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Growth Prospects in South Asia: All That Glitters...

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Three Questions

1 How strong is South Asia's growth?

2 What are the main risks to South Asia's growth?

3 What are the main challenges?

Three Questions

1 **How strong is South Asia's growth?** *Higher than in other EMDE regions, but in the short-run mostly because of strong growth in India and mostly domestically driven.*

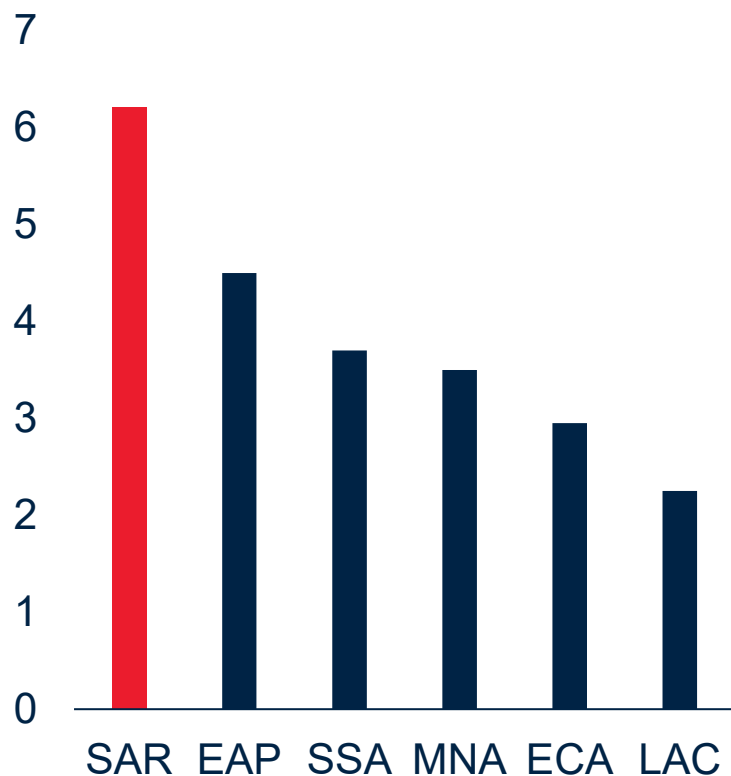
2 **What are the main risks to South Asia's growth?**

3 **What are the main challenges?**

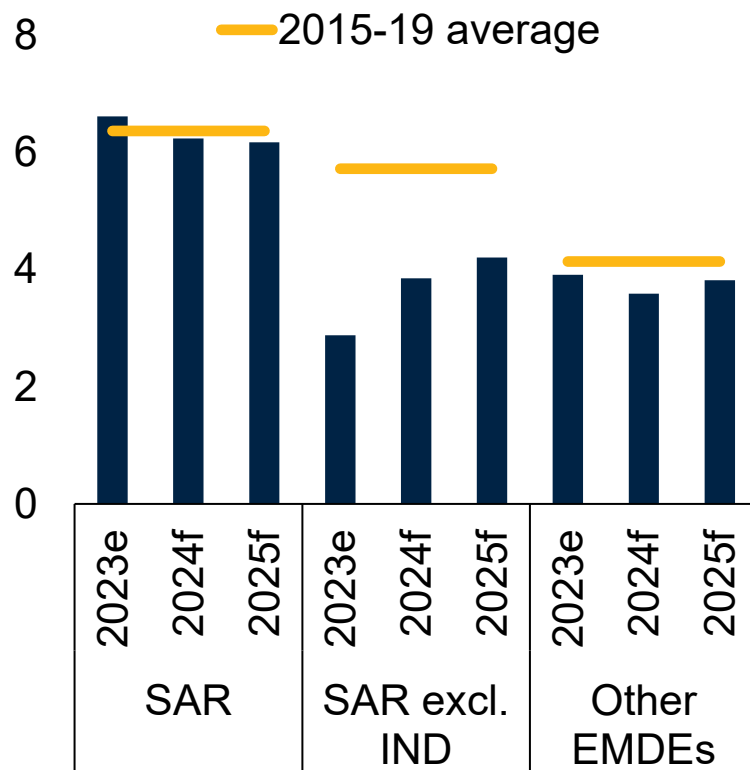
Short-Term Growth Prospects

Above-Average Growth, But Mainly in India and Reliant on Public Sector

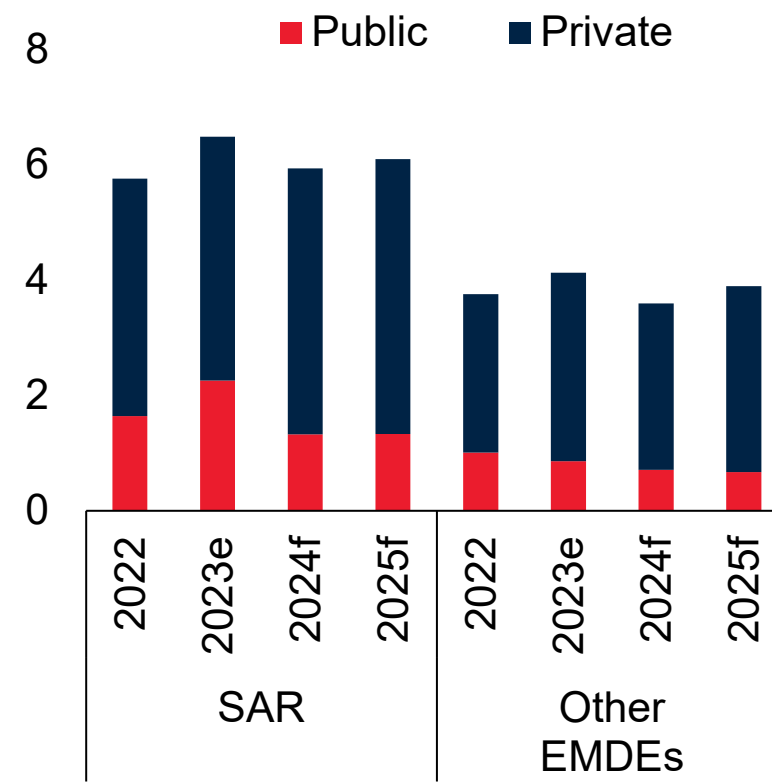
Growth, average 2024-25
(Percent)



Growth
(Percent)



Contributions to growth
(Percentage points)



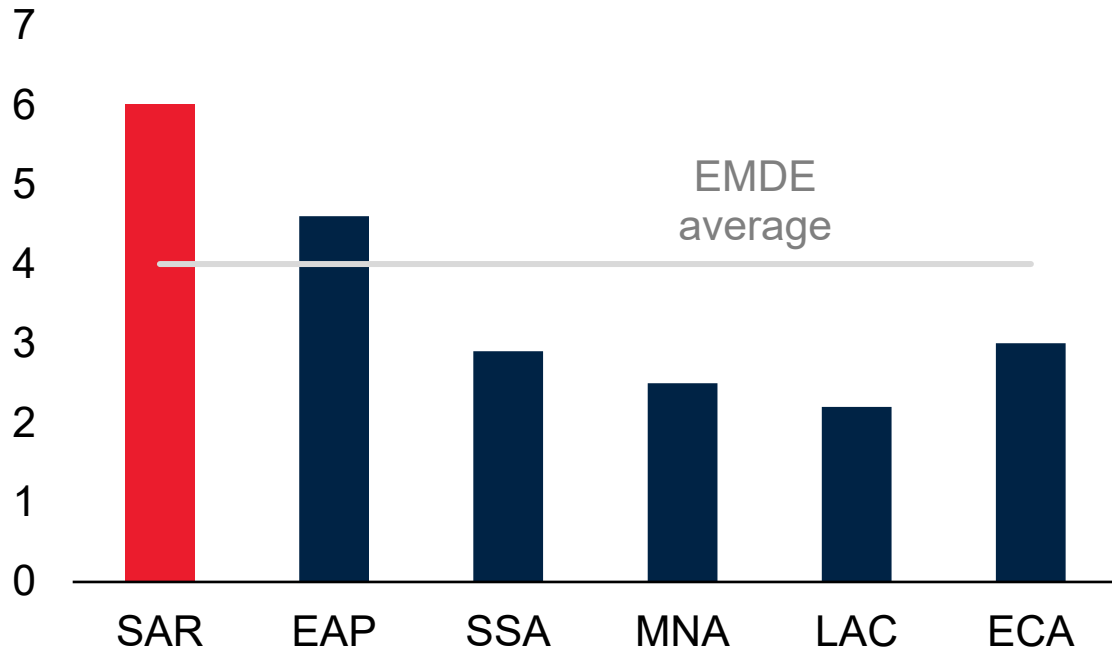
Sources: MPO (database); [April 2024 South Asia Development Update](#); [June 2024 Global Economic Prospects Report](#), World Bank.

Left and center panels: The regional aggregates are weighted by using annual real U.S. dollar GDP (at average 2010-19 prices and market exchange rates). Right panel: Assumes that half of India's forecasted discrepancy in FY2023/24 is due to public sector. SAR does not include Maldives and Sri Lanka due to lack of data for private and public investment.

