South Asia Development Update
Jobs for Resilience

PRESS RELEASE
Despite Strong Growth, South Asia Remains Vulnerable to Shocks

WASHINGTON, April 2, 2024—Growth in South Asia is expected to be strong at 6.0% in 2024, driven mainly by robust growth in India and recoveries in Pakistan and Sri Lanka. But persistent structural challenges threaten to undermine sustained growth, hindering the region's ability to create jobs and respond to climate shocks, says the World Bank in its twice-a-year regional outlook.

According to *Jobs for Resilience*, the latest **South Asia Development Update** released today, South Asia is expected to remain the fastest-growing region in the world for the next two years, with growth projected to be 6.1% in 2025.

But this strong outlook is deceptive, says the report. For most countries, growth is still below pre-pandemic levels and is reliant on public spending. At the same time, private investment growth has slowed sharply in all South Asian countries and the region is not creating enough jobs to keep pace with its rapidly increasing working-age population.

"South Asia's growth prospects remain bright in the short run, but fragile fiscal positions and increasing climate shocks are dark clouds on the horizon," said **Martin Raiser, World Bank Vice President for South Asia.** "*To make growth more resilient, countries need to adopt policies to boost private investment and strengthen employment growth."*

South Asia's working-age population growth has exceeded that in other developing country regions. And, while employment growth has also increased, it is well short of working-age population growth. As a result, the share of the employed working-age population has been declining since 2000 and is low. In 2023, the employment ratio for South Asia was 59%, compared to 70% in other emerging market and developing economy regions. It is the only region where the share of working-age men who are employed fell over the past two decades, and the region with the lowest share of working-age women who are employed.

"South Asia is failing right now to fully capitalize on its demographic dividend. This is a missed opportunity," said **Franziska Ohnsorge, World Bank Chief Economist for South Asia**. *"If the region employed as large a share of the working-age population as other emerging markets and developing economies, its output could be 16% higher."*

These weak employment trends are concentrated in non-agricultural sectors and in part reflect challenging institutional and economic environments that have held back the growth of firms and businesses. Vibrant, competitive firms are key to unlocking employment growth and robust private investment. Stronger job creation would also help households, which have few effective options, to adapt to climate change.

The report recommends a range of policies to spur firm growth and boost employment including increasing trade openness and access to finance, improving business climates and institutions, removing financial sector restrictions, improving education, and removing restrictions on women's

economic activity. And these measures would also help lift growth and productivity and free up space for public investments in climate adaptation.

Country Outlooks

In **Bangladesh**, output is expected to rise by 5.7% in FY24/25, with high inflation and restrictions on trade and foreign exchange constraining economic activity. **Bhutan**'s economy is expected to grow by 5.7% in FY24/25, supported by higher electricity production alongside growth in mining, manufacturing, and tourism. In **India**, which accounts for the bulk of the region's economy, output growth is expected to reach 7.5% in FY23/24 before returning to 6.6% over the medium term, with activity in services and industry expected to remain robust. Output growth in **Maldives** is expected to be 4.7% in 2024, a half-percentage point downgrade from previous forecasts as tourists shift from high-end resorts toward lower-cost guesthouses. In **Nepal**, output is expected to grow by 4.6% in FY24/25 as hydropower exports are expected to pick up but recovery outside the hydropower sector is expected to remain slow. Following the contraction in FY22/23, **Pakistan**'s economy is expected to grow by 2.3% in FY24/25 as business confidence improves. In **Sri Lanka**, output growth is expected to strengthen to 2.5% in 2025, with modest recoveries in reserves, remittances, and tourism.

The World Bank's development updates for Bangladesh, Nepal, Pakistan, and Sri Lanka were also released today.

	Country fiscal year	Real GDP growth at constant market prices (percent)				Revision to forecast from October 2023 (percentage point)	
Calendar year basis		**2022**	**2023(e)**	**2024(f)**	**2025(f)**	**2024(f)**	**2025(f)**
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(f)**	**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.

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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.

