



Investment Reality Check



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South Asia Economic Focus
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Investment Reality Check





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South Asia as used in this report includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

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**South Asia Chief Economist Office
Macro and Fiscal Management Global Practice**



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Recent economic developments

South Asia defies a sluggish world economy and continues its path of gradual growth acceleration during 2016. Led by a solid India, the region remains a global hot spot. South Asian economies proved resilient vis-à-vis external headwinds, such as China's slowdown or uncertainty surrounding monetary policy in advanced economies. But some are beginning to feel the sting from slowing remittance flows or waning oil price dividends. Against this backdrop of relative stability but fading tailwinds, South Asia will need to activate the full potential of two core growth drivers - private investment and exports - to sustain and further increase its economic dynamism.

Uncertainty prevails on international markets

Almost as a sign of the times, stock markets appear upbeat while uncertainty looms large. As opposed to last summer, stock markets in emerging market and advanced economy have made substantial gains in the third quarter of 2016. With volatility at relatively low levels during summer months, most emerging markets exhibit signs of upward momentum. The VIX, commonly referred to as the “fear index”, reflected calm in August 2016. In South Asia, stock prices in India, Pakistan and Sri Lanka have been on an upward trend since 2015 or early 2016. All three economies saw relatively pronounced increases between July and September, although Pakistan and Sri Lanka experienced jitters more recently.

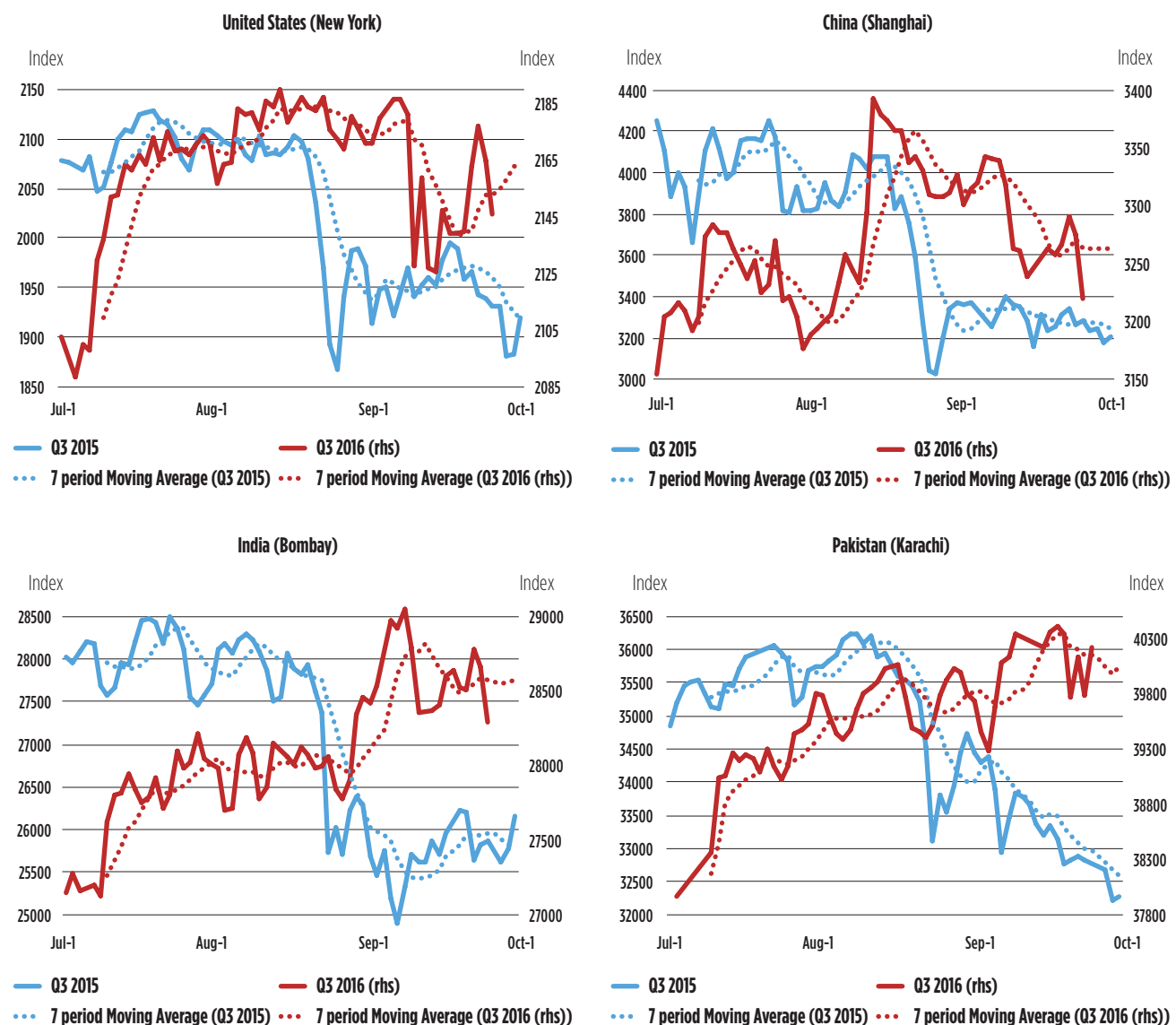
Negative interest rates raise questions regarding asset prices and financial sector stability. By now central banks across advanced economies, including the Euro Area, Japan and Switzerland, are relying on negative interest rate policies. This unprecedented stance shows

their resolve to stabilize inflation expectations and support growth, or in some cases to respond to exchange rate appreciation and capital inflow pressures. For central banks engaged in Quantitative Easing, negative interest rates also offered a way to narrow the pool of eligible assets and address the possibility of diminishing returns. However, a debate about the implications of these policies has emerged¹. One potential risk from sustained negative interest rates is the erosion of banks’ profitability. Negative interest rates may also lead to excessive risk taking, ultimately jeopardizing financial stability.

Advanced economies continue to sputter at below half the speed of developing countries. Against a backdrop of sluggish global growth, estimated at around 2.2 percent (y-o-y) during the second quarter of 2016, major developed countries perform well below expectations. Japanese growth is hovering around a

¹ For a detailed discussion see Arteta, C., M. A. Kose, M. Sockler, and T. Taskin. 2016. “Negative Interest Rate Policies: Sources and Implications.” World Bank Policy Research Working Paper No. 7791.

