

Recent developments: The South Asia region (SAR) endured significant negative spillovers from rapid monetary policy tightening in advanced economies, weak growth in China, and the Russian Federation's invasion of Ukraine. So far in 2023, the peak impact of these shocks appears to have passed, and regional economic conditions have improved. Terms of trade have become more favorable since the second half of 2022, and large trade deficits caused by high import commodity prices have partially receded. Despite this, the growth momentum continues to slow.

In India, which accounts for three-quarters of output in the region, growth in early 2023 remained below what it achieved in the decade before the pandemic. In Bangladesh, continued import suppression measures and energy shortages have weighed on both industrial production and the services sector.

Some economies in the region have suffered significant domestic shocks, and deep crises are continuing to undermine their growth—particularly in Afghanistan, Pakistan, and Sri Lanka. In Pakistan, the devastating and lasting effects of the August 2022 floods, along with policy uncertainty and limited foreign exchange resources to pay for imports of food, energy, and intermediate inputs, have depressed activity, with industrial production contracting by double digits in the year to March 2023. In Sri Lanka, industrial production fell by 15.8 percent in the year to March 2023. In Afghanistan, poverty is widespread, with almost all the population having insufficient food because of inadequate incomes.

Outlook: Growth in the region is expected to slow marginally to 5.9 percent in 2023 and more significantly to 5.1 percent in 2024. Greater-than-expected resilience in private consumption and investment, and a robust services sector in India, is supporting growth in 2023. The downward revision in 2024 mainly reflects the lagged impact of tightening domestic policy and global financing conditions, and the aftermath of floods and policy uncertainty in Pakistan.

Growth in India is expected to slow further to 6.3 percent in FY2023/24 (April-March), a 0.3 percentage point downward revision from January, with private consumption constrained by high inflation and rising borrowing costs, and government consumption by fiscal consolidation. In Bangladesh, elevated inflation, policy uncertainty, and weakening external demand are expected to slow growth to 5.2 percent in FY2022/23 (July-June) from 7.1 percent in the previous fiscal year. In Pakistan, continuing effects of the August 2022 floods, compounded by worsening social tensions, high inflation, and policy uncertainty are estimated to have limited growth to 0.4 percent in FY2022/23 (July-June), a 1.6 percentage-point downward revision from January. In Sri Lanka, output is expected to contract by 4.3 percent in 2023 before a tepid recovery starts in 2024. The economic outlook in Afghanistan has stabilized on returning aid flows; output growth is expected to turn positive in the next two years.

Risks: Risks to the outlook remain predominantly to the downside.

High government and external debt, low foreign exchange reserves, and socio-economic tensions heighten the risk of financial crises in several economies in the region. Such crises could significantly reduce potential as well as actual output growth. Significant adverse spillovers from further global monetary tightening or from banking sector stress could materialize.

Economies in South Asia are among the most vulnerable to climate change with more than half of South Asians affected by one or more climate-related disasters over the past two decades. With climate change increasing risks to economic activity and development, there is an urgent need to increase resilience.

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South Asia Country Forecasts

(Annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
GDP at market prices (average 2010-19 US\$)						
Calendar Year Basis ^a						
Afghanistan ^b	-2.4	-20.7
Maldives	-33.5	41.7	13.9	6.6	5.3	5.9
Sri Lanka	-4.6	3.5	-7.8	-4.3	1.2	2.0
Fiscal Year Basis ^a						
Bangladesh	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
	3.4	6.9	7.1	5.2	6.2	6.4
Bhutan	-2.3	-3.3	4.3	4.5	3.1	4.3
India	3.9	-5.8	9.1	7.2	6.3	6.4
Nepal	-2.4	4.8	5.6	4.1	4.9	5.5
Pakistan (factor cost)	-0.9	5.8	6.1	0.4	2.0	3.0

Source: World Bank.

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.

a. Please see regional annex for details on fiscal year reporting.

b. Forecast for Afghanistan beyond 2021 are excluded because of a high degree of uncertainty.