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)	
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Sources: World Bank Macro Poverty Outlook and World Bank staff calculations.
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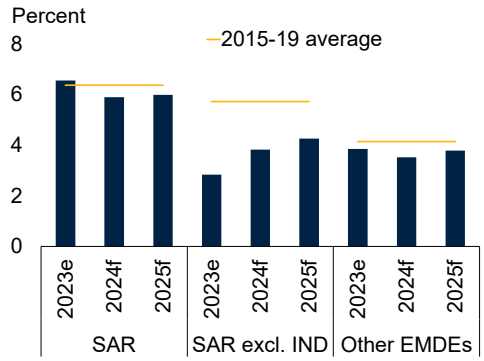
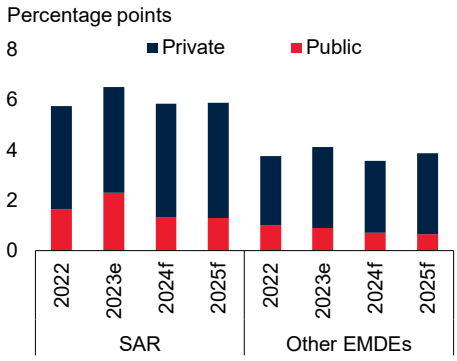
FIGURE 1. Growth outlook and risks, policy challenges in South Asia

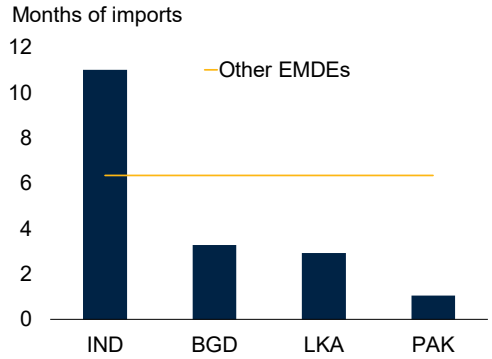
A. Output growth



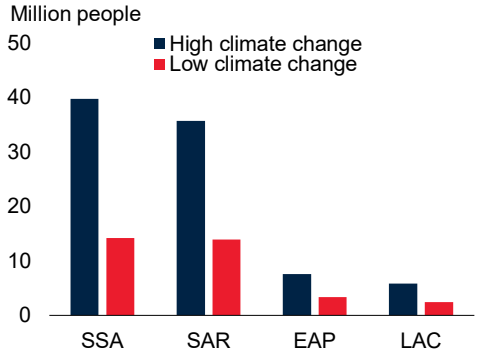
B. Contributions to output growth



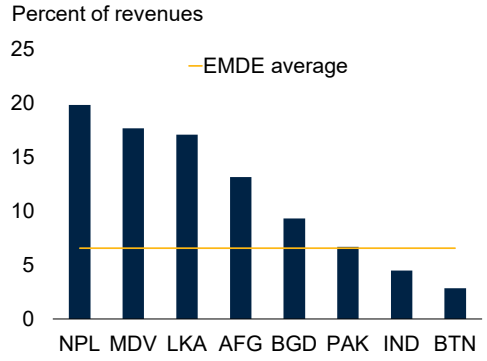
C. International reserves, latest available data



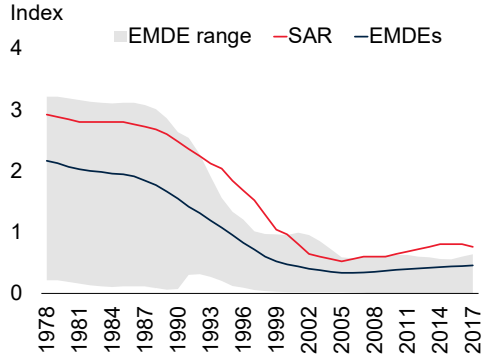
D. Additional poverty headcount by 2030 in climate change scenarios



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.

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).

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HIGHLIGHTS from Box 1.1:

ACCELERATING PRIVATE INVESTMENT

Key Points

- *Private investment growth has slowed sharply from pre-pandemic averages in all South Asian countries, hampering the region's efforts to meet development and climate objectives.*
- *Historically, sustained accelerations in private investment were most likely to occur when institutional quality was strong, the real exchange rate was competitive, and economies were more open to trade and capital flows.*
- *Private investment accelerations might be more likely to start in South Asia if the region was more open to trade and finance and had stronger institutional quality.*

Private investment: Weak. Private investment growth has slowed sharply from pre-pandemic rates in all countries in South Asia (figure 1). At 3.5 percent per year, South Asia's private investment growth since 2020 has averaged only about half its pace in the five years preceding the pandemic. In addition, private investment makes up a smaller share of output in South Asia (23 percent of GDP, on average since 2020) than in other EMDEs (31 percent of GDP). With private investment weak, several South Asian countries have relied heavily on public investment for growth. This is unlikely to be sustainable given high debt-to-GDP ratios and poor revenue collection in most countries in the region.

