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Global Economic Prospects: Spillovers amid Weak Growth ***South Asia***
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Recent developments: Growth in the South Asia region rose to 7 percent in 2015 from 6.8 percent in 2014, the fastest rate among developing regions, as recovery took hold in India and the region benefited from lower oil prices and resilience to external shocks. India, the region's dominant economy, is on track to maintain a 7.3 percent growth rate in the fiscal year that ends in March as a result of the decline in oil prices, an easing of food inflation, and a narrowing of budget and trade gaps.

Pakistan appears poised to grow at a 5.5 percent rate in the fiscal year that ends in June, up from 4.7 percent in the previous fiscal year. Macroeconomic adjustment under an International Monetary Fund program, security initiatives in Karachi, the country's commercial hub, and major infrastructure project agreements with China have boosted investor confidence.

In Bangladesh, political tensions have eased and exports have rebounded. In Nepal, however, the cost of earthquakes in the spring of 2015 is estimated at about one-third of that nation's gross domestic product, and reconstruction efforts have been held back by political uncertainty and the closure of land routes through India in the second half of 2015.

Outlook: The South Asia region is projected to be a bright spot in an otherwise gloomy outlook for emerging and developing economies, with growth accelerating to 7.3 percent in 2016. This pickup is expected to be driven by strengthening investment and government and central bank policies that support economic growth. The region is a net importer of oil and will benefit from lower global energy prices. At the same time, because of relatively low global integration, the region is shielded from growth fluctuations in other economies.

Compared to most other major developing countries, India is well positioned to withstand near-term headwinds and volatility in global financial markets due to its reduced external vulnerabilities, a strengthening domestic business cycle, and a supportive policy environment. The economy is projected to grow at a faster 7.8 percent in FY2016-17, which begins April 1, helped in part by progress on infrastructure building and government measures aimed at boosting investment. Low energy prices and domestic energy reforms will ease costs for energy intensive firms. Low inflation and public sector wage increases will continue to support urban spending. India accounts for 90 percent of investment inflows into the region and should remain attractive to investors in comparison to other major emerging market economies, where economic growth is moderating or shrinking.

Pakistan is projected to continue to grow steadily at 5.5 percent in FY2016-17, which begins July 1. When calculated at factor cost, growth in Pakistan should rise to 4.5 percent from 4.2 percent in the current fiscal year, supported by investments from China as part of the China-Pakistan Economic Corridor development, and positive spillovers from low oil prices and from the lifting of international sanctions against neighboring Islamic Republic of Iran. In Bangladesh, growth is projected to accelerate to 6.7 percent in 2016 from 6.5 percent in 2015 as a result of increases in infrastructure spending and public sector wage hikes, as well as laws strengthening worker rights that are expected to support exports as the country seeks to maintain U.S. trade preferences. Nepal is projected to expand by 1.7 percent in 2016 after growing by 3.4 percent in the previous year, slowed by the devastation and loss of life from the April earthquake. Activity is seen eventually recovering in that country as government reconstruction spending picks up.

Risks: Risks to the outlook are principally domestic. Political standoffs in India could stall reforms. A failure to pass the goods and services tax and land reforms could constrain spending on infrastructure and impede a stronger recovery in private investment. Most countries across the region need to contend with high levels of nonperforming loans in banking systems. Fiscal risks also remain elevated in most countries. A resumption of political tensions in Bangladesh and an escalation of existing tensions in Nepal and Afghanistan are key risks in these countries.

Although less pressing than domestic risks, external risks remain. Economic activity in the region could be hurt if there is a disorderly slowdown in major emerging market economies or if tighter global financial conditions produce financial market stress. Any further downturn of oil prices or growth slowdown that shrinks remittances

from workers in the Gulf Cooperation Council countries could dent consumption in the region.

South Asia forecast summary

(annual percent change unless indicated otherwise)			**Est.**	**Forecast**		
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
GDP at market prices (2010 US$)						
Calendar Year Basis[a]						
Afghanistan	2.0	1.3	1.9	3.1	3.9	5.0
Bangladesh	6.3	6.5	6.6	6.8	6.8	6.8
Bhutan	3.9	6.3	6.8	7.2	5.6	6.0
India	6.4	7.2	7.3	7.7	7.9	7.9
Maldives	4.2	5.9	4.4	3.1	4.2	4.5
Nepal	4.7	4.4	2.6	3.7	5.1	4.5
Pakistan	4.6	5.1	5.5	5.5	5.4	5.4
Sri Lanka	3.4	4.5	5.3	5.6	6.0	6.0
Fiscal Year Basis[a]						
Bangladesh	6.1	6.5	6.5	6.7	6.8	6.8
India	6.9	7.3	7.3	7.8	7.9	7.9
Nepal	4.1	5.4	3.4	1.7	5.8	4.5
Pakistan (at market prices)	4.4	4.7	5.5	5.5	5.4	5.4
Pakistan (at factor cost)	3.7	4.0	4.2	4.5	4.8	4.8

Source: World Bank.
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.