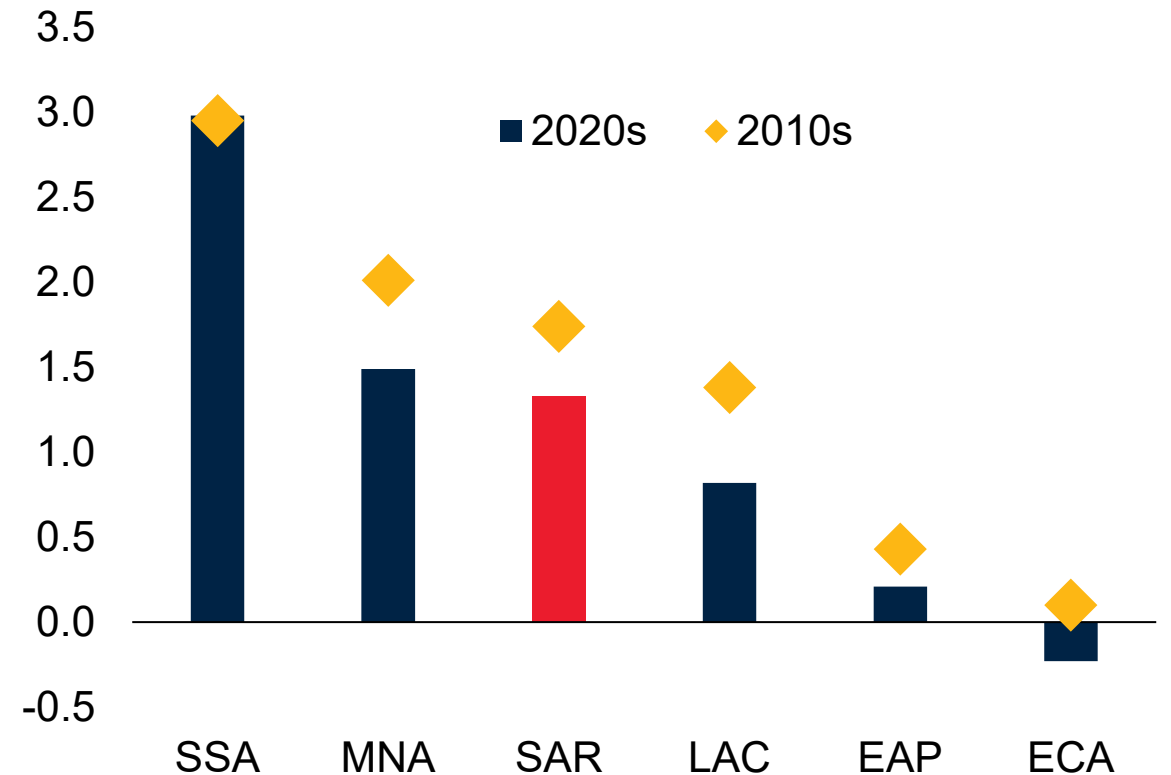
Long-Term Growth Prospects

Fastest-Growing Region, In Part Because of Demographics

Potential Growth, 2022-30
(Percent)



Working-age population growth
(Percent per year)



Sources: [Celik Kilic et al. \(2023\)](#); [Chapter 1 October 2023 South Asia Development Update](#); [Chapter 2 of April 2024 South Asia Development Update](#); World Bank.

Note: EAP = East Asia and the Pacific; ECA = East Europe and Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = sub-Saharan Africa. Left panel: Potential growth is estimated based on production function approach. GDP-weighted averages. Potential growth averages cover 3 countries in EAP, 6 in ECA, 10 in LAC, 3 in MNA, 4 in SAR, and 3 in SSA. Right Panel: Working-age population refers to the number of persons between the ages of 15 and 64 in a country. Weighted averages.

Three Questions

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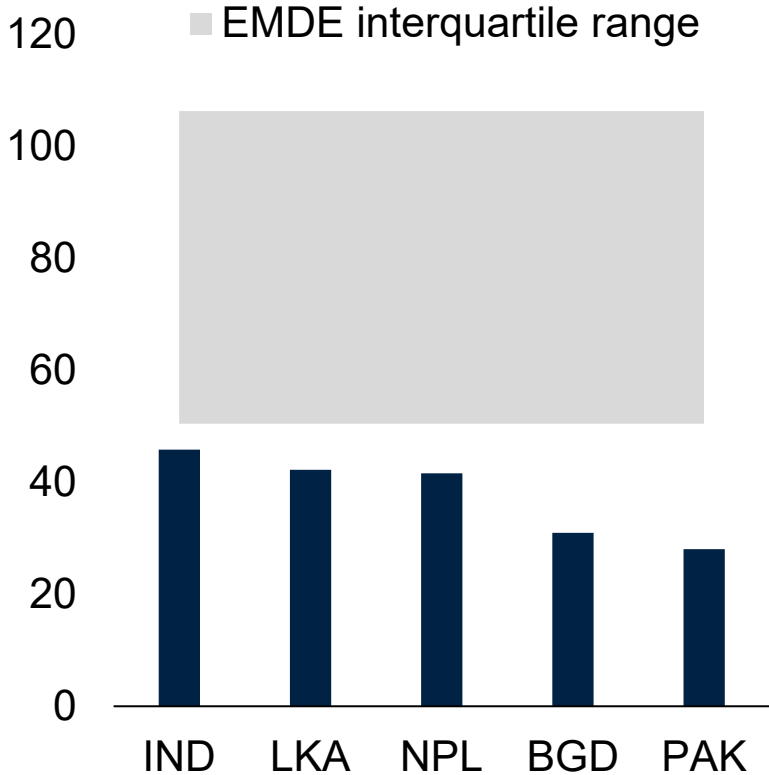
2 **What are the main risks to South Asia's growth?** *Limited vulnerability to external risks, but considerable fiscal and climate risks.*

3 **What are the main challenges?**

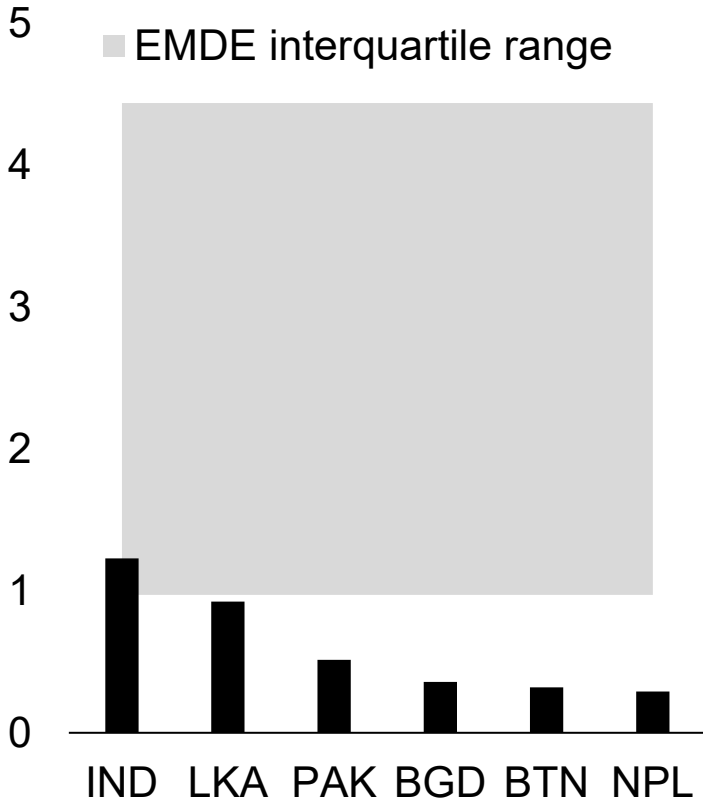
Vulnerability to External Shocks

Exceptionally Limited

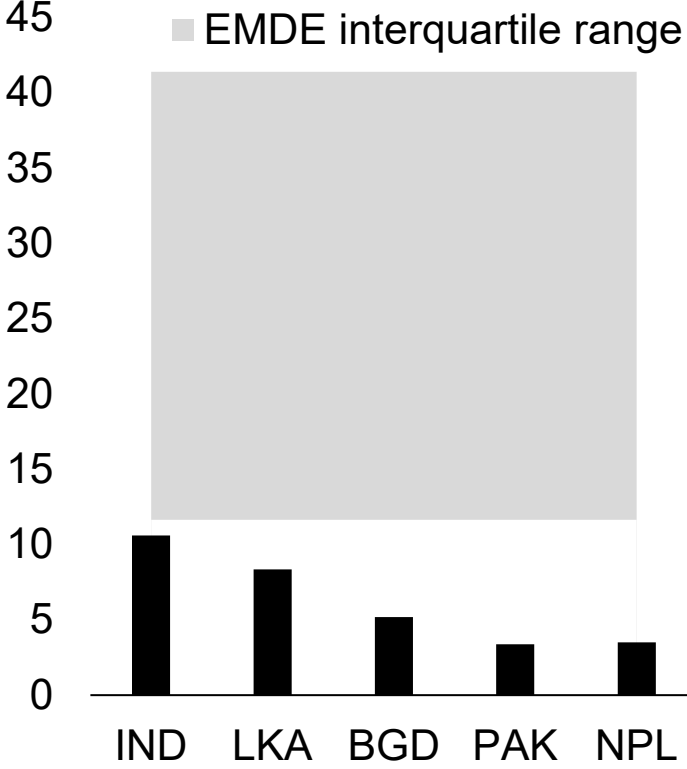
Trade, 2023
(Percent of GDP)



Inward FDI flows, 2021-23
(Percent of GDP)



Liabilities to BIS-reporting banks, 2023
(Percent of GDP)

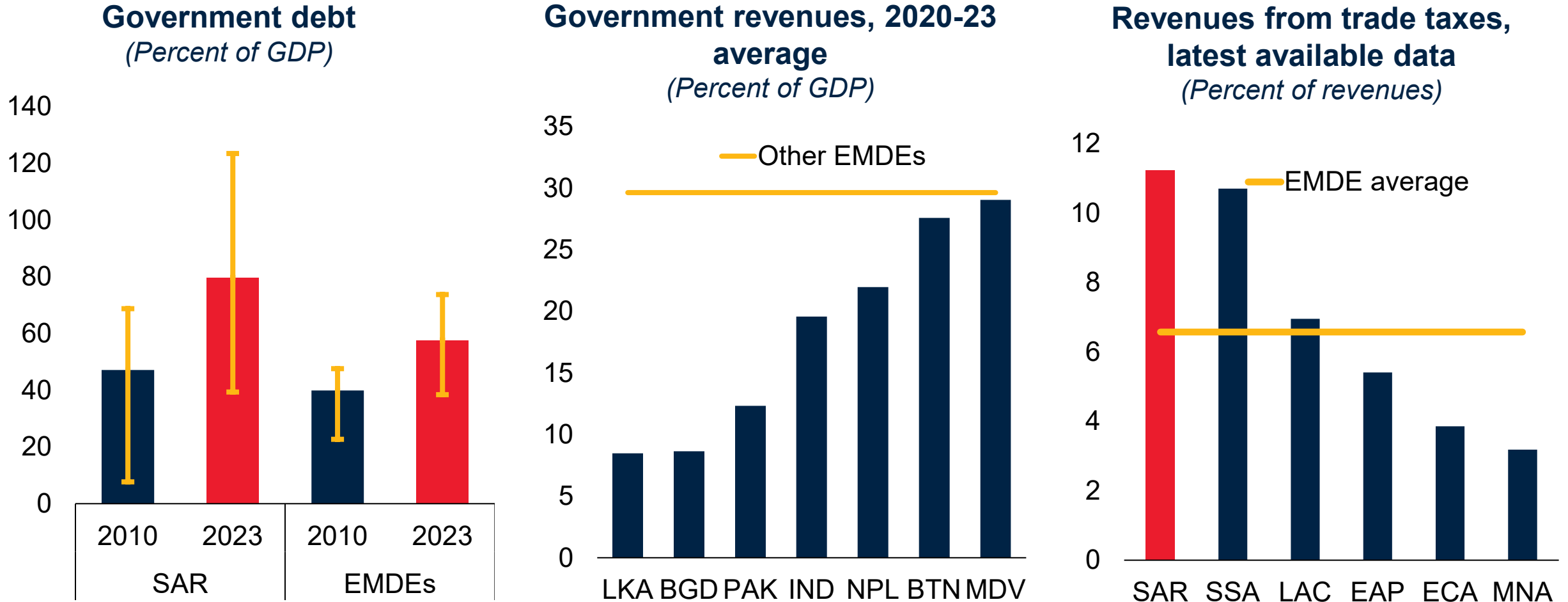


Sources: Aiyar and Ohnsorge (forthcoming); World Bank(World Development Indicator); IMF BOP/IIP data;

Note: Grey shade indicates interquartile range for EMDEs. Left Panel. Vietnam uses 2022 data. Trade includes merchandise and services imports and exports combined. Other EMDEs include 100 economies. Center Panel: Other EMDEs include 67 economies. Sri Lanka has 2021-22 average. Afghanistan missing. Other EMDEs exclude offshore financial centers and economies under OECD 2000's list of uncooperative tax havens. Right Panel: Other EMDEs include 132 economies. Other EMDEs exclude offshore financial centers and economies under OECD 2000's list of uncooperative tax havens.