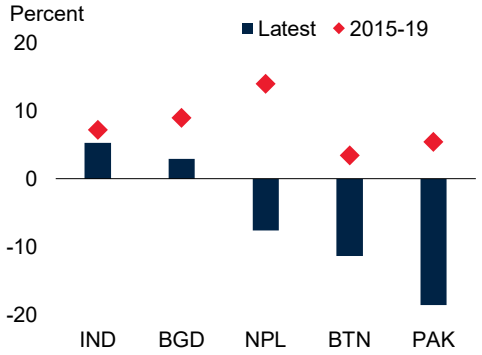
Episodes of sustained private investment acceleration. A sustained acceleration of private investment is a policy priority to meet climate and development goals in South Asia. In the past, episodes of sustained private investment accelerations in EMDEs have lasted about eight years, during which private investment growth has averaged 12 percent a year. Most private investment accelerations in EMDEs tapered off gently rather than ending in crisis. Only about one-tenth of private investment accelerations in EMDEs ended in financial crises.

Preconditions for onsets of private investment accelerations. Private investment accelerations are infrequent. As observed in a sample of 105 EMDEs during 1960-2022, the probability of the onset of a private investment acceleration in the average EMDE in an average year is only 4.5 percent. Private investment accelerations have been more likely to start when institutional environments were strong, when countries were more open to global trade and finance, and when real exchange rates were competitive.

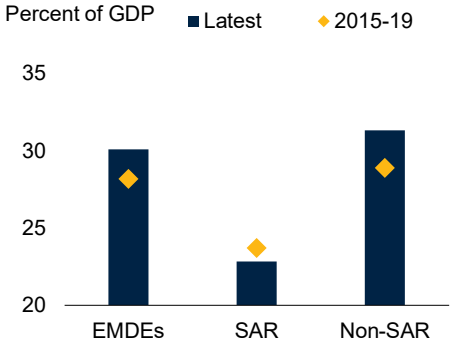
Implications for South Asia. On average, South Asian countries ranked below the average EMDE in trade and capital account openness and in the ICRG's law and order index. The probability of the onset of a private investment acceleration in South Asia could be almost two-thirds higher if the region moved to the EMDE average in its openness to global trade and finance and if its institutional quality were brought in line with the top quartile of EMDEs.

FIGURE 1. Private investment accelerations

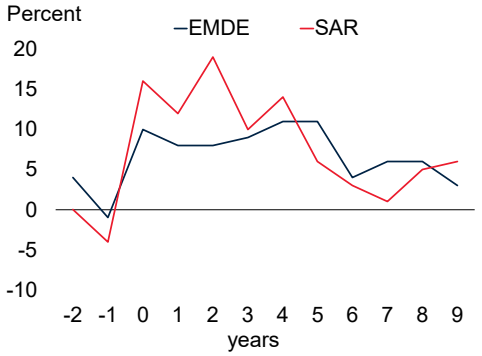
A. Private investment growth in South Asia



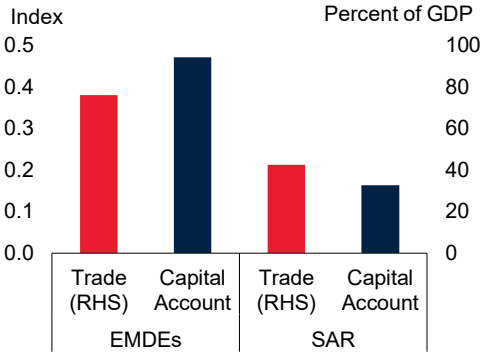
B. Private investment share



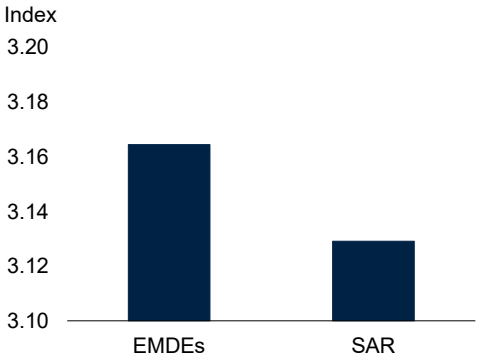
C. Investment growth around private investment accelerations



