

**Recent developments:** The Russian Federation's invasion of Ukraine has weighed on growth in the South Asia region (SAR) after a solid recovery in the second half of last year and amplified pre-existing vulnerabilities. While the direct impacts from trade and financial exposure to Russia and Ukraine are minimal, spillovers from rising commodity prices, higher borrowing costs, and weaker external demand are significant. In India, the recovery is facing some headwinds from accelerating inflation. Rising inflationary pressures led to an unscheduled policy interest rate hike in May.

In the rest of the region, activity has been mixed, with stronger-than-expected rebounds from the pandemic helping to boost growth through early 2022 in Bangladesh and Pakistan. In Sri Lanka and Afghanistan, however, conditions are dire. The government of Sri Lanka announced a cessation of external debt repayments, and the country faces dual balance of payments and sovereign debt crises. With international reserves down to one-fourth of their pre-pandemic levels, the government abandoned its exchange rate peg in early March, leading to a rapid depreciation of the rupee. Sri Lanka's unsustainable external debt will require debt restructuring to start the process of fiscal rehabilitation. Despite increased international humanitarian support in Afghanistan, the economy has collapsed, and most households do not have sufficient incomes to meet basic needs.

Rising food and energy prices have led to a rapid increase in consumer inflation in the region. Average annual consumer inflation and one-year-ahead inflation expectations are now at their highest level in almost a decade.

**Outlook:** Growth in South Asia is forecast to slow to 6.8 and 5.8 percent in 2022 and 2023, respectively following a robust 7.6 percent rebound in 2021. This is 0.8 percentage point slower for 2022 than was projected at the start of the year and similar to average growth in the decade prior to the pandemic. The revisions to growth reflect the expected erosion of purchasing power of consumers, elevated uncertainty, and weaker external demand.

In India, growth is forecast to edge down to 7.5 percent in fiscal year 2022/23, with headwinds from rising inflation, supply chain disruptions, and geopolitical tensions offsetting buoyancy in the recovery of services consumption from the pandemic. Growth will also be supported by both private and public fixed investment, buoyed by government incentives and reforms to improve the business climate. In Pakistan, growth is expected to moderate from 5.7 percent in FY2020/21 to 4.0 percent in 2022/23 as foreign demand slows significantly and policy support is withdrawn to contain external and fiscal imbalances.<sup>1</sup> In Bangladesh, growth is forecast to ease to 6.4 percent in FY2021/22, as pent-up demand subsides, before picking up to 6.7 percent in 2022/23 as investment recovers and remittance inflows accelerate. The outlook for Sri Lanka is highly uncertain and subject to significant downside risks.

**Risks:** Risks to the regional growth outlook remain to the downside and have been magnified by geopolitical developments.

Additional increases in commodity prices, particularly wheat, could put further upward pressure on food prices eroding real incomes and reducing consumption. The region consumes about one-fifth of its calories from wheat products, houses more than one-third of the global poor, and food accounts for a greater share of its consumption basket compared to other emerging and developing economies.

Rising energy prices, in a region that is highly dependent on energy imports and in some economies where significant shares of government budgets go to subsidies, could further increase inflation, worsen current account positions, and divert resources away from productivity-enhancing investment and social protection.

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<sup>1</sup>The Government's preliminary estimate for real GDP (factor cost) growth for 2021/22 is 6.0 percent.

## South Asia Country Forecasts

(Annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
GDP at market prices (average 2010-19 US\$)						
<b>Calendar Year Basis <sup>a</sup></b>						
<b>Afghanistan <sup>b</sup></b>	3.9	-1.9	..	..	..	..
<b>Maldives</b>	6.9	-33.5	31.0	7.6	10.2	7.1
<b>Sri Lanka</b>	2.3	-3.6	3.7	-7.8	-3.7	1.0
<b>Fiscal Year Basis <sup>a</sup></b>						
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21e</b>	<b>2021/22f</b>	<b>2022/23f</b>	<b>2023/24f</b>
<b>Bangladesh</b>	7.9	3.4	6.9	6.4	6.7	6.9
<b>Bhutan</b>	4.4	-2.4	-3.7	4.4	4.7	6.7
<b>India</b>	6.5	3.7	-6.6	8.7	7.5	7.1
<b>Nepal</b>	6.7	-2.1	1.8	3.7	4.1	5.8
<b>Pakistan (factor cost)</b>	3.1	-0.9	5.7	4.3	4.0	4.2

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 2020 are excluded because of a high degree of uncertainty.