly exposed to the adverse effects of climate change and the increased frequency of weather extremes. Heatwaves are particularly damaging for the region, because of its already warm average temperature and large agricultural sector. Climate change will likely push up poverty rates in South Asia.

Policy challenges: Reforms for growth and resilience. Reforms to raise government revenue and diversify revenue away from trade-related incomes will in turn free up public resources for more effective climate adaptation. The provision of public goods and transfers is a more efficient strategy to reduce the impacts from climate-related risks. For the region to realize its demographic dividend, it must accelerate job creation, especially in non-agricultural sectors, through greater openness to international trade, more flexible product market and labor market regulations, and strong legal protection of women's rights. Removing distortions in the financial system will help clear the path for private investment and growth of firms, supporting job creation and climate adaptation by firms.



South Asia Development Update

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TABLE 1. Growth in South Asia

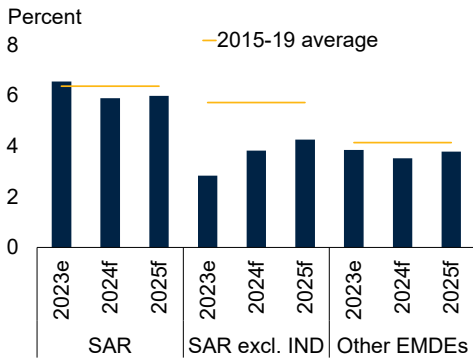
Country	Fiscal year	Real GDP growth at constant market prices (Percent)				Revision to forecast from October 2023 (Percentage point)	
		2022	2023(e)	2024(f)	2025(f)	2024(f)	2025(f)
Calendar year							
South Asia region (excluding Afghanistan)		5.7	6.6	6.0	6.1	0.4	0.3
Maldives	January to December	13.9	4.0	4.7	5.2	-0.5	-0.3
Sri Lanka	January to December	-7.3	-2.3	2.2	2.5	0.5	0.1
Fiscal year basis		21/22	22/23(e)	23/24(f)	24/25(f)	23/24(e)	24/25(f)
Bangladesh	July to June	7.1	5.8	5.6	5.7	0.0	-0.1
Bhutan	July to June	4.8	4.6	4.9	5.7	0.9	1.1
India	April to March	9.7	7.0	7.5	6.6	1.2	0.2
Nepal	mid-July to mid-July	5.6	1.9	3.3	4.6	-0.6	-0.4
Pakistan	July to June	6.2	-0.2	1.8	2.3	0.1	0.0

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

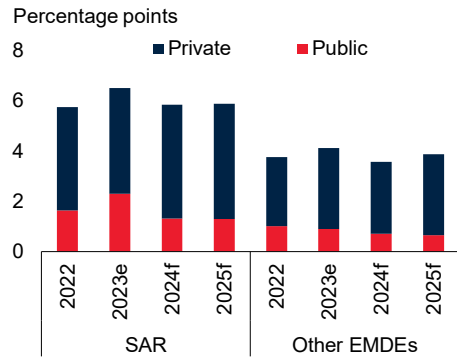
Note: (e) = estimate; (f) = forecast. GDP measured in average 2010-19 prices and market exchange rates. Pakistan is reported at factor cost. National accounts statistics for Afghanistan are not available. To estimate forecasts for regional aggregates in the calendar year, fiscal year forecasts are converted to the calendar year by taking the average of two consecutive fiscal years for Bangladesh, Bhutan, Nepal, and Pakistan because quarterly GDP forecasts are not available.