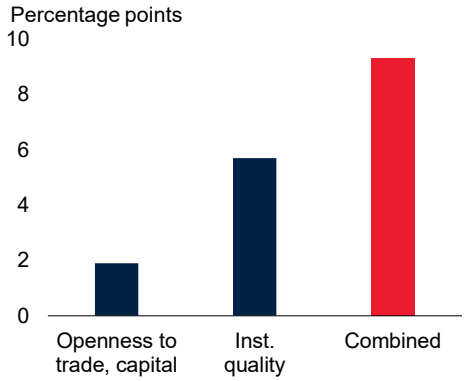
D. Trade openness and capital account openness, latest data



E. Institutional quality



F. Difference in marginal probability of private investment acceleration starting, had South Asia ranked higher among EMDEs



Sources: Haver Analytics; OECD, Green Growth database; UN Population Division database, WDI (database); World Bank: Firm Adoption of Technology (FAT) Surveys Wave 2; World Bank (2023a).
Note: BGD = Bangladesh; BTN = Bhutan; EMDEs = emerging market and developing economies; IND = India; NPL = Nepal; PAK = Pakistan; SAR = South Asia. Geometric annual averages. Aggregates computed using GDP in U.S. dollars (at 2010–19 average prices and exchange rates) as weights.
A. B. Charts show real private fixed investment growth (A) or in percent of GDP (B). 2015-19 is the annual average. "Latest data" in A refers to 2023, except for Bhutan, which is based on the 2020–21 average, and for India, which is based on 2022. "Latest data" in B refers to 2020–21 average.

C. Lines show the median annual private investment growth rate around the start of private investment acceleration episodes. Year 0 refers to the start year of an acceleration.
D. Latest available data are from 2022 for trade in percent of GDP and from 2021 for capital account restrictions.
E. Bars show institutional quality as captured by the law and order index of the International Country Risk Guide ICRG, 2010-19 average.
F. Panel based on regression results shown in table B.1.1 of chapter 1. "Inst. quality" = institutional quality. Bars show the impact of improvements in economic policies on the probability of initiating a private investment acceleration. Policies consist of raising the trade and capital account openness in SAR to the EMDE average over ten years and moving institutional quality to the top quartile of EMDEs. The combined reform impact estimates the effect of implementing all policies concurrently.

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HIGHLIGHTS from Spotlight:

WHO BEARS THE BURDEN OF CLIMATE CHANGE AND HOW? A SYSTEMATIC REVIEW

Key Points

- *South Asia is highly vulnerable to climate change, with the poor typically suffering greater damage from climate shocks.*
- *Households, farmers, and firms adapt to climate change using a variety of strategies which have, on average, offset 46 percent of climate damage.*
- *The most effective adaptation strategies involve public goods that provide resilient access to essential services or markets, and technologies.*
- *Fiscally constrained governments in South Asia can best facilitate adaptation by addressing barriers to private sector adaptation and focusing scarce public resources on adaptations that generate double dividends.*

South Asia's vulnerability to climate change. According to the University of Notre Dame's Global Adaptation Initiative index, South Asia is the emerging market and developing economy (EMDE) regions that is most vulnerable to climate change. Poor households are often more exposed to, and typically more adversely affected by, climate shocks than more affluent ones.

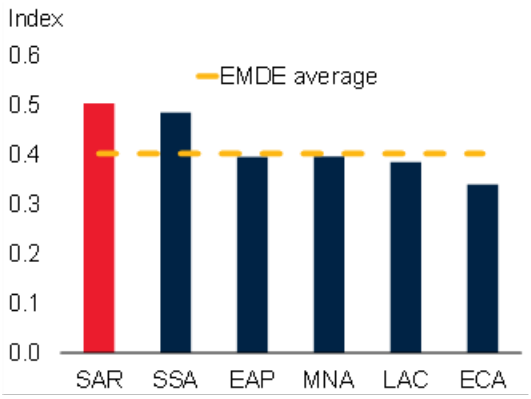
Adaptation strategies. A systematic literature review finds that individuals and firms are adapting to climate change in many ways. For example, households move to safer places, reallocate labor toward less vulnerable activities to avoid damage from climate shocks, and use loans or transfers to cope with shocks. Farmers adjust cropping patterns, adopt climate smart agricultural practices, and use irrigated water. Firms relocate, diversify supply chains, and adopt resilient technologies and management practices.