Fiscal Positions

Weak, Because of Low Revenues, Reliance on Trade-Related Taxes

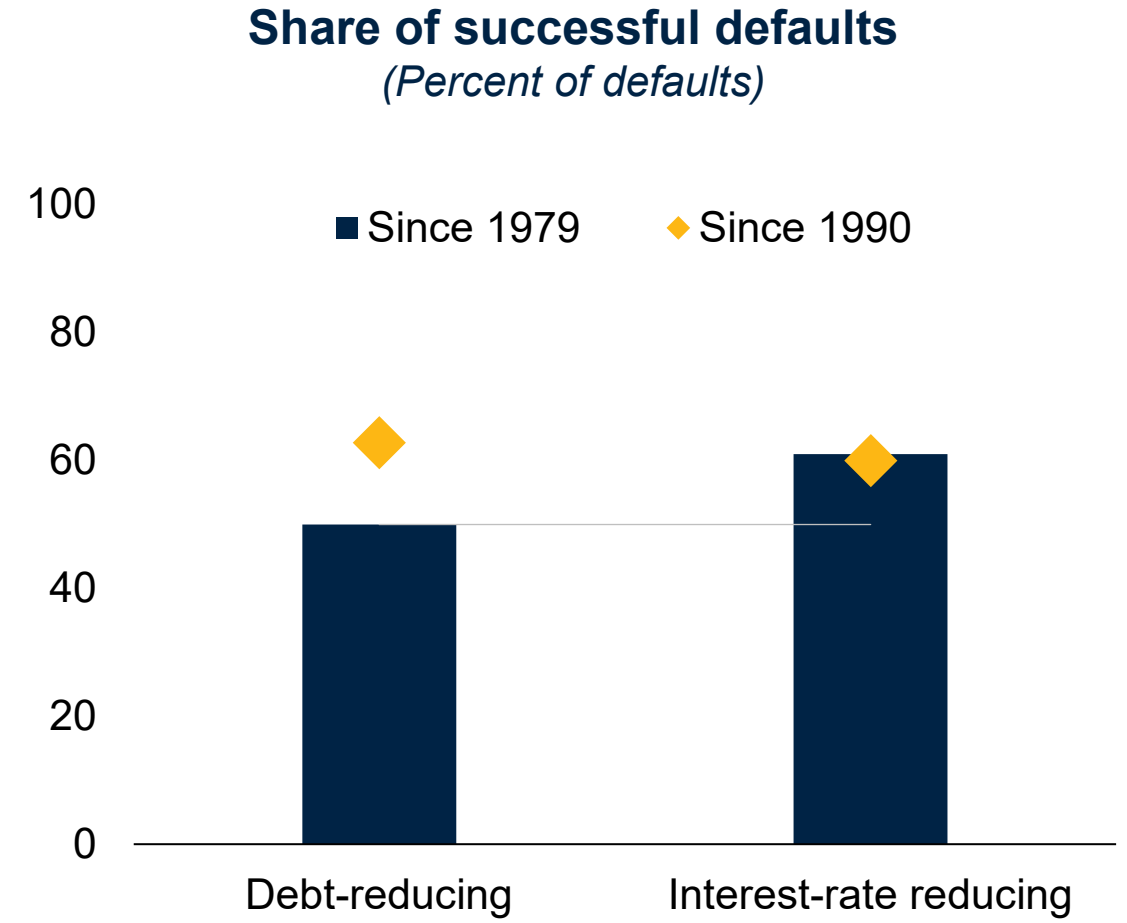
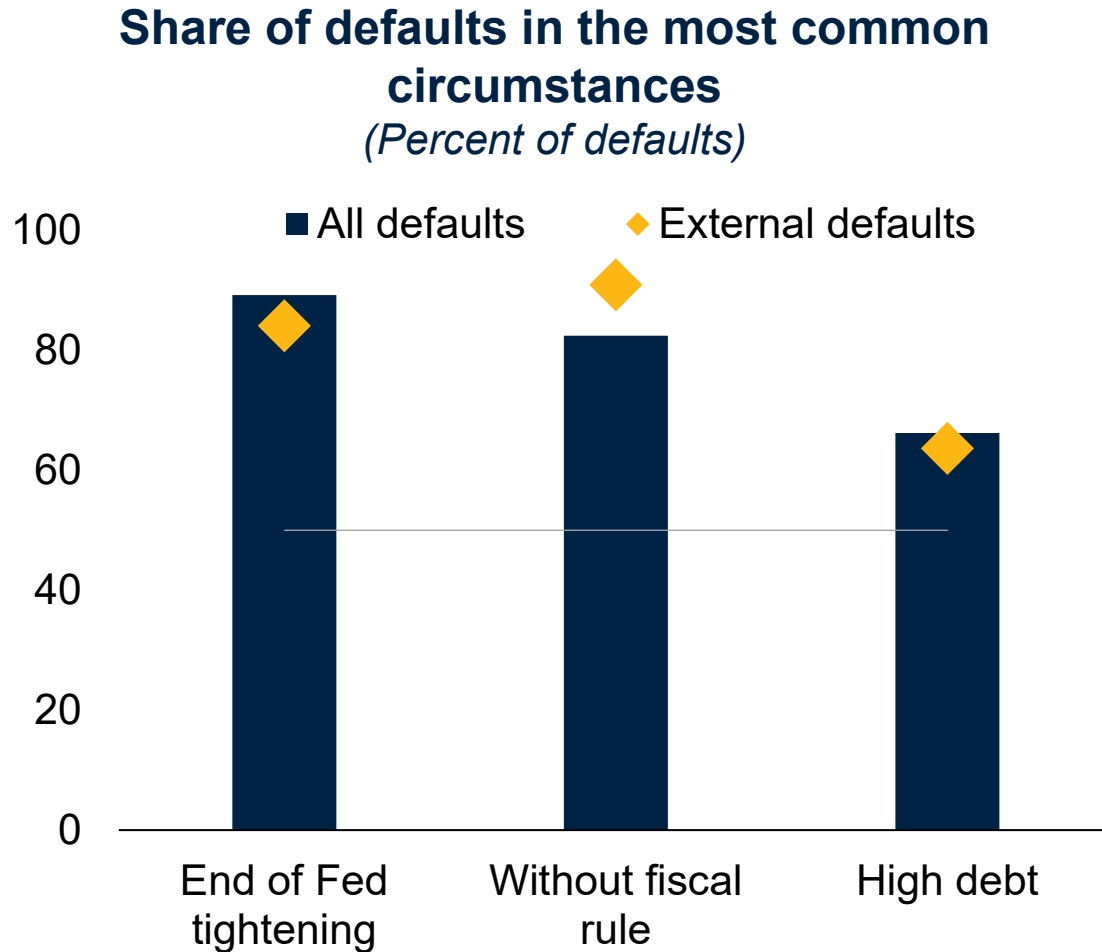


Sources: MPO (database); WEO (database); World Bank.

Left panel: Bars show unweighted averages. Yellow whiskers indicate minimum-maximum range for seven South Asian economies, and interquartile range for EMDEs. Center Panel: EMDE average computed using GDP (at average 2010-19 prices and market exchange rate) as weights. Bars show 2020-23 averages of government revenue except for Sri Lanka, which shows 2020-22 average. Right panel: 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 2017 for Afghanistan; 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.

Making the Best of Debt Default

Defaults Are Common Under Current Conditions; Successful Defaults Are Rare



Source: CEIC; Asonuma and Trebesch (2016); Erce, Mallucci, and Picarelli (2022); Haver Analytics; International Monetary Fund; JP Morgan; World Bank [South Asia Development Update](#); [data available here](#).