FIGURE 1. Growth outlook and risks, policy challenges in South Asia

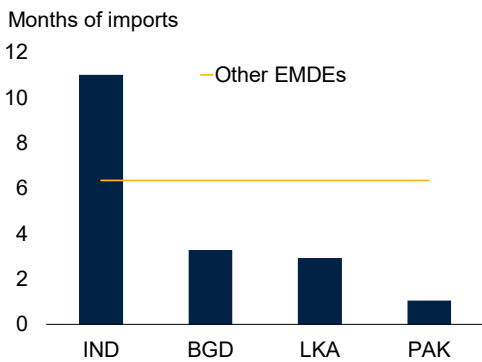
A. Output growth



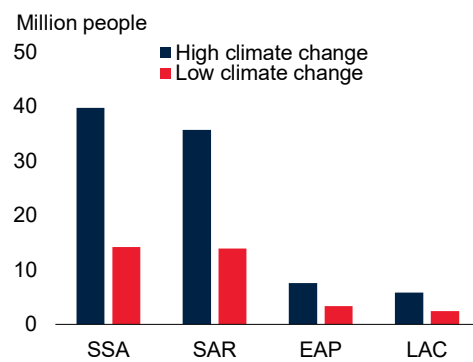
B. Contributions to output growth



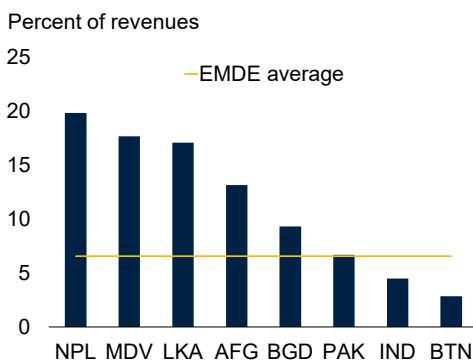
C. International reserves, latest available data



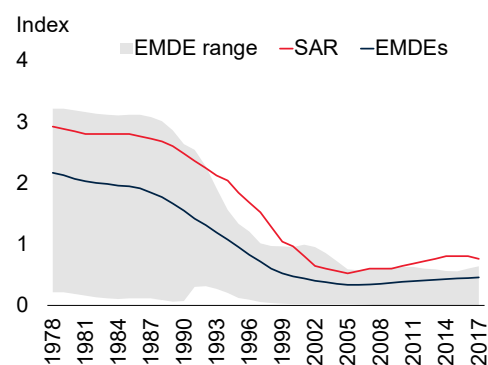
D. Additional poverty headcount by 2030 in climate change scenarios



E. Share of revenues from trade taxes, latest available data



F. Trend of interest rate control index



Sources: Government Financial Statistics (database); Haver Analytics; Jafarov, Maino, and Pani (2019); Jafino et al. (2020); World Bank MPO (database); World Bank.

Note: (e) = estimate; (f) = forecast; AFG = Afghanistan; BGD = Bangladesh; BTN = Bhutan; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; IND = India; LAC = Latin America and the Caribbean; LKA = Sri Lanka; MDV = Maldives; NPL = Nepal; PAK = Pakistan; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Bars show real GDP growth. The regional aggregate is a weighted average using annual U.S. dollar GDP (at average 2010-19 prices and market exchange rate).

B. Contributions in SAR assume that half of India's forecasted discrepancy in FY2023/24 is due to the public sector. SAR excludes Maldives and Sri Lanka due to lack of data.



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C. Chart shows the number of months of imports that foreign reserves can cover. Last observation is January 2024 for SAR countries. For other EMDEs last observation is December 2023.

D. Poverty headcount by 2030 under scenarios in which all climate impact channels are simultaneously included. Numbers in climate change scenarios are additional headcount from the baseline scenario.

E. Sample includes 93 countries, including 21 countries in EAP, 18 in ECA, 25 in LAC, 14 in MNA, 8 in SAR and 41 in SSA. Regional aggregate is median. Last observed year is 2021 for Bangladesh, Maldives and Nepal; 2020 for Bhutan; 2018 for India; 2022 for Sri Lanka. “Trade taxes” include both customs tariffs and other trade-related taxes, including taxes on exports, on profits of export or import monopolies, on exchange profits, exchange taxes, and other taxes on international trade and transactions, based on IMF financial statistics definitions.

F. Figure shows the trend interest rate control index (5-year moving average) for 90 countries for 1973-2017. Aggregates are unweighted averages. The index represents the presence, and importance, of administrative or legal controls on interest rates that commercial banks apply to the deposits and loans of their customers. The index ranges from 3 (strictest controls) to 0 (representing a situation in which are essentially free to set their own interest rates, subject at most to nonbinding consumer protection limits forbidding usury). See Jafarov, Maino and Pani (2019).