Effectiveness of adaptation strategies. On average, adaptation strategies have offset 46 percent of climate damages. Firms have had access to the most effective adaptation strategies (offsetting 72 percent of climate damage), which typically involve technology adoption. Farmers' strategies have been the least effective (offsetting 38 percent of the damage), in part because of challenges in finding jobs in the nonagricultural sector. Household adaptation has been most effective when supported by public goods that make access to markets and basic services more resilient to shocks. Public adaptation strategies—comprising both public goods and government transfers—have tended to be more effective than purely private ones.

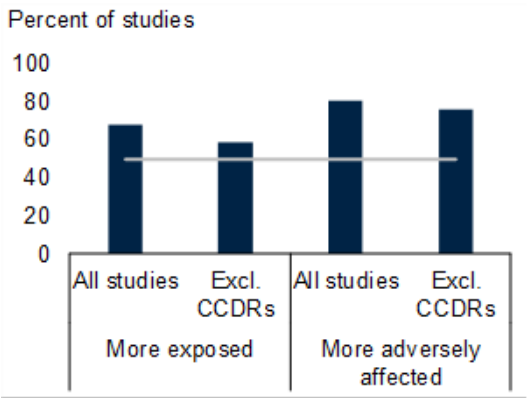
Policy implications. A wide range of policy interventions will be needed to facilitate climate change adaptation effectively and comprehensively. Policies that enhance access to public goods and technologies that aid private sector adaptation are most likely to generate double dividends and should be prioritized. It is important to design policies that target non-climate goals in a manner that does not set back climate-related goals. Addressing major knowledge gaps on constraints to adaptation and cost-effectiveness of adaptation mechanisms is also important.

FIGURE 1. Climate change adaptation

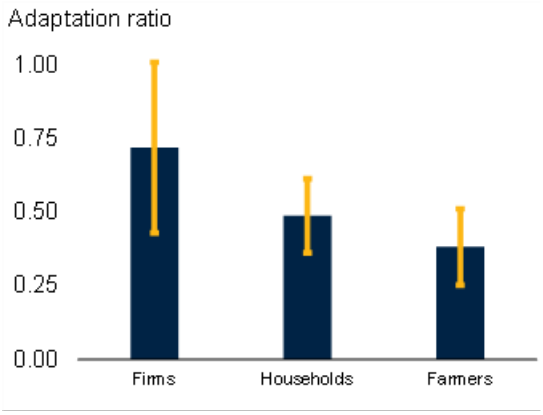
A. Climate Change Vulnerability Index, 2017-21 average



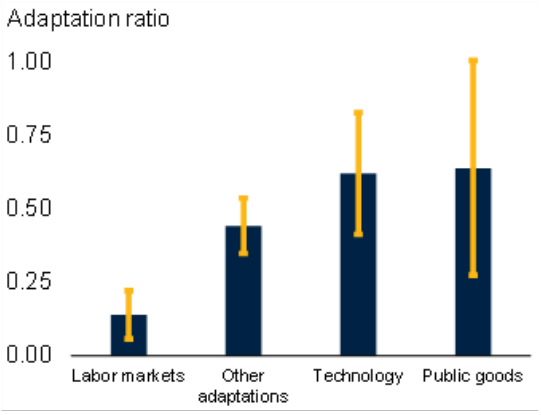
B. Share of studies that document that the poor are more exposed to, or more adversely affected by, climate shocks



C. Mean adaptation ratio among firms, households, and farmers



D. Mean adaptation ratio, by adaptation mechanism



Sources: International Disaster database (EM-DAT); *World Economic Outlook* database, International Monetary Fund; Notre Dame Vulnerability Index; national sources; *World Development Indicators* database, World Bank; Rexer and Sharma (2024).
Note: EMDEs= emerging market and developing economies. EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = sub-Saharan Africa; BGD = Bangladesh; BTN = Bhutan; IND = India; LKA = Sri Lanka; MDV = Maldives; NPL = Nepal; PAK = Pakistan; CCDR = Country Climate and Development Report; Adaption ratio = the share of the damage from a climate shock that is offset by adaptation;
A. Bars shows the population-weighted climate vulnerability index of the Notre Dame Global Adaptation Initiative, averaged over 2017–21. Regional aggregates are GDP-weighted by country GDP in 2015.
B. The first two bars show the percentage of reviewed studies that document that the poor are more exposed to climate shocks. Sample covers 33 studies, of which 22 are CCDRs. The last two bars show percentage of reviewed studies that document that the poor are more affected by climate shocks. Sample covers 61 studies, of which 34 are CCDRs. Gray line indicates 50 percent.