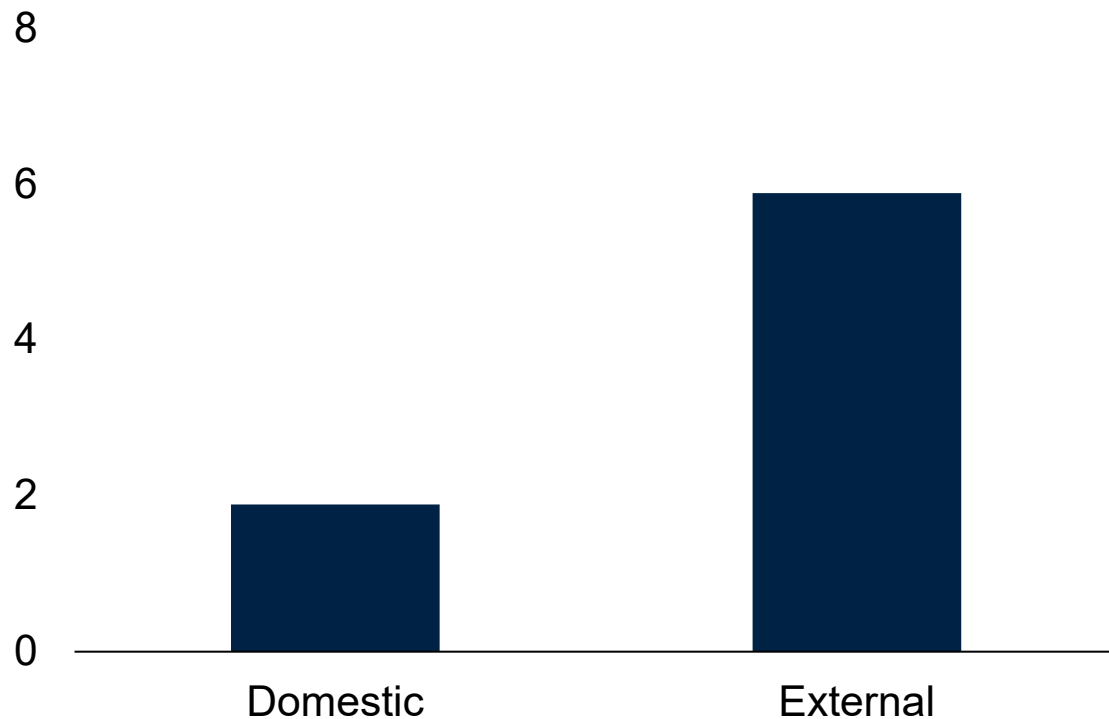
Left Panel: Share of all defaults that occurred in the year of the end of U.S. Federal Reserve tightening cycle as defined in World Bank (2022) or in the subsequent year. Share of all defaults that occurred in countries without a fiscal rule or in countries with above-median (across the full EMDE sample) government debt at the time of default. All defaults include defaults on domestic and external creditors; external defaults refers to defaults on external creditors. Gray line denotes 50 percent. Right Panel: Default episodes are differentiated between those that featured lower (“Successful”) or higher (“Unsuccessful”) government debt-to-GDP ratios or effective interest rates on government debt five years after the default than in the year of default. Based on 177 domestic or external default episodes in 64 EMDEs during 1979–2018.

Domestic Debt

Lower Probability of Default, But Costly

Share of government debt booms associated with debt default

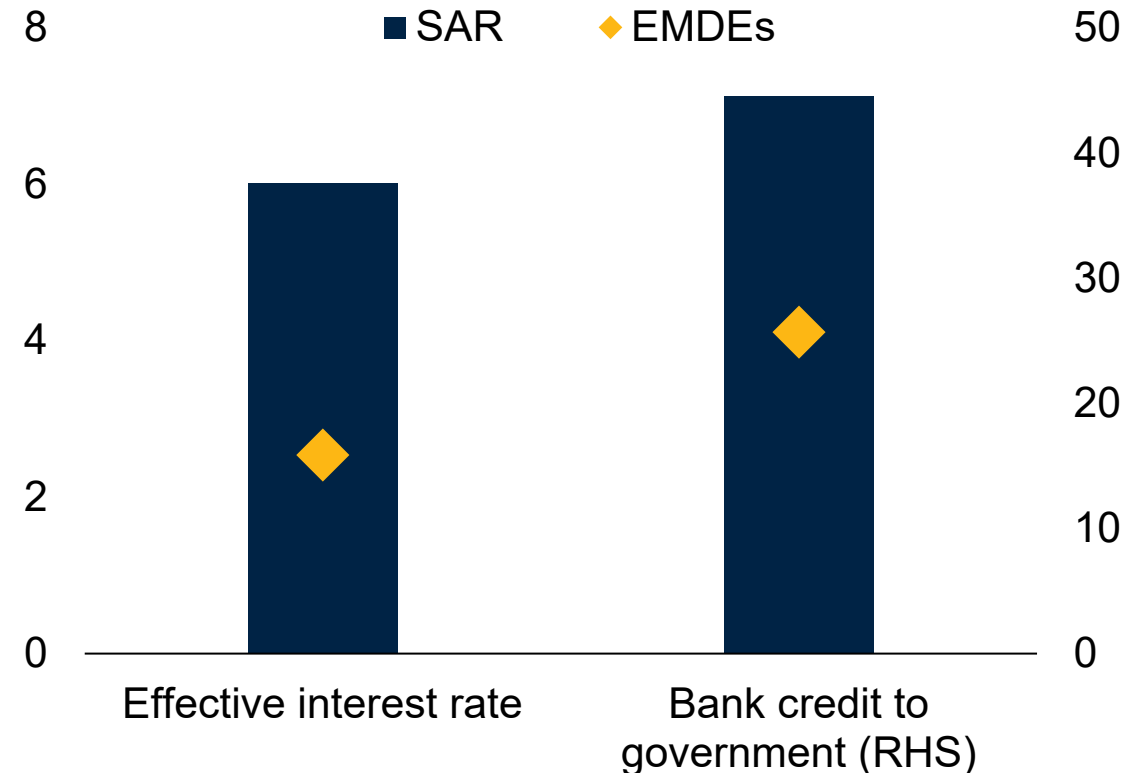
(Percent)



Effective interest rate and bank credit to government, 2021-22

(Percent)

(Percent of domestic credit)

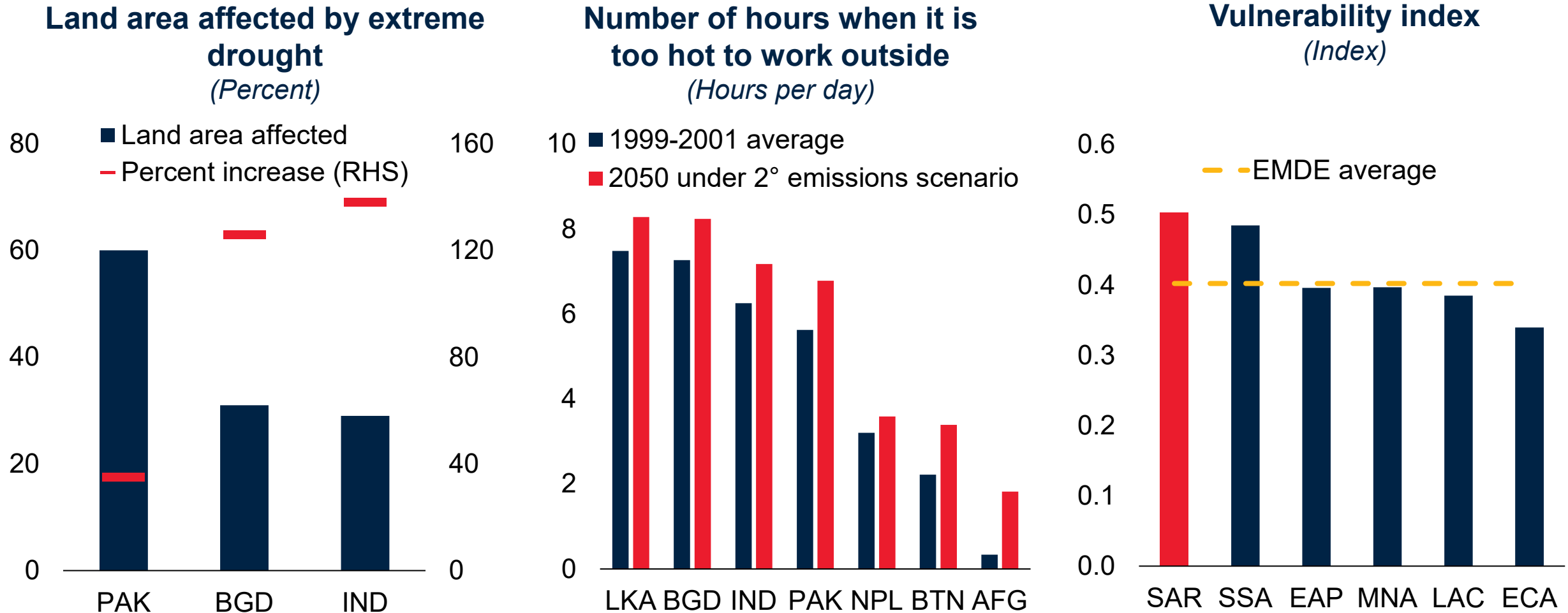


Source: IMF (various staff reports); Kose et al. (2022); World Bank [South Asia Development Update](#); data available here.

Left Panel: Bars show the share of total government debt booms associated with default (of any type), domestic government debt booms associated with domestic default, and external government debt booms associated with external default, up to one year after the end of a boom. Right Panel: Latest data is for 2022 for interest spending. Net interest spending is defined as the difference between the primary fiscal balance and the overall fiscal balance. South Asia includes Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. GDP-weighted averages (at 2010–19 average prices and market exchange rates).

Vulnerability to Climate Shocks

Higher Than in Other EMDE Regions



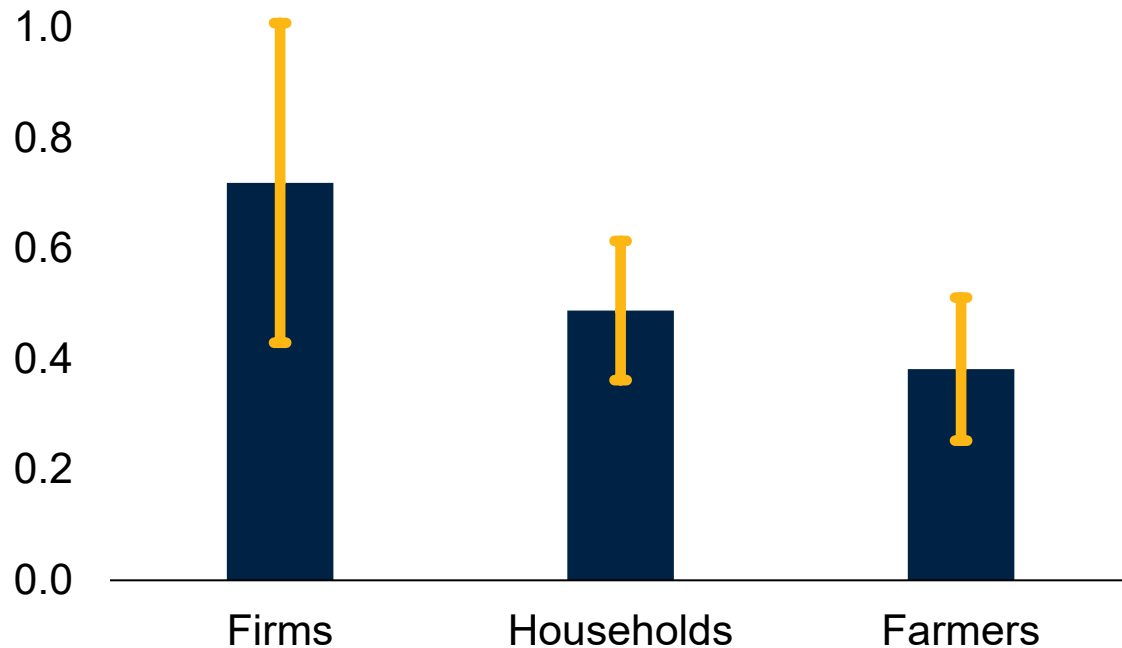
Sources: [Chapter 1 of April 2024 South Asia Development Update](#); Notre Dame Vulnerability Index; WDI (database); Lancet countdown on health and climate change data sheet (2023) available at www.lancetcountdown.org; World Bank.