Figure 1: Regional stock markets are experiencing upward momentum

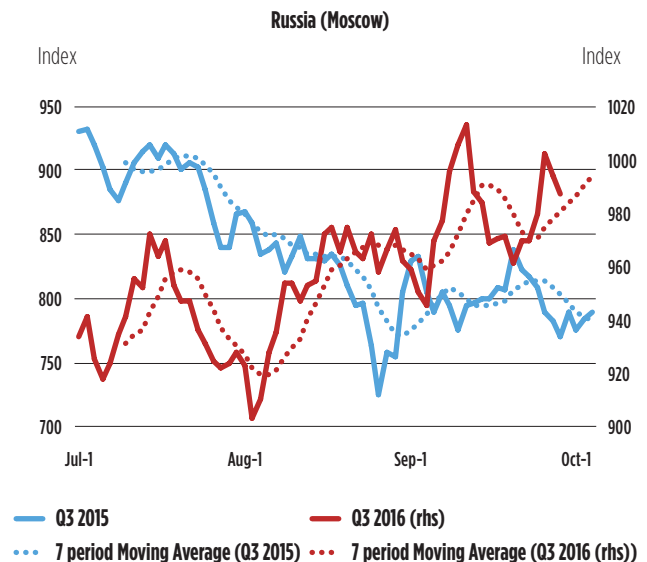
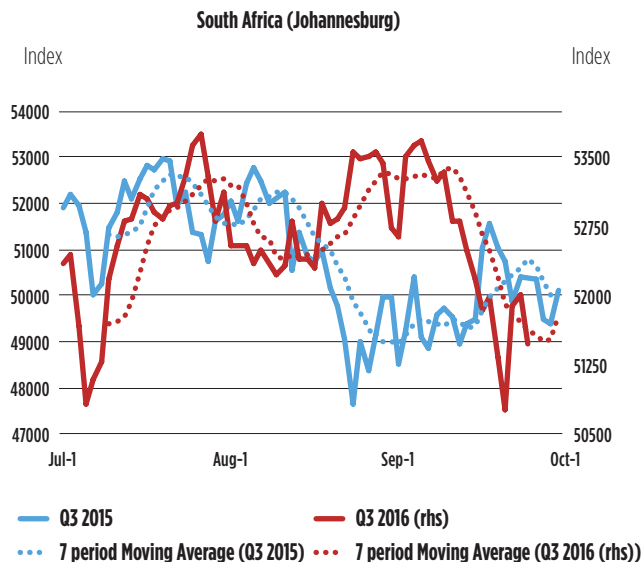
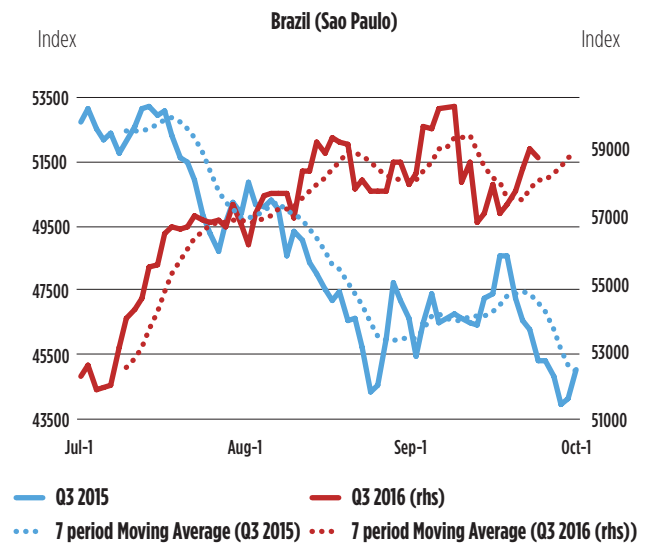
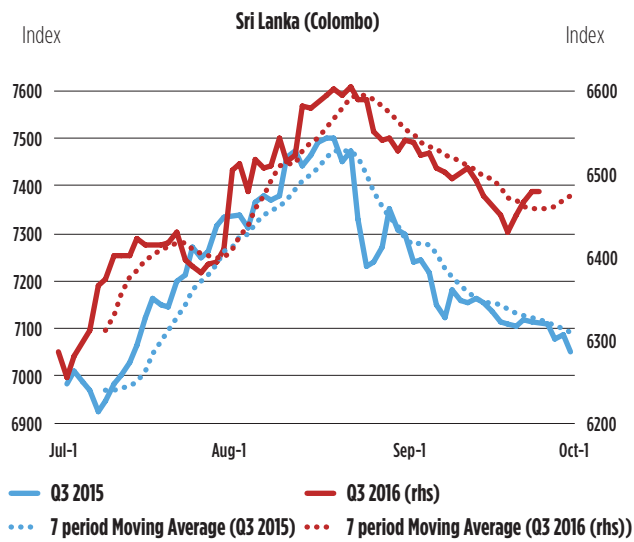


Source: Haver Analytics
Note: rhs stands for right-hand side axis

meager 0.2 percent (q-o-q) in 2016Q2 with inflation well below target despite persisting negative interest rates. The Eurozone remains relatively stable in the wake of Britain's exit vote. The US economy remains a question mark, as reflected by the Federal Reserve's increasingly gradual monetary tightening plan, now sporting a possible end of year rate hike after no action in September 2016.

Oil exporters and several large emerging market economies also continue to struggle. With the exception of India, all BRICS are either slowing down or contracting. Fear about a hard landing in China subsided at the beginning of 2016, as it became clear that the country is experiencing a relatively benign

transition from fast investment-led growth to slower consumption-led growth. On the other hand, Brazil and Russia have faced severe adjustments, both being in deep recession by mid-2016. These major economies clearly set the stage in their regions. While East Asia and the Pacific enjoys a fairly stable outlook due to robust growth in China and South East Asia, Latin America and the Caribbean is forecast to continue shrinking in 2016. Continued contractions in key regional economies, including Argentina, Brazil, Ecuador and Venezuela are leading to an expected decline by 1.3 percent, coming after a 0.7 percent decline in 2015. In Europe and Central Asia a negative GDP growth of 0.1 percent in 2015 and an estimated 1.4 percent growth in 2016 are primarily driven by developments in commodity exporting