C. The bars represent the mean adaptation ratios disaggregated by agent type. The yellow lines represent their 95 percent confidence intervals. The total sample consists of 118 estimates from 52 papers included in the meta-analysis of adaptation in Rexer and Sharma (2024). Adaptation ratios measure the share of climate damage that is offset by climate adaptation. Technical details are explained in Rexer and Sharma (2024).
D. The bars represent the mean adaptation ratios disaggregated by adaptation mechanism type. The yellow lines represent their 95 percent confidence intervals. The total sample consists of 118 estimates from 52 papers included in the meta-analysis of adaptation in Rexer and Sharma (2024). Adaptation ratios measure the share of climate damage that is offset by climate adaptation. Technical details are explained in Rexer and Sharma (2024).

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HIGHLIGHTS from Chapter 2:

JOBLESS DEVELOPMENT

Key Points

- *During 2000-23, South Asia did not create nearly enough jobs to keep pace with its fast-growing working-age population. As a result, its employment ratio (employment relative to the working-age population) declined whereas it held steady in other emerging market and developing economies (EMDEs).*
- *South Asia is the only EMDE region in which the employment ratio for men declined during 2000-23. Employment ratios for women in South Asia are some of the lowest in EMDEs.*
- *South Asia's agricultural sector has shed labor like in other EMDEs, but the employment ratio in the region's non-agriculture sector has increasingly fallen behind that elsewhere.*
- *This in part reflected challenging institutional and economic environments that have held back firms' growth. Policy reforms that remove obstacles to firms' growth and facilitate hiring decisions will help job creation.*

Employment ratio low and declining in South Asia. South Asia's employment ratio (defined as employment in percent of the working-age population) has been below the average of other EMDEs since 2000, mostly because of low employment ratios for women. In almost all South Asian countries, women's employment ratios are in the lowest quartile of other EMDEs. During 2000-23, and notwithstanding a pickup since the COVID-19 pandemic, the region's employment ratio declined by 2 percentage point as employment grew more slowly than the working-age population—in contrast to other EMDEs where it held steady (figure 1). South Asia is the only EMDE region in which the employment ratio for men declined over this period.

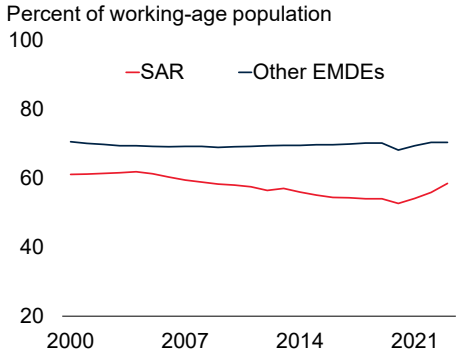
Widening gap to other EMDEs in non-agriculture. Like in other EMDEs, South Asia's agriculture sector shed labor during 2000-22. The share of the working-age population employed in South Asia's non-agriculture sector, however, fell increasingly behind that of other EMDEs. By 2022, South Asia's non-agricultural employment ratio was almost 20 percentage points below the average in other EMDEs.

Missing engine of growth. The region has relied entirely on labor productivity growth and working-age population growth to generate output growth while falling employment ratios reduced output growth. But as working-age population growth slows in South Asia during the remainder of the decade and as labor productivity growth has already begun to slow, the region urgently needs to accelerate job creation.

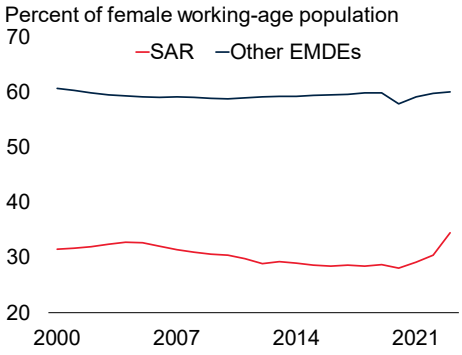
Reforms for firm growth and job creation. Most South Asian countries rank in the bottom quartile of other EMDEs by their firm size (especially in services), by their trade openness, and by their education outcomes. Policy measures to remove obstacles to growth of businesses, increase openness to international trade, increase the flexibility of labor market and product market regulations, build human capital, and strengthen legal protection of women's rights will help accelerate job creation and jump start a missing engine of growth and development.