Left Panel: Total land area affected by extreme drought at least once per year, on average, in 2013-2022. Horizontal lines show percent increase of at least one month of extreme drought per year from 1951- 1960 to 2013-2022. Center Panel: Bars show the population-weighted climate vulnerability index of Notre Dame University. Right Panel: Number of hours (average per person per day) during which high heat posed at least a moderate heat stress risk during light outdoor physical activity, based on the "moderate" heat stress risk classification, as outlined in the 2021 Sports Medicine Australia Extreme Heat Policy, which categorizes estimated heat stress risk according to ambient temperature and relative humidity. Projections for 2050 for 2°C scenarios.

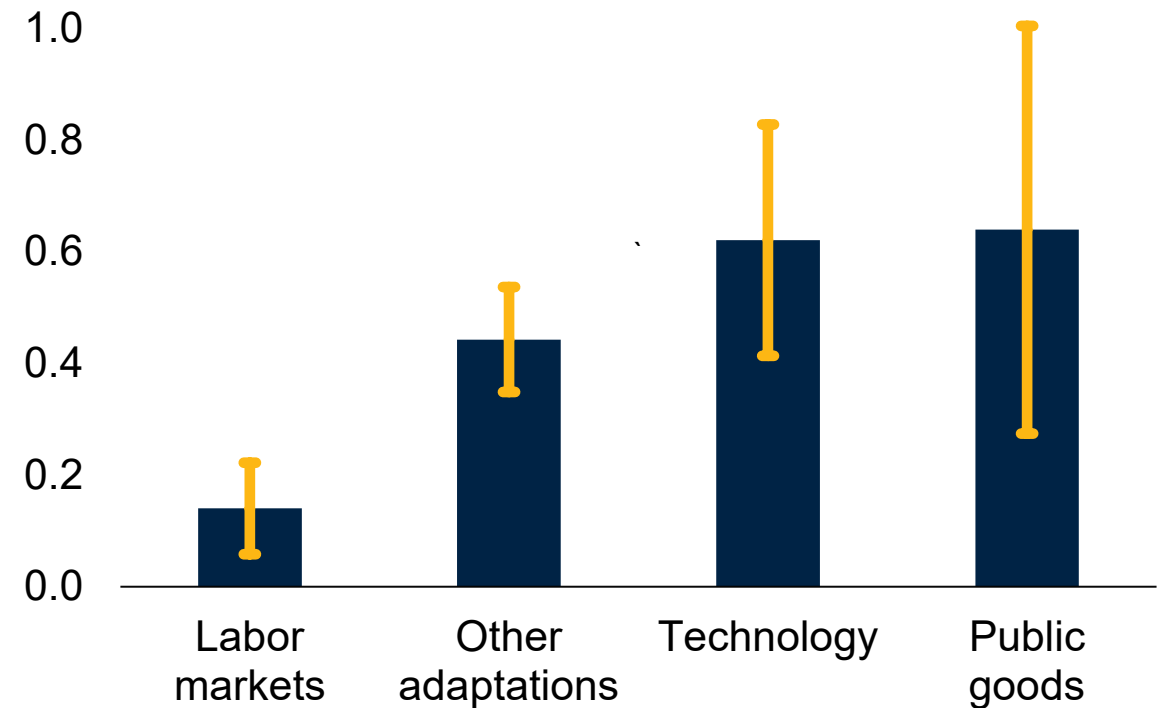
Climate Adaptation

More Effective for Firms than Households, Public Goods than Private Strategies

Adaptation ratio, by agent
(Ratio)



Adaptation ratio, by strategy
(Ratio)



Sources: [Rexer and Sharma \(2024\)](#); [Spotlight of April 2024 South Asia Development Update](#); World Bank.

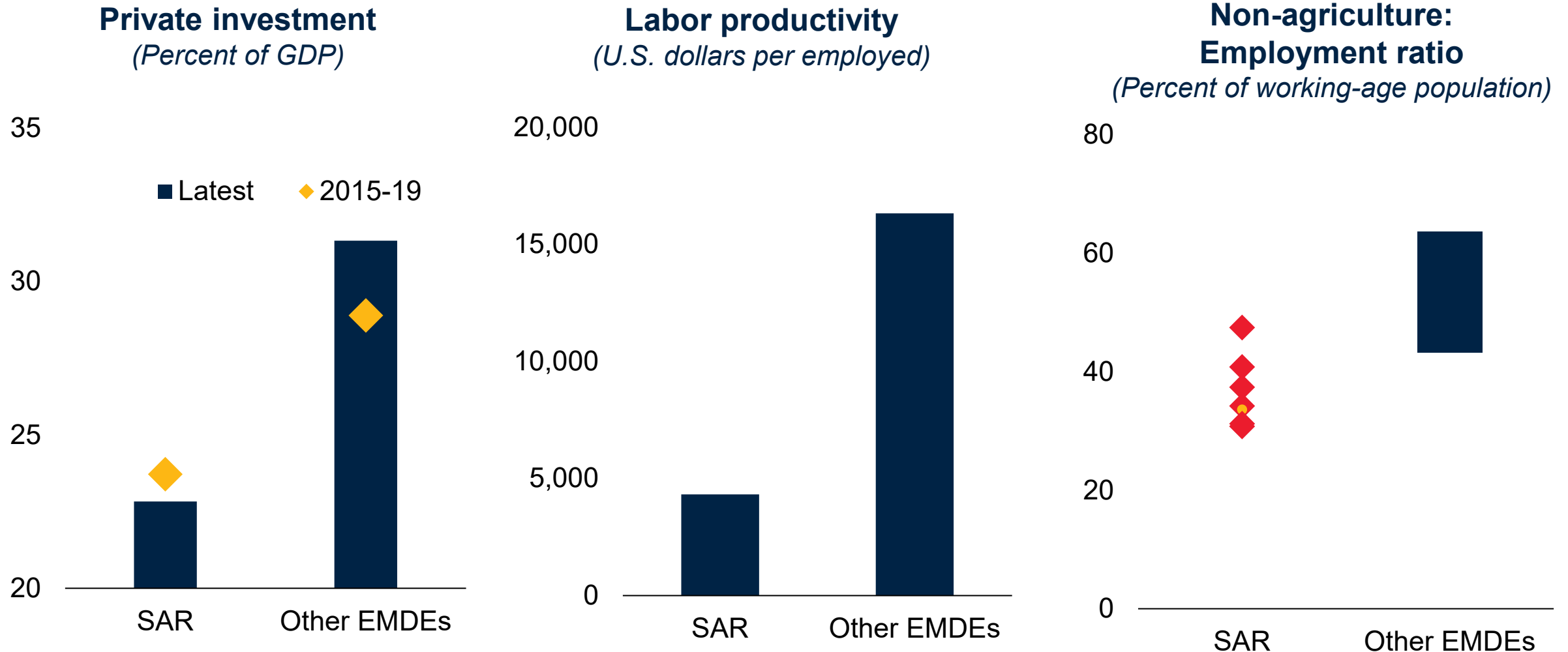
Note: The bars represent the mean adaptation ratios disaggregated by different groups (left panel) and adaptation strategy (right panel). The yellow whiskers represent the 95 percent confidence intervals. The total sample consists of 118 estimates from 52 papers included in the meta-analysis of adaptation in Rexer and Sharma (2024). Adaptation ratios measure the share of climate damage that is offset by climate adaptation.

Three Questions

- 1 How strong is South Asia's growth?** *Higher than in other EMDE regions, but in the short-run mostly because of strong growth in India and mostly domestically driven.*
- 2 What are the main risks to South Asia's growth?** *Limited vulnerability to external risks, but considerable fiscal and climate risks.*
- 3 What are the main challenges?** *Weak private investment, non-agricultural jobs, productivity. High pollution. Limited fiscal room to address challenges and adapt to climate change.*

Policy Challenges in South Asia

Weak Private Investment, Nonagricultural Job Creation, Productivity, ...



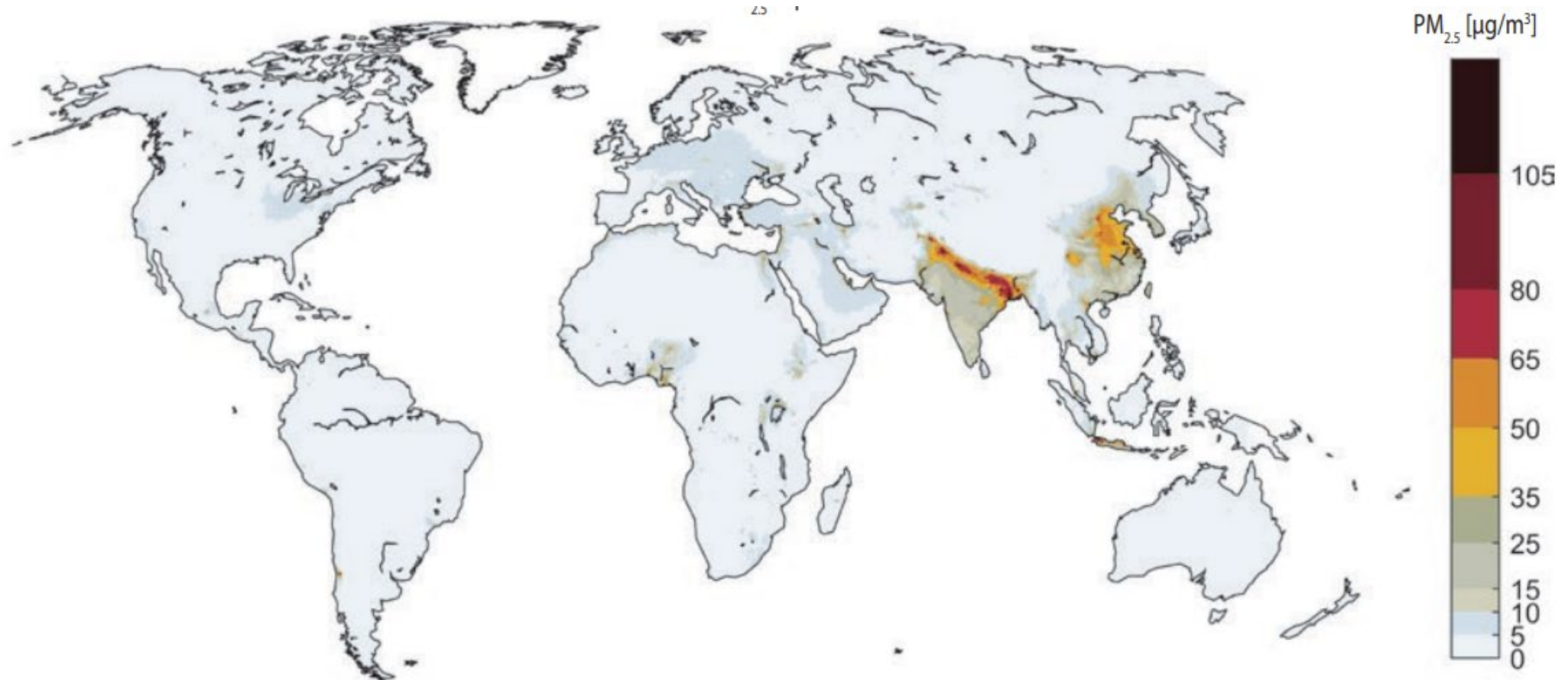
Sources: Chinn and Ito (2008); Haver Analytics; MPO (database); [Box 1.1, Chapter 2 of April 2024 South Asia Development Update](#); [Box 1.1 of October 2023 South Asia Development Update](#); WDI; World Bank.