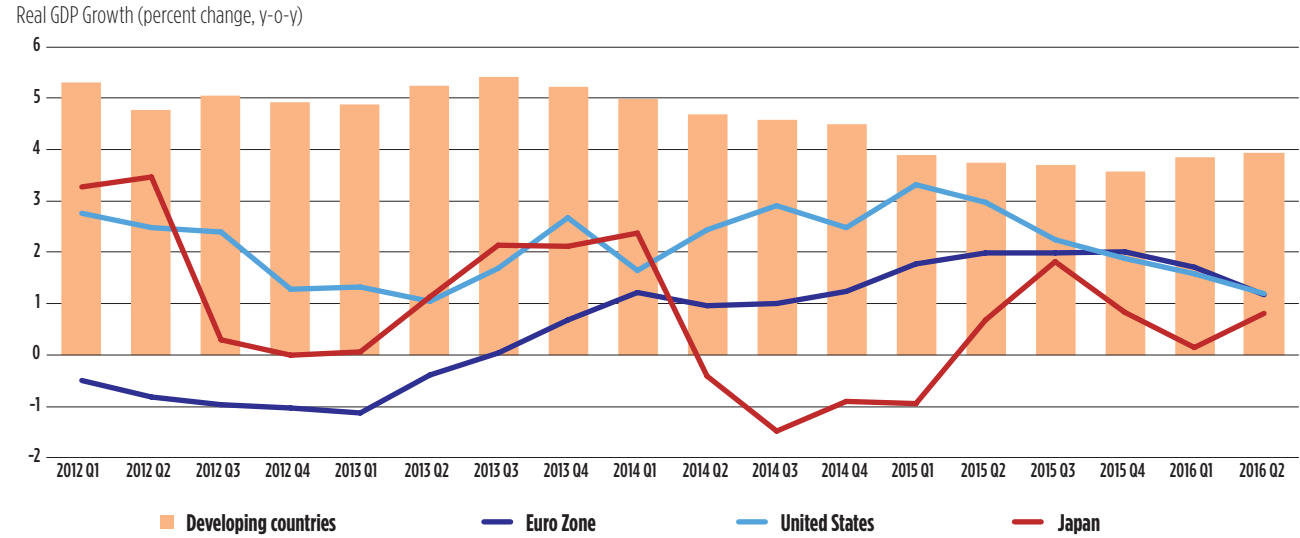
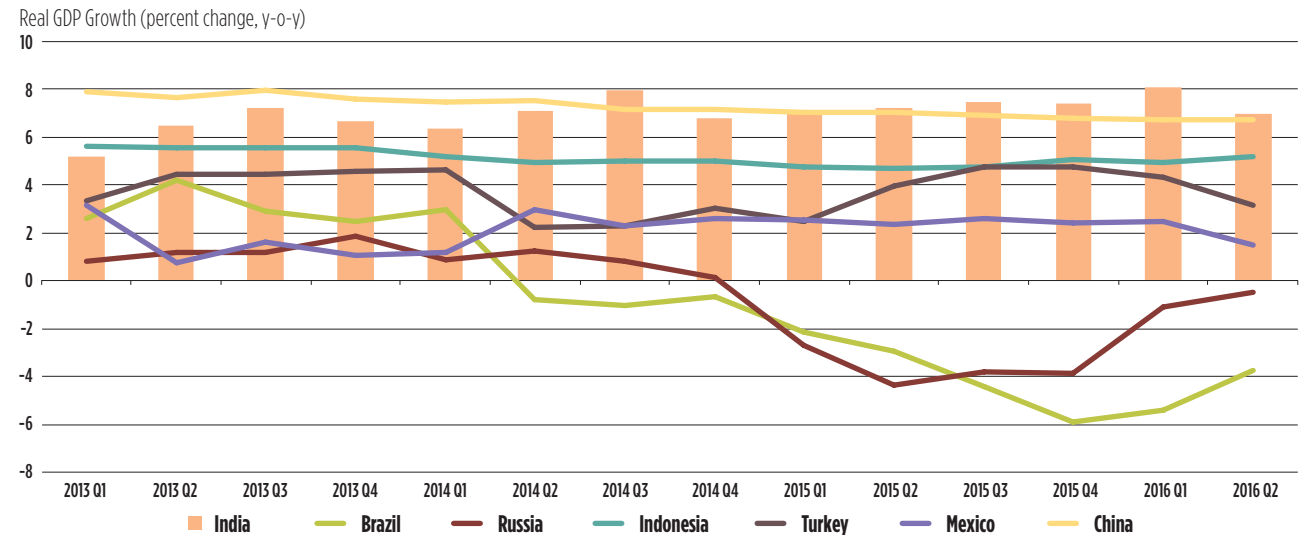
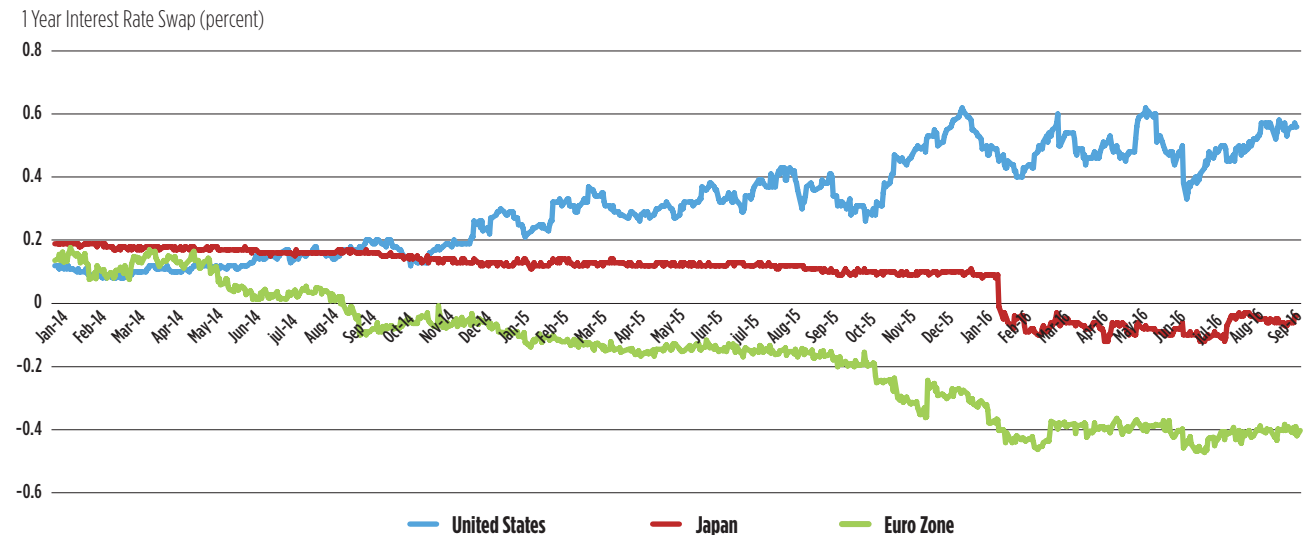
Source: Haver Analytics
Note: rhs stands for right-hand side axis.

countries such as Azerbaijan, Belarus or Russia, as well as by conflict in Ukraine.

Dovish monetary policy persists in Europe and Japan, while the Federal Reserve's forward guidance continues to intrigue. The US federal funds rate has not been increased since December 2015, with a December hike relatively likely. US economic performance remains weaker than expected: manufacturing output fell 0.4 percent in August, domestic demand is cooling down, and job growth disappointed over the summer months of 2016. With a subdued growth outlook, a second rate hike in the near term in question. In the Euro zone and Japan, on the other hand, negative interest rates and further Quantitative Easing continue to set the tone for the short

and medium term. The Euro area deposit rate remains at -0.4 percent while Japan's policy rate stands unchanged at -0.1 percent. In both economic areas Quantitative Easing remains substantial.



Figure 2: Major advanced economies continue their struggle to reignite growth

Figure 3: Emerging markets remain challenged but oil exporters may have bottomed out

Figure 4: Expectations regarding monetary policy differ across major advanced economies


South Asia's external position remains robust

Neither trade nor capital flows expose South Asia to jitters in international markets. While sluggish Chinese demand has continuously and negatively impacted world markets and prices for commodities, South Asia has managed to remain rather unaffected. This is because the region is not a big exporter to China but is a big importer of oil. However, developments in important external markets, such as the US for India and Sri Lanka or the EU for Bangladesh, do matter for South Asia's export growth. Meanwhile, the fact that South Asian capital markets are weakly integrated with the rest of the world has proven a virtue in volatile times. Only India remains somewhat vulnerable to international portfolio rebalancing, given its net foreign-owned portfolio stock of around 10 percent of GDP at the end of 2015. But India's equity and debt flows have been significantly less volatile than their emerging market counterparts.