FIGURE 1. Jobless development in South Asia

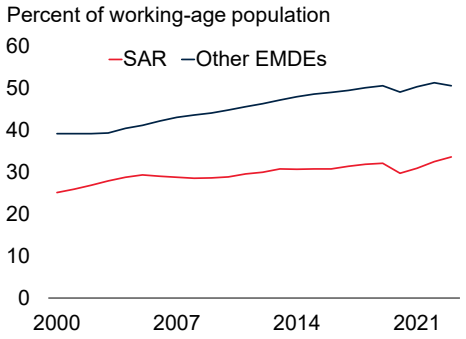
A. Employment ratio, 2000-23



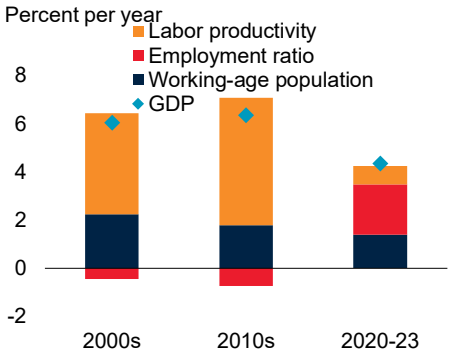
B. Employment ratio for women, 2000-23



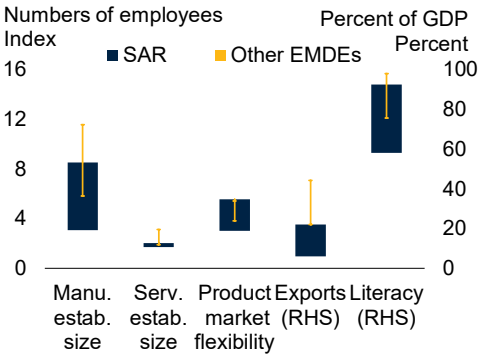
C. Non-agriculture employment ratio, 2000-22



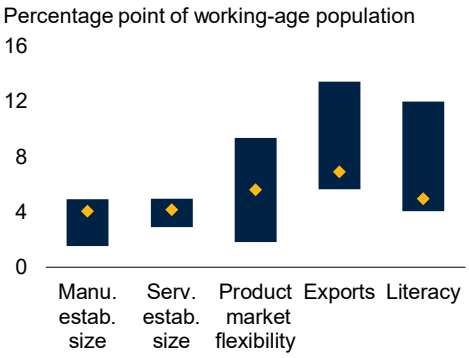
D. South Asia: Contributions to output growth



E. Selected characteristics of South Asian economies versus other EMDEs, latest data available



F. South Asia: Improvement in non-agricultural employment ratios if characteristic was equal to median EMDE



Sources: Bento and Restuccia (2021); Fraser Institute Economic Freedom of the World (database); GGDC/UNU-Wider Economic Transformation Database; International Labour Organization; Penn World Table (database); WDI (database); World Bank; World Bank Enterprise Surveys (database).
Note: EMDEs = emerging market and developing economies. SAR = South Asia. Employment ratios are defined as employment in percent of the working-age population. Working-age population = persons aged between 15 and 64.

2000s = the cross-country average of geometric average annual growth rates for 2000-2009; 2010s = 2010–19. Manu. = manufacturing. Serv. = services. Estab. = establishment.
A-D. South Asia here = Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
A-C. Sample includes 128 EMDEs. Working-age population-weighted averages.
D. Accounting decomposition of annual average real GDP growth between 2000 and 2023.
E. SAR = range for Bangladesh, India, Nepal, Pakistan, and Sri Lanka for product market flexibility, exports, and literacy; Bangladesh, India, Nepal, and Sri Lanka for manufacturing establishment size; and Bangladesh, India, and Sri Lanka for services establishment size. Other EMDEs = interquartile range for a sample of 96 EMDEs.
F. Chart is based on the regression results of annex tables A2.5.1-A2.5.3. Bars show the range of differences in the predicted deviations from EMDE-average long-run employment ratios in non-agriculture in South Asian countries, if they had the same establishment size, product market flexibility, exports, or literacy as median of other EMDEs. The bars only include South Asian countries with variable values below the median of other EMDEs and exclude Nepal and Sri Lanka for manufacturing establishment size; India, Nepal, and Sri Lanka for product market flexibility; and Sri Lanka for literacy.