Left panel: Real private fixed investment in percent of GDP. 2015-19 is the annual average. "Latest" data refers to 2020-21 average. Center Panel: Aggregates computed using GDP in U.S. dollars (at 2010-19 average prices and exchange rates) as weights. Labor productivity is GDP per employee in U.S. dollars (at 2010-19 average prices and exchange rates). Right Panel: Data for 2022, red diamonds show individual SAR countries, blue bar shows interquartile range for other EMDEs.

Policy Challenges in South Asia

... Pollution.

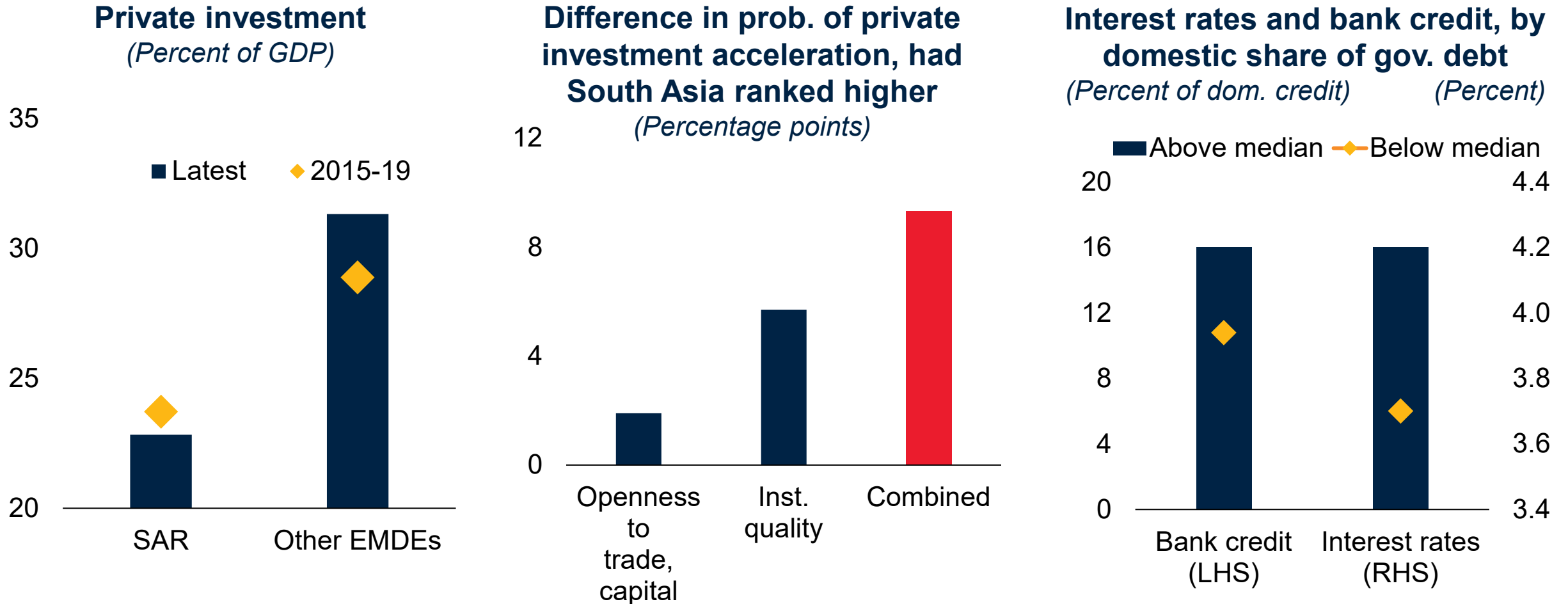
Origin of Fine Particular Matter exposure, 2018
(Contribution to PM_{2.5} in $\mu\text{g}/\text{m}^3$)



Sources: World Bank and International Institute for Applied Systems Analysis 2018 data.
Note: Fine particulate concentrations (PM_{2.5}) are in micrograms per cubic meter ($\mu\text{g}/\text{m}^3$).

Private Investment

Weak. Held Back By Lack of Openness, Weak Institutions, Government Debt...

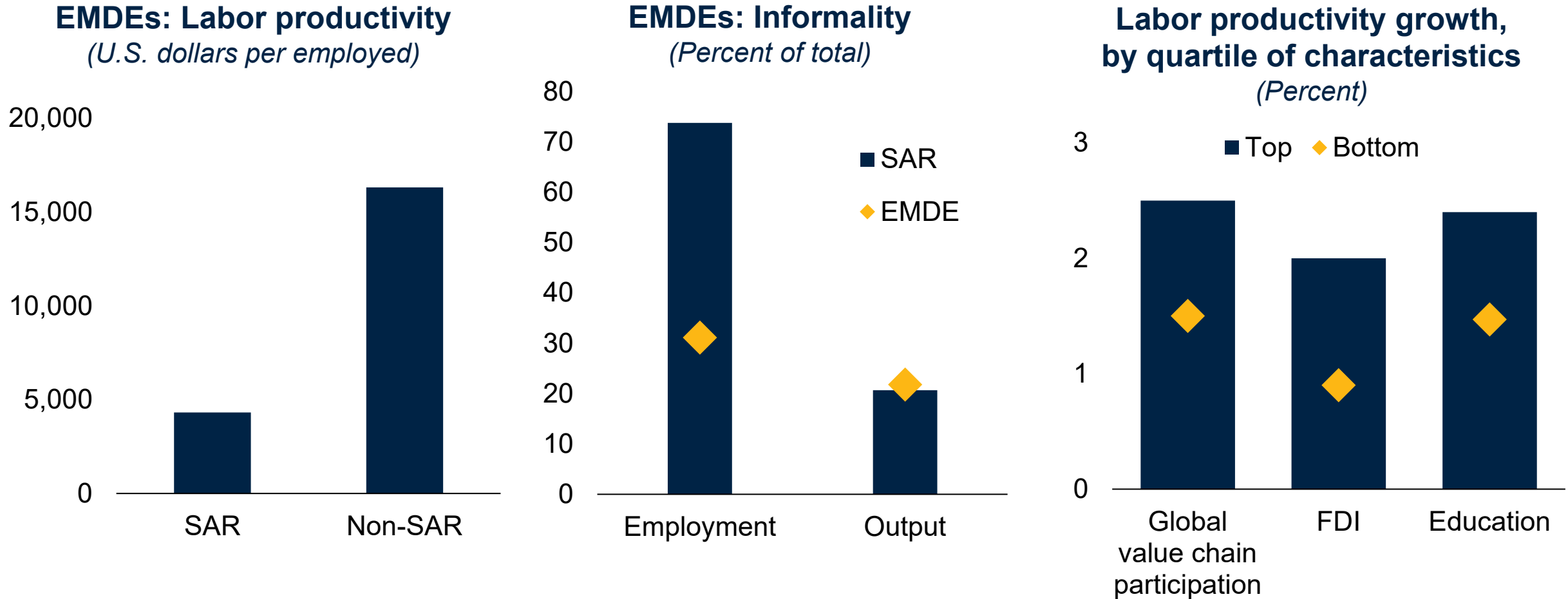


Sources: Chinn and Ito (2008); Haver Analytics; MPO (database); [Box 1.1. in April 2024 South Asia Development Update](#); [Box 1.1. of October 2023 South Asia Development Update](#); WDI; World Bank.

Left panel: Charts show real private fixed investment in percent of GDP. 2015-19 is the annual average. "Latest" data refers to 2020-21 average, for lack of comprehensive more recent data. Right panel: Based on results of a probit regression of the probability of a private investment acceleration starting on institutional quality ("Inst. quality"), increases in trade-to-GDP ratios, and increases in Chinn-Ito index of capital account restrictions. 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. Right Panel: Latest data is for 2022. 2021 or latest available data for EMDEs with above-median or below-median share of domestic debt of government debt.

Labor Productivity

Low. Held Back By Informality, Lack of Openness, Education ...