Figure 6: Exposure to capital flow volatility from portfolio rebalancing is moderate

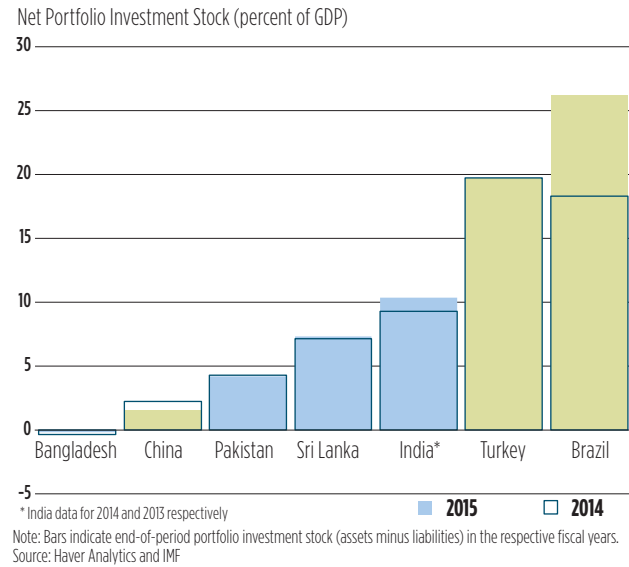
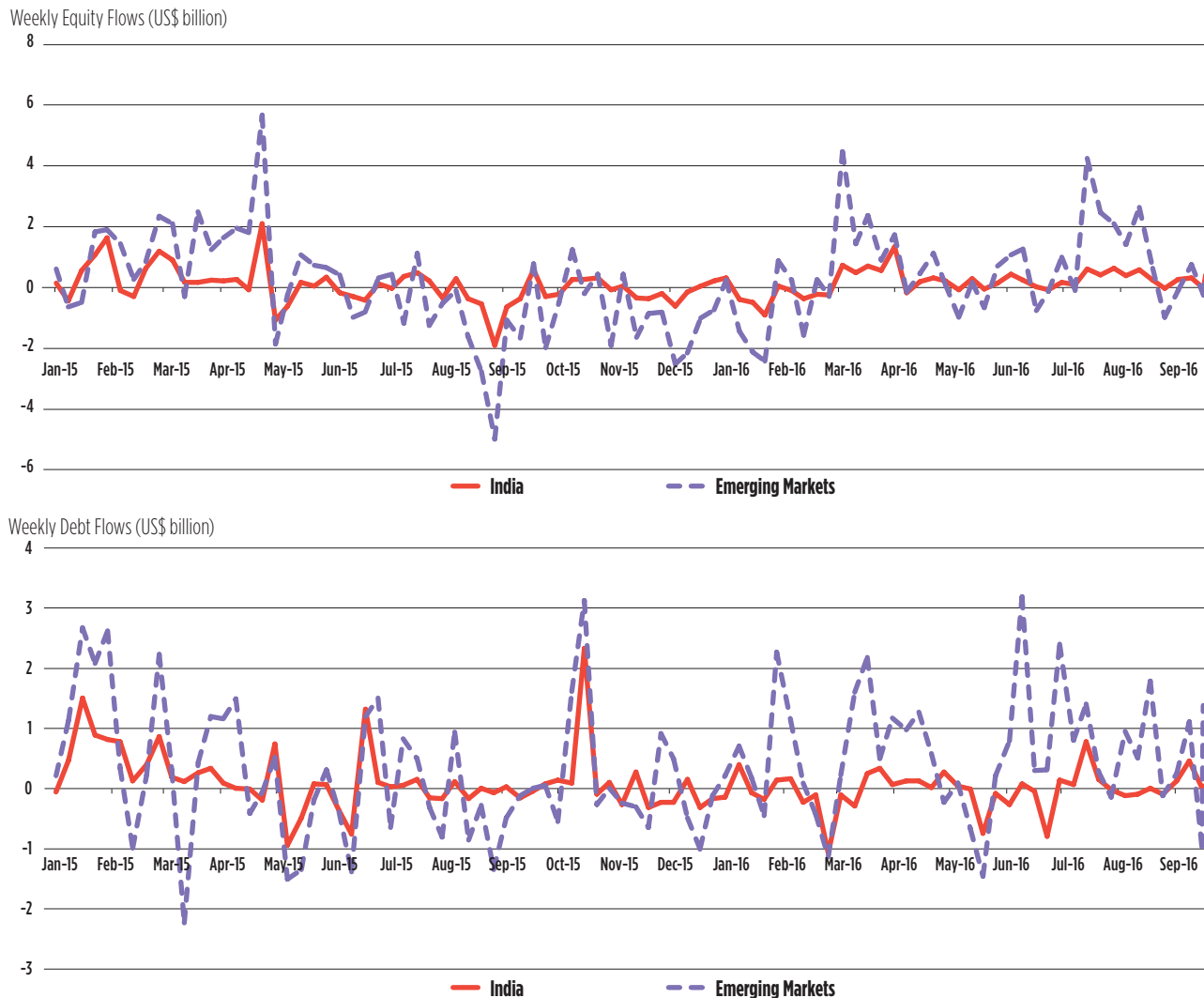


Figure 5: India's financial market volatility is exceptionally low among emerging markets



Source: Institute of International Finance



Figure 7: Amidst volatility across large emerging markets, India maintains a solid external position

Source: Hover Analytics, National Central Banks and World Bank staff calculations

Furthermore, India's external position is rock solid amidst large swings for peers.

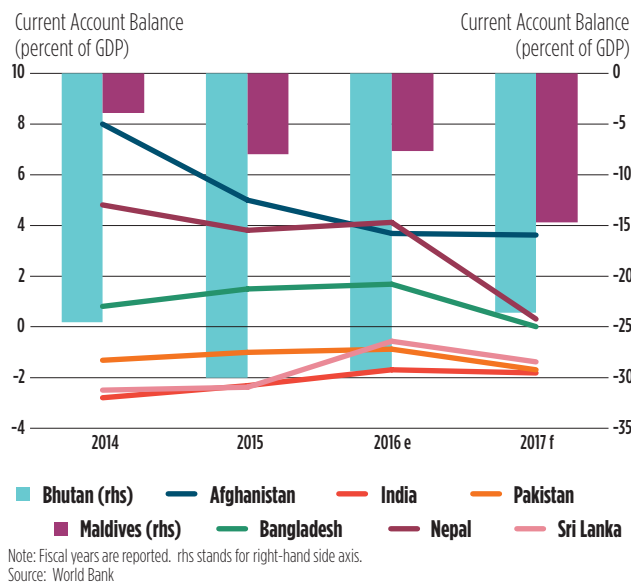
Both a stable and low current account deficit and a stable exchange rate have become pillars of India's external position, distinguishing it from volatility and weakness in most other large emerging markets. Brazil and Russia have seen large swings in exchange rates over the past three quarters, while South Africa experienced continuously high current account deficits. In light of its solid reserve levels and a current account deficit expected to be hovering around 2 percent of GDP, India is set to maintain an exceptionally solid degree of insularity from global turmoil.