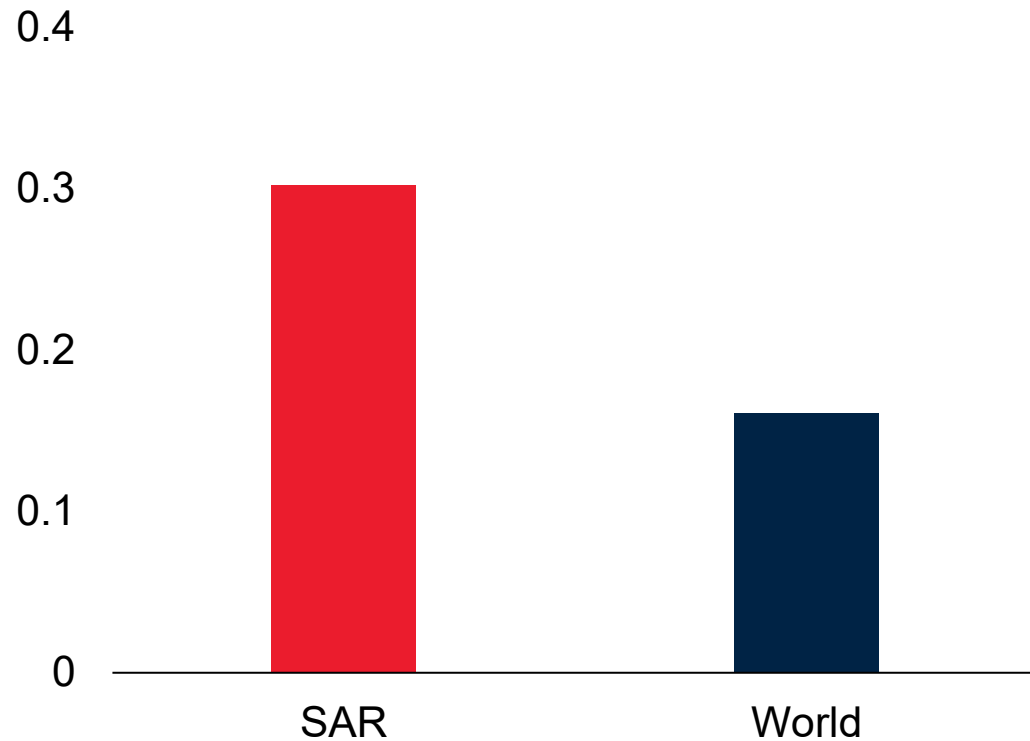
Sources: [Elgin et al. \(2021\)](#); Haver Analytics; OECD, Green Growth database; WDI (database); World Bank: [Chapter 1 of April 2024 South Asia Development Update](#); [Dieppe \(2020\)](#).

Left Panel: Note: EMDEs = emerging market and developing economies; SAR = South Asia. Geometric annual averages for 2010-19. Aggregates computed using GDP in U.S. dollars (at 2010-19 average prices and exchange rates) as weights. Labor productivity is GDP per employee in U.S. dollars (at 2010-19 average prices and exchange rates). Center Panel: GDP-weighted average of output informality as measured by DGE estimates, employment-weighted average of employment informality as measured by share of self-employed. Right Panel: Average annualized labor productivity growth grouped by initial level of openness or share of adults with secondary education. "Top" / "Bottom" group contain countries whose indicator is in top/bottom 25 percent. The effect of initial productivity has been partialled out. The sample include 32 advanced economies and 113 EMDEs from 1995 to 2018 for global value chain participation as a share of GDP, and 25 advanced economies and 101 EMDEs from 1995 to 2018 for FDI.

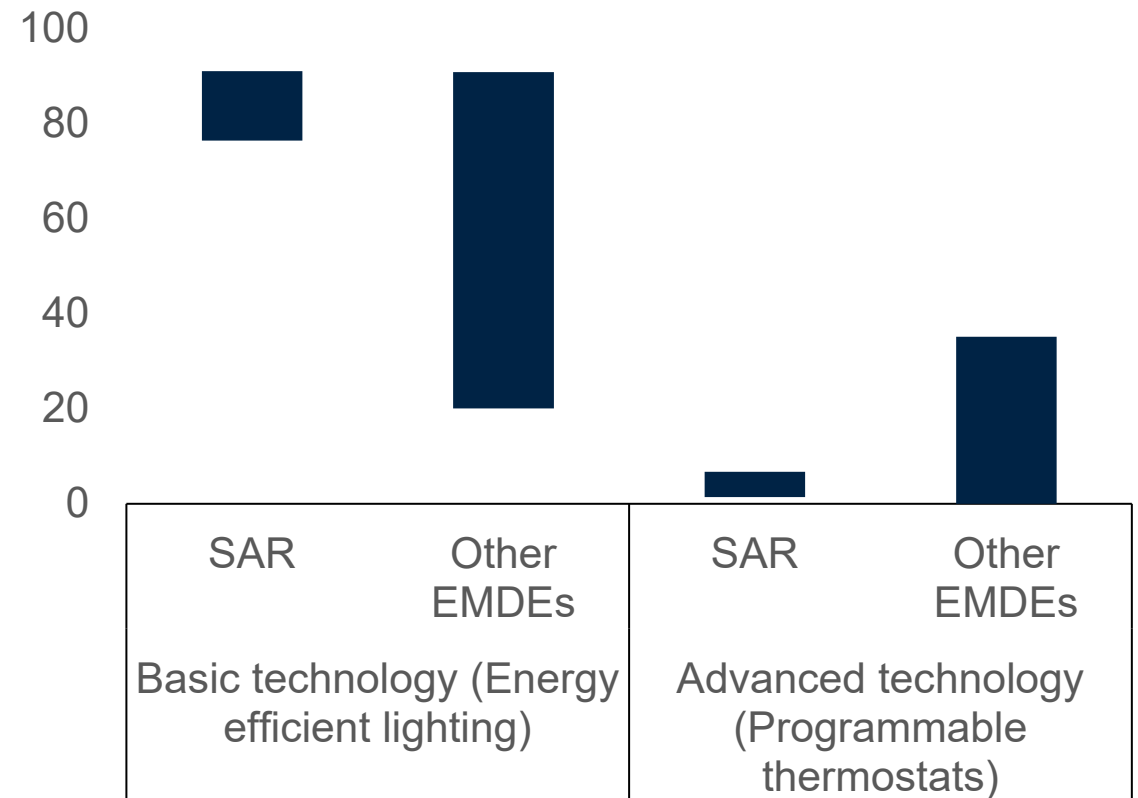
Energy Intensity in South Asia

Twice the Global Average; Firms Lag in Advanced-Technology Adoption

Energy intensity of output, 2020
(Toe per thousand U.S. dollars)



Share of firms adopting energy-efficient technologies
(Percent)



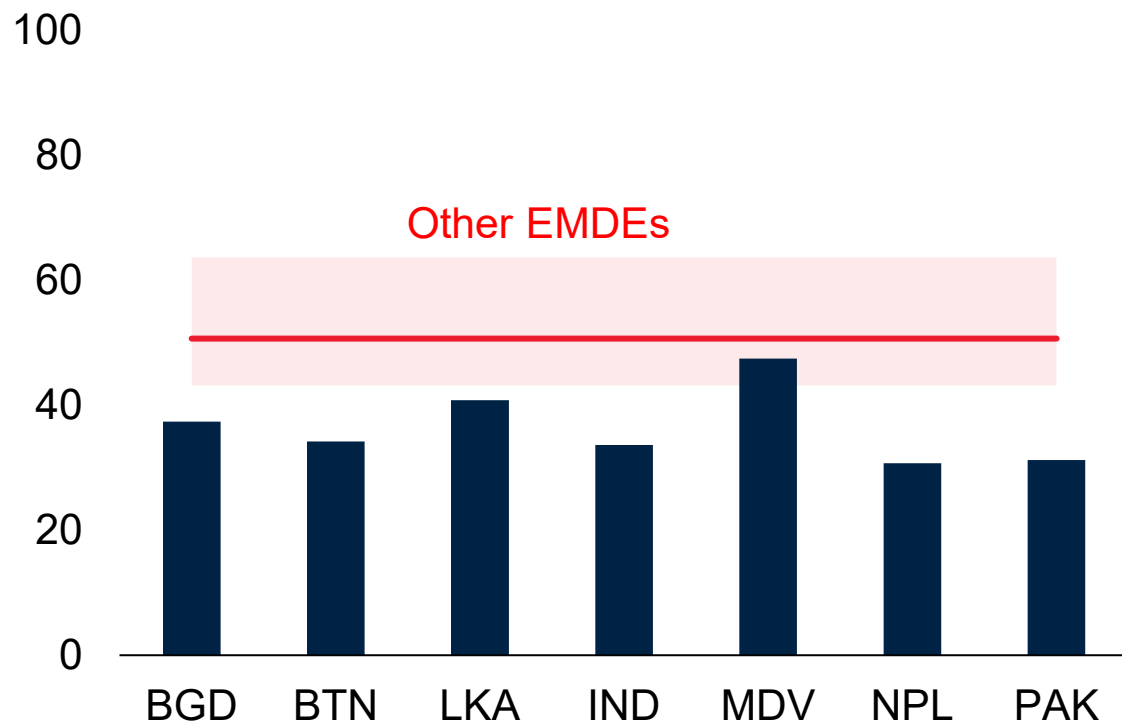
Sources: WDI, European Commission; OECD Green Growth database; World Bank Enterprise Surveys; [October 2023 South Asia Development Update](#).

Left Panel: Energy intensity is defined as energy consumption (in tons of oil equivalent, toe) relative to nominal GDP (in thousands of U.S. dollars) in 2020. Right Panel: Includes World Bank's Firm Adoption of Technology (FAT) Surveys of 10,090 firms in seven EMDEs (Brazil, Bangladesh, Cambodia, Chile, Ethiopia, India, and Georgia). Depicts the range of country-level averages of percent of firms adopting technologies in SAR and other EMDEs..

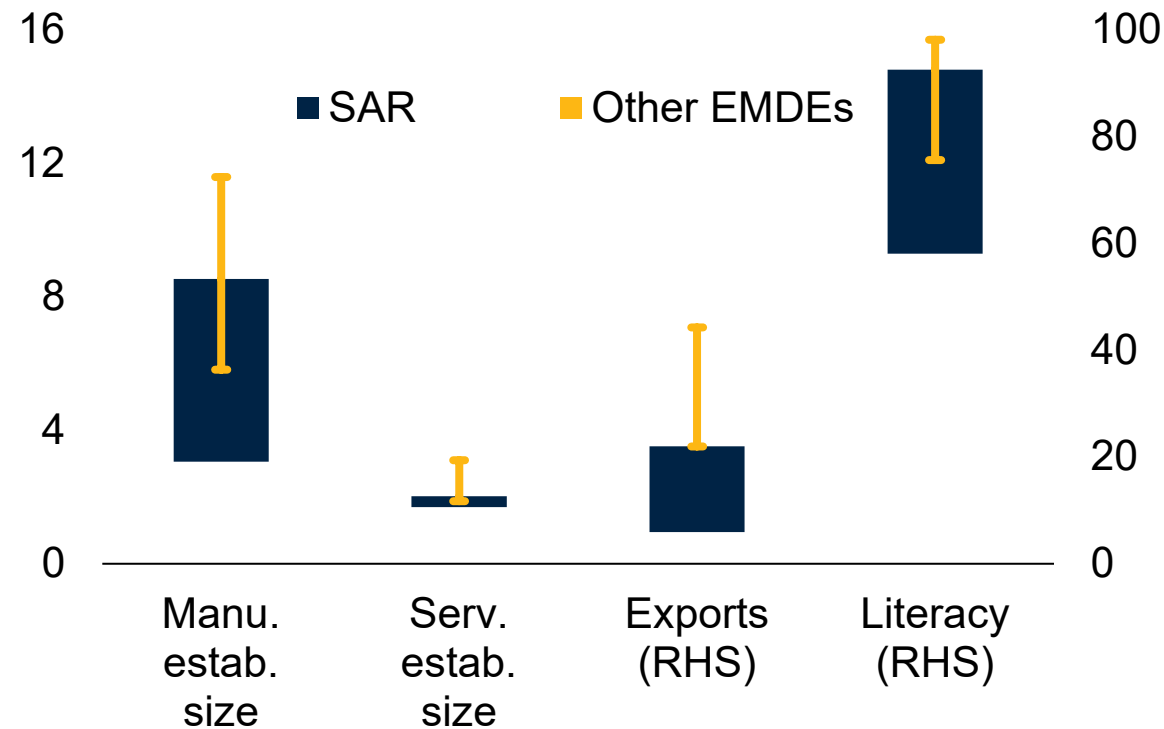
Non-Agricultural Job Creation

Weak. Held Back by Small Firm Size, Lack of Trade Openness, Education...

**Non-agriculture:
Employment ratio, 2023**
(Percent of working-age population)



Selected features of South Asian economies
(Number of employees) (Percent of GDP, Percent of 15+ population)

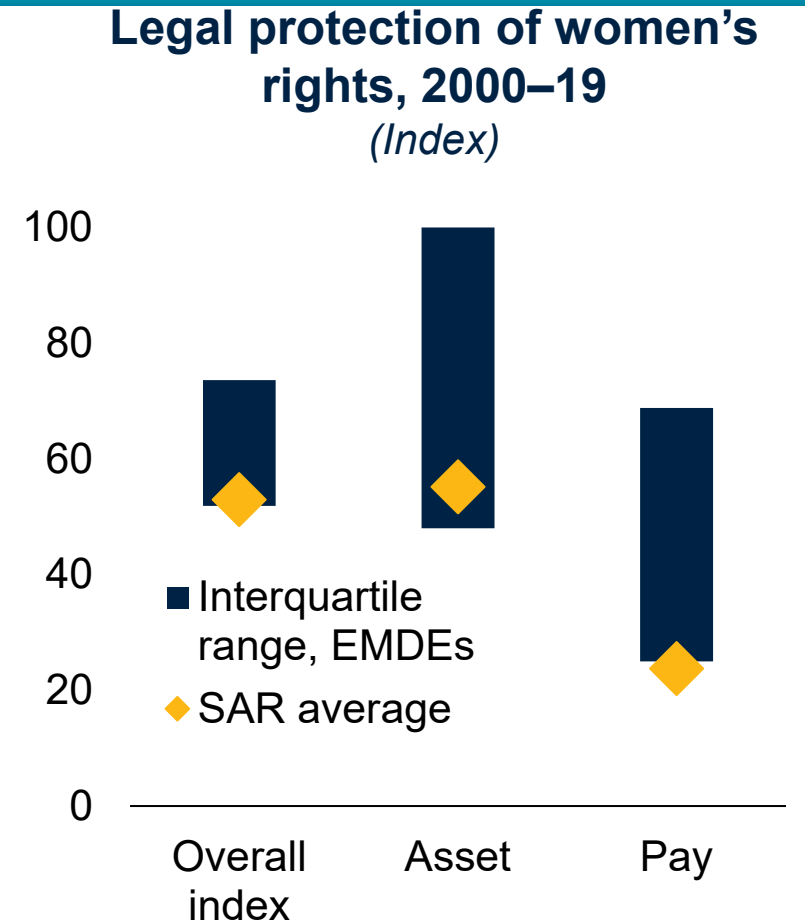
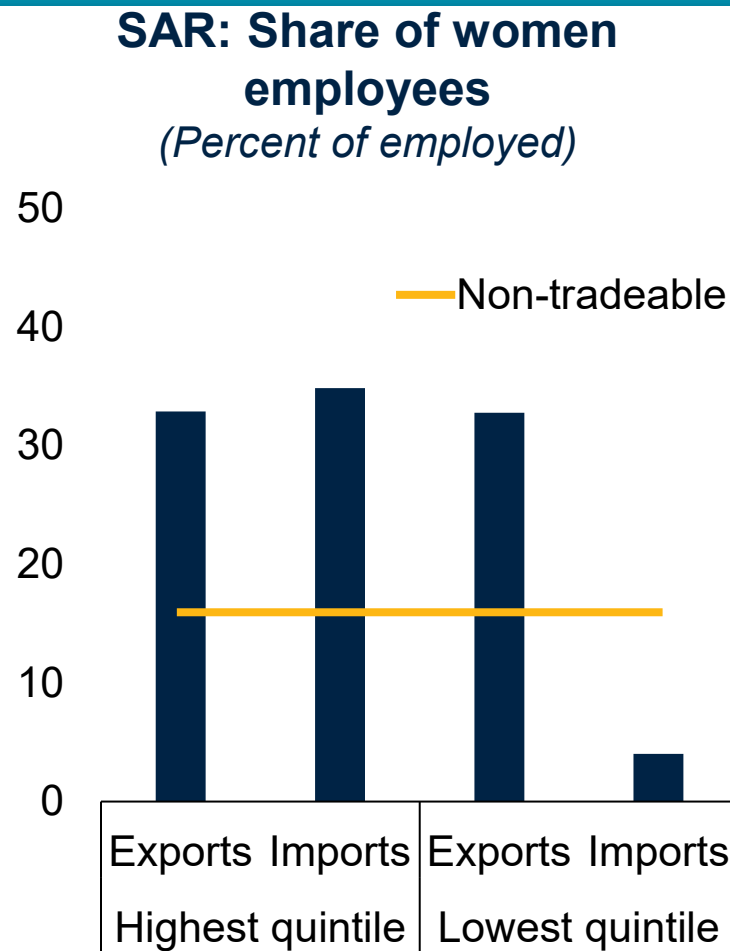
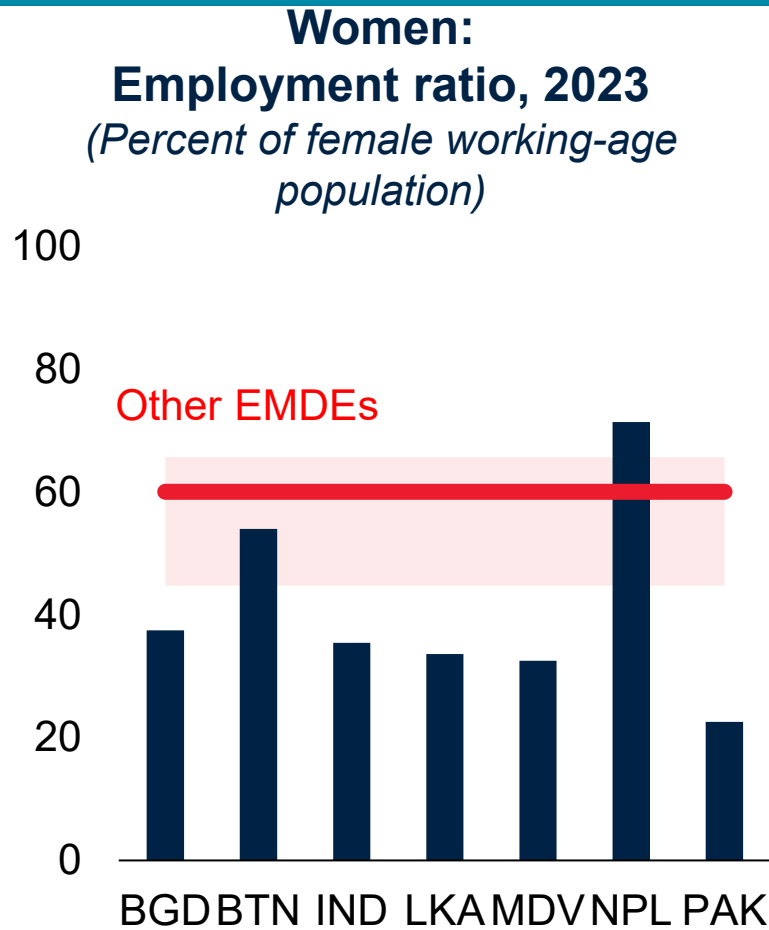


Sources: GGDC/UNU-WIDER Economic Transformation Database; International Labour Organization; Penn World Tables (database); Ohnsorge, Rogerson, Xie (forthcoming); WDI (database); [Chapter 2 of April 2024 South Asia Development update](#); World Bank..

Left Panel: Employment ratios are defined as employment in percent of the working-age population. Working-age population-weighted averages for country groups. Sample includes 128 EMDEs. Latest available data for sectoral employment in a large sample of countries is for 2023; missing 2023 data is assumed to be constant at 2022 level. Right Panel: Latest available data. Manu. = manufacturing. Serv. = services. Estab. = establishment. Bars show range for Bangladesh, India, Nepal, Pakistan, and Sri Lanka for product market flexibility, exports, and literacy rate; Bangladesh, India, Nepal, and Sri Lanka for manufacturing establishment size; and Bangladesh, India, and Sri Lanka for services establishment size. Yellow whisker show the interquartile range for a sample of 96 non-SAR EMDEs.

Female Labor Force Participation

Low. Held Back by Restrictive Laws, Lack of Trade, Education ...



Source: [Chapter 2 of April 2024 South Asia Development Update](#); ILOStat; Penn World Tables; Rogerson, Ohnsorge, and Xie (forthcoming); WDI; UN COMTRADE; Global Labor Database (GLD); World Bank *Women, Business, and the Law* database; World Bank.

Left Panel: Employment ratios are defined as female employment in percent of the female working-age population. Working-age population refers to persons aged between 15 and 64 years. Female working-age population-weighted averages for country groups. Sample comprises 128 EMDEs. Red-shaded area indicates interquartile range for EMDEs outside South Asia. Center Panel: Figure shows the female share of total sector employment by sector trade rank across all SAR countries in the GLD database. Sectors are ranked at the country-year level based on their export or import share in total trade for that sector-year, for net export and import sectors, respectively. Sample years are 2010-2021. Non-tradeable sectors are residual. Right Panel: SAR average is unweighted average of Bangladesh, India, Nepal, Pakistan, and Sri Lanka. The scores range between 0 and 100. A higher score indicates fewer legal restrictions on women's economic and social activity. The red triangle marks the number of South Asian countries with scores above EMDE median.

Three Questions & Answers



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