Current accounts across South Asia continue to converge towards balance.

India and Pakistan – accounting jointly for about 90 percent of South Asia's GDP – are

both expected to further reduce their modest current account deficits further. Between 2015 and 2016, India's deficit will fall from 2.3 to 1.7 percent of GDP, and Pakistan's from 1 to 0.9 percent. Sri Lanka's current account deficit, a modest 2.4 percent of GDP in 2015, is expected to decrease to a mere 0.6 percent in 2016. Countries like Bangladesh or Nepal feature increasing current account surpluses. As in the past, the exceptions are Maldives and Bhutan, whose sizeable current account deficits are financed through large international investment flows, for hydropower development in Bhutan and for tourism in Maldives. In the case of Bhutan, capital inflows are fairly predictable, lending some accuracy to the expectation of shrinking current account deficits from 2017 onwards. Tourism-related flows in Maldives, on the other hand, are less predictable and often volatile.

Figure 8: Current accounts across most of South Asia appear increasingly balanced



Exports are a drag while remittances show signs of stagnation

Remittance flows to South Asia have significantly slowed over the past year but now seem to have found a floor. The backbone of several South Asian current accounts for a long time, remittances have traditionally helped finance large trade deficits. However, with low oil prices squeezing activity and income in Gulf countries, a major destination for South Asian migrants, remittance flows to the region have slowed down. Nepal's post-earthquake surge in remittances has by now worn off completely, while India's remittance flows have seen outright decline over three quarters and well into 2016. However, some signs of stabilization are becoming apparent in Bangladesh and Pakistan. Notably, India saw remittance growth return closer to positive territory in 2016Q2, after two quarters of relatively strong contraction.

Trade balances reflect persistent export weakness while lower imports could signal slowing demand. South Asia is still to seize the export opportunity: in 2015 sales abroad actually declined by 4.9 percent, a trend that was consistent across all large countries in the region. But there is now some expectation for a gradual recovery taking hold. Merchandise export growth shows early signs of bottoming out over 2016H1. If this can be considered good news, India and Pakistan have witnessed two consecutive quarters of slower export decline. Overall, South Asia will manage an estimated 2.2 percent export growth in 2016 with a further positive medium-term outlook.



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Figure 9: Remittances, a major source of foreign exchange, have broadly stabilized

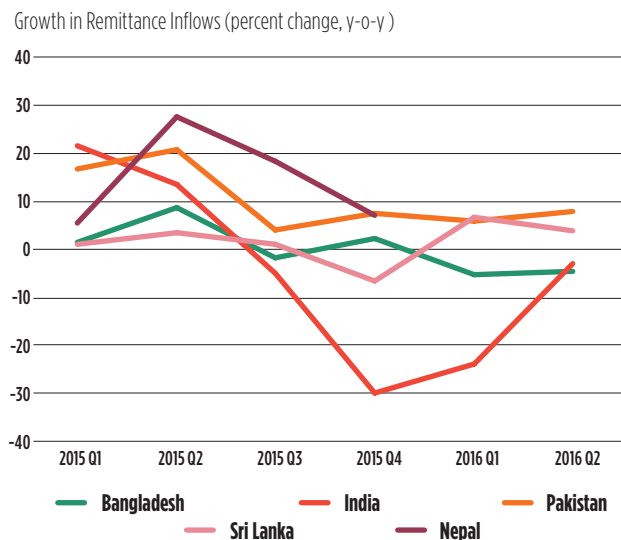
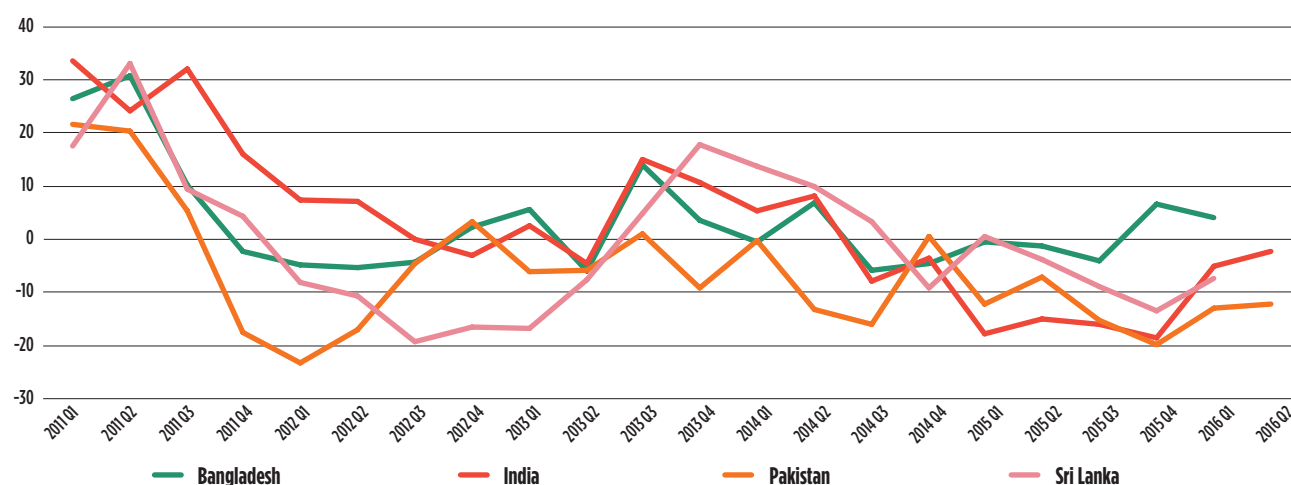


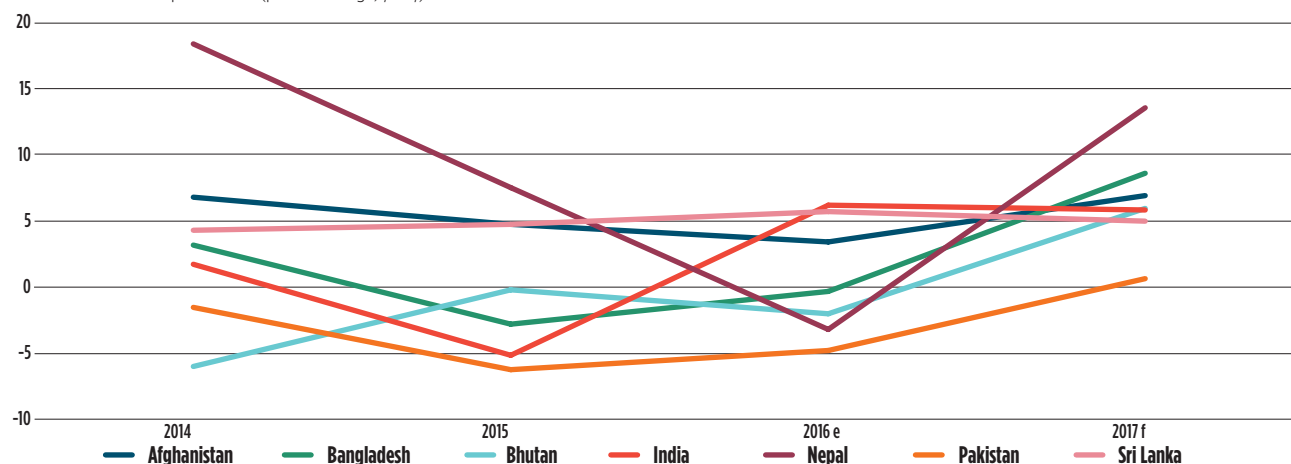
Figure 10: Export growth has remained negative across major South Asian economies

Merchandise Export Growth (percent change, y-o-y)



Source: World Bank

Goods and Services Export Growth (percent change, y-o-y)



Source: World Bank

However, risks remain tilted towards the downside and the projected path depends on positive developments in major export markets across Europe and the US. Slowing import growth, or even import contraction, due to low oil prices has taken off some pressure from the trade balance. But the positive effect is slowly fading. A stabilization of import growth rates at low levels could signal some weakness in domestic demand, while a strong pick up will eventually require to be offset by stronger exports, particularly against the backdrop of weaker remittance flows.

Capital inflows have helped build solid reserve buffers, but continue to slow

Although Foreign Direct Investment (FDI) inflows disappoint, capital account balances remain adequate to finance current account deficits. FDI flows to the region continue to hover around 2014Q1 levels, not showing any sign of dynamism. Across the region, however, capital account balances are sufficient to maintain robust international reserves. Such is the case in India, Pakistan and Sri Lanka. In Bangladesh or Nepal, which run a current as well as a capital account surplus, reserves have actually risen to solid levels. Afghanistan's current account balance features a large trade deficit but is positive overall, due to official transfers. Because of these transfers, a negative capital account balance is consistent with maintaining adequate reserves.

Figure 11: Import growth suggests some slowing in aggregate demand

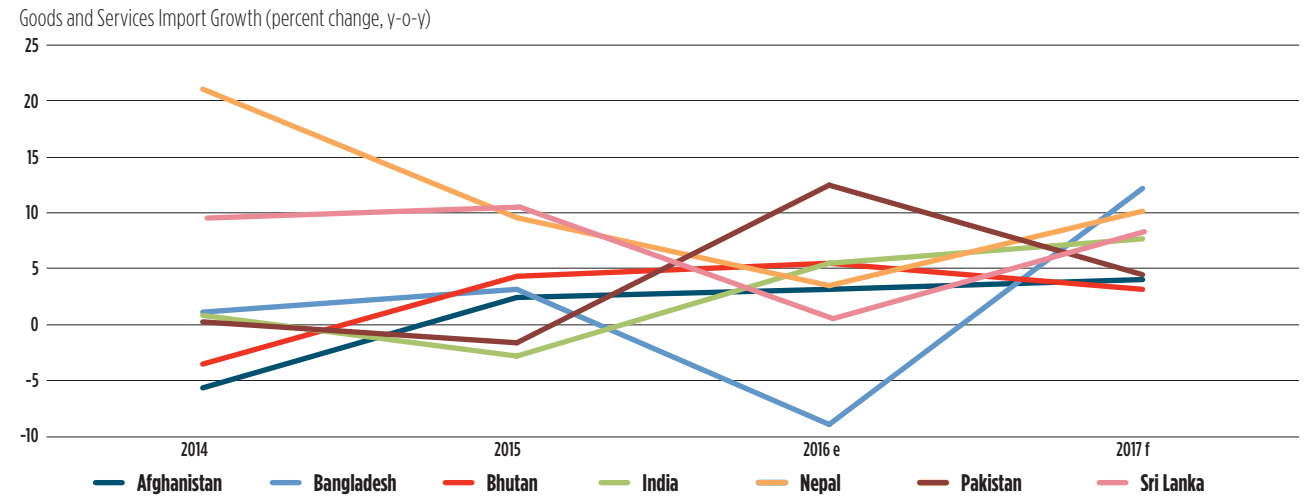
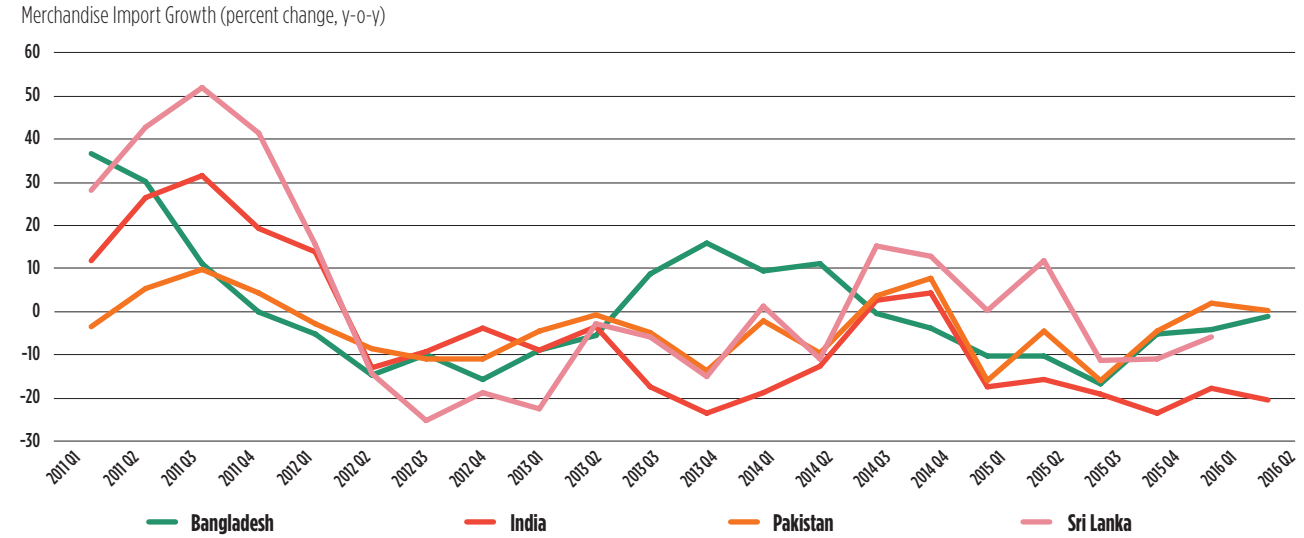


Figure 12: Capital account balances are adequate to finance current account deficits

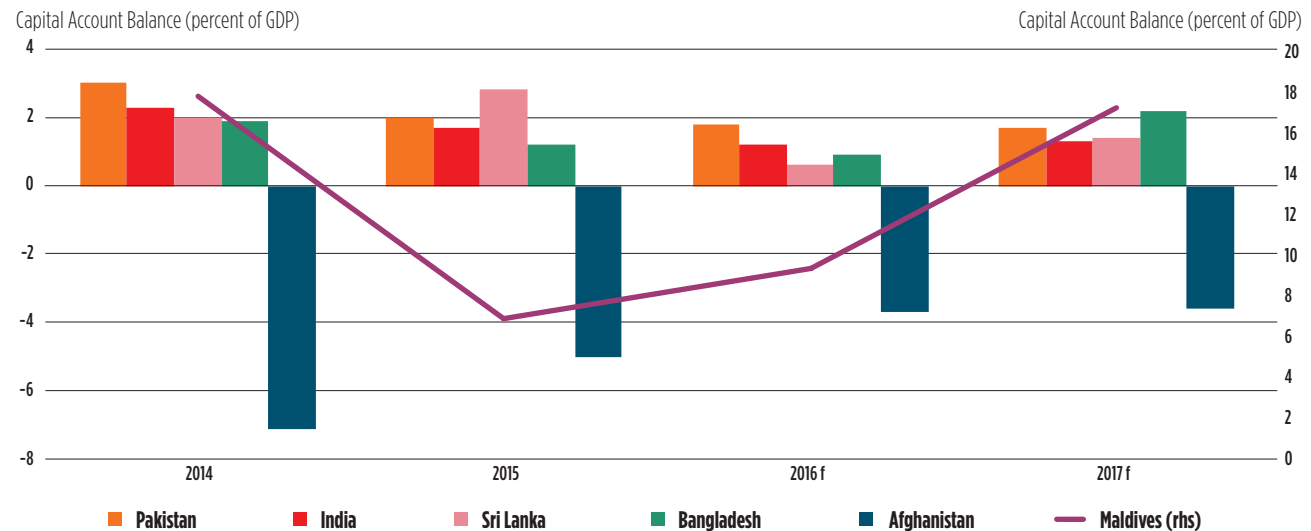
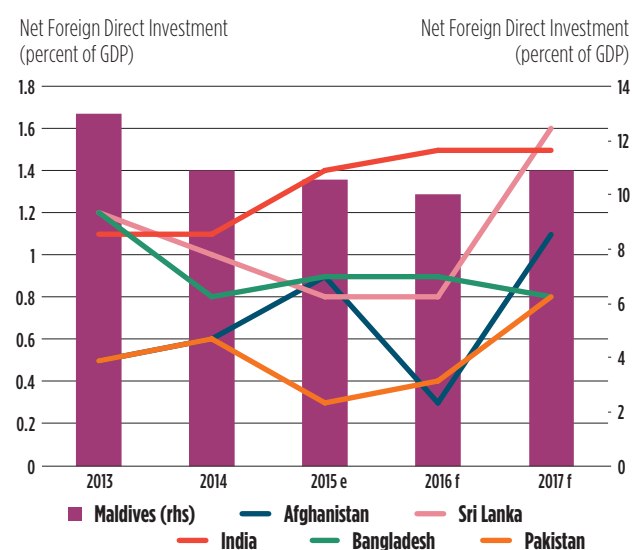
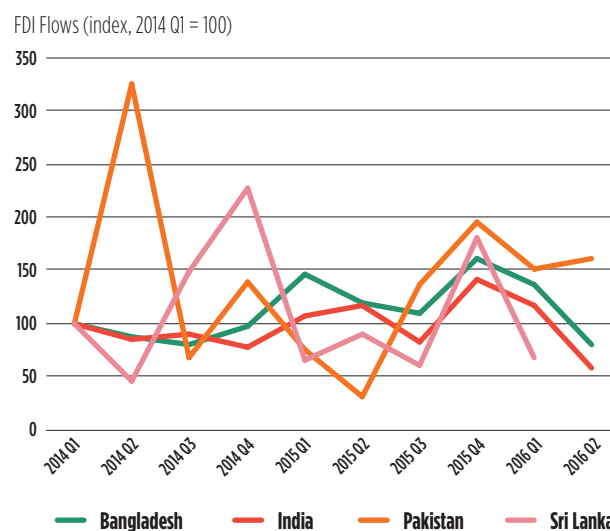
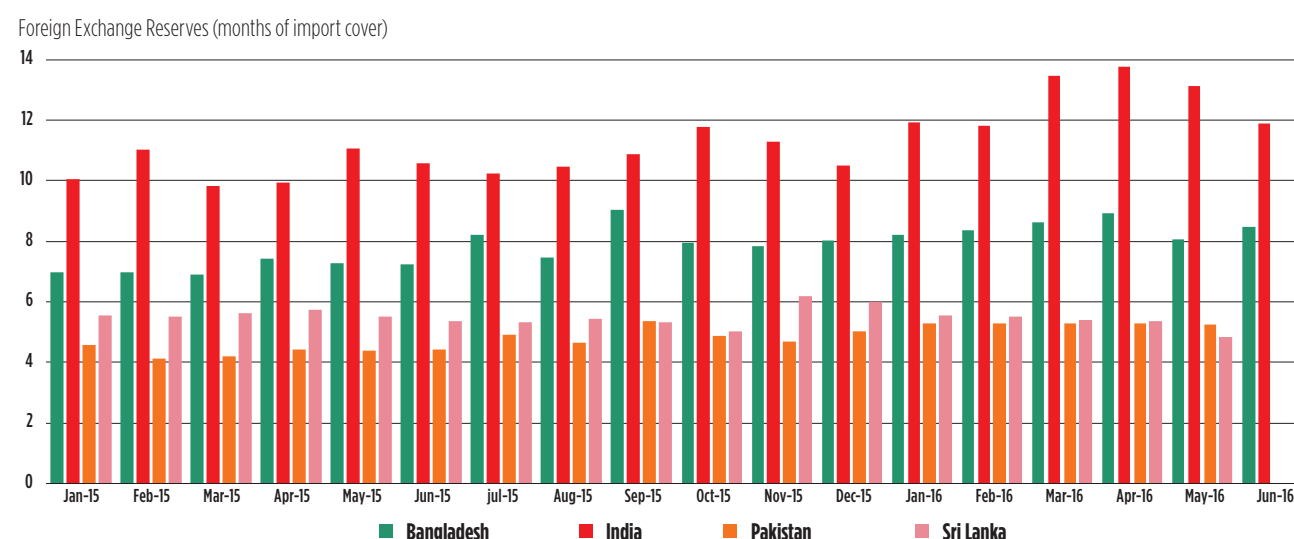


Figure 13: FDI flows remain low and slow

Source: World Bank
Note: rhs stands for right-hand side axis.



Source: Haver Analytics

Figure 14: International reserves have built up to solid levels across most of South Asia

Source: World Bank and national authorities

As tailwinds recede, major South Asian economies can rely on solid foreign exchange buffers. Across the board, favorable oil prices have helped boost foreign exchange reserves to robust levels, of around five months of import coverage or above on average. In India, import coverage was in excess of 13 months by mid-2016, and in Bangladesh it had surpassed eight months, with reserve levels reaching over US\$ 30 billion by the end of June. Meanwhile, Pakistan and Sri Lanka had accumulated reserves over 2015, but have seen them level off in recent months, standing at around five months of import coverage in both cases. Two countries stand out in remarkable fashion: Afghanistan has managed to increase its foreign reserves from US\$ 6.9 billion in December 2015 to around US\$ 7.4 billion by June 2016 – equivalent to nine months of imports. Maldives, on

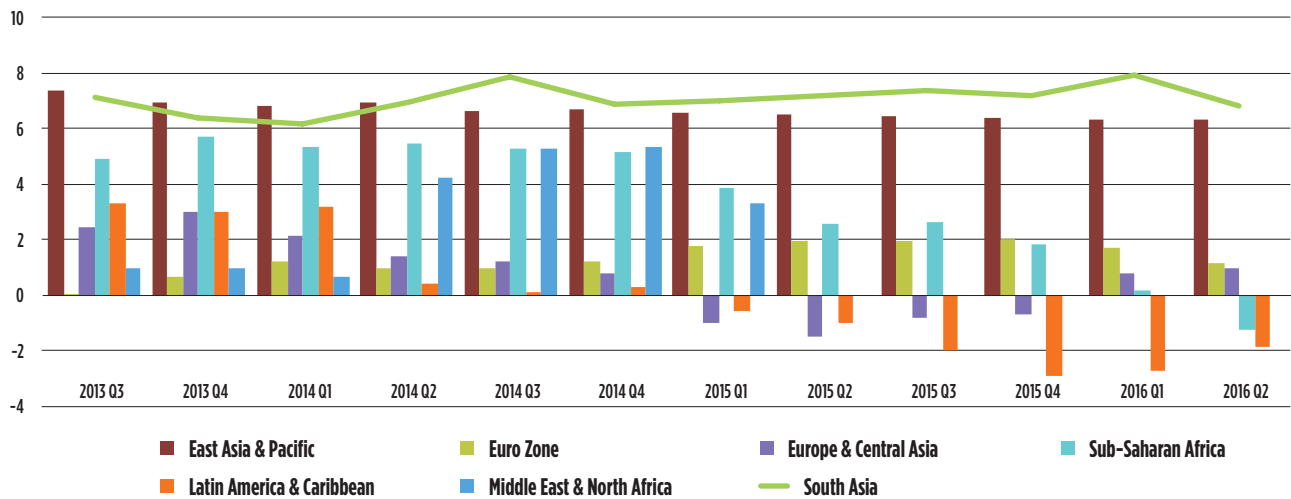
the other hand, is reaching dangerously low levels with around US\$ 209 million in reserves, the equivalent of 1.2 months of goods and services import coverage.

South Asia consolidates its top growth spot among regions

South Asia has managed to develop a solid lead in terms of regional GDP growth. Having maintained its top spot for eight consecutive quarters, South Asia is on its way to consolidating its position as regional growth leader vis-à-vis East Asia and the Pacific, the former leader. While a continued Chinese slowdown holds back real GDP growth in East Asia and the Pacific, South Asia

Figure 15: South Asia consolidates its position as the top regional growth performer

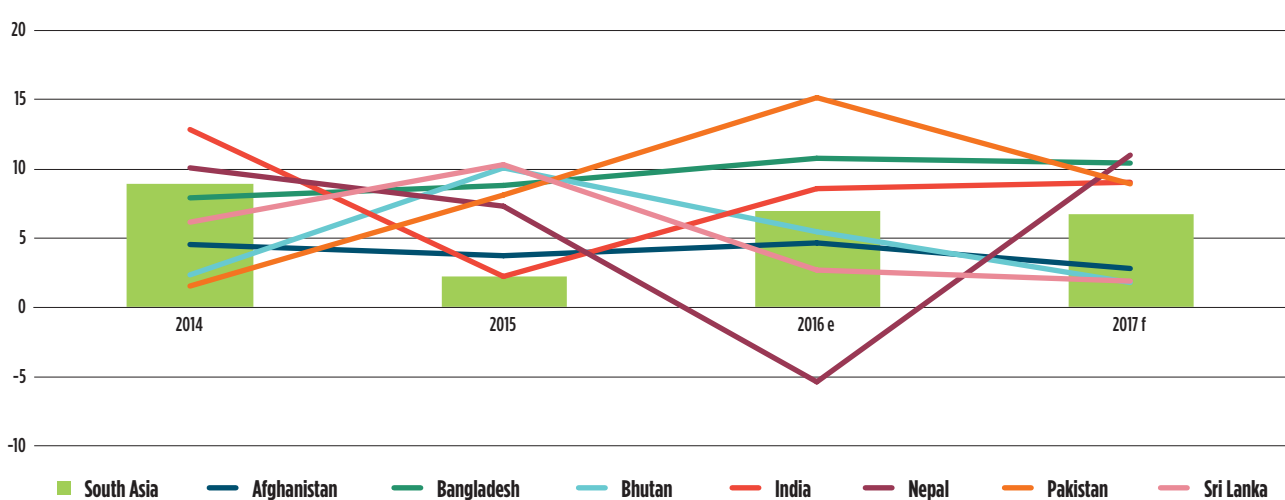
Real GDP Growth (percent change, y-o-y)



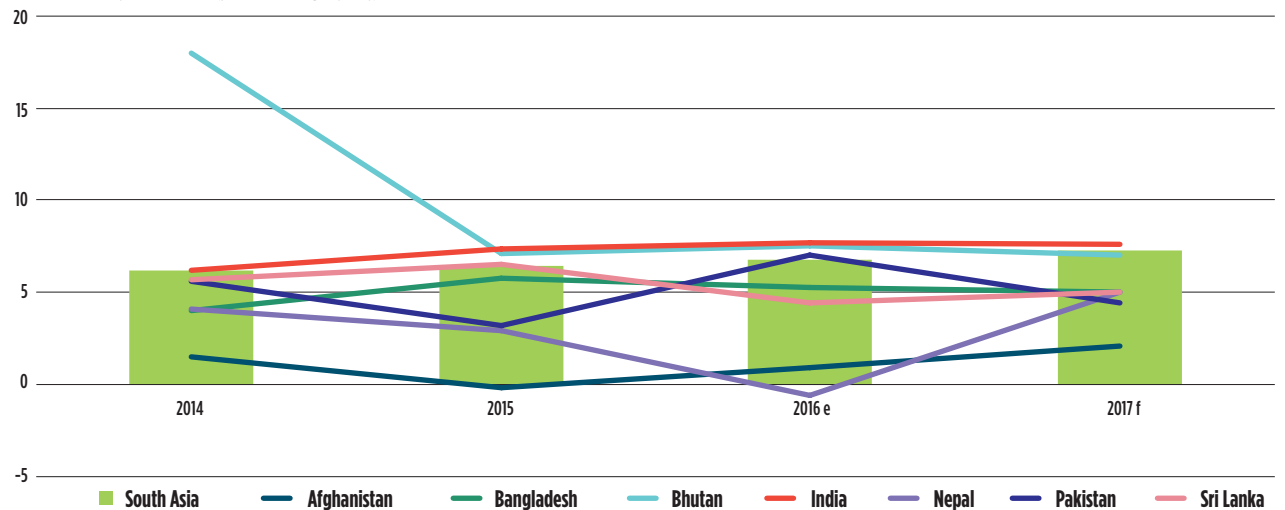
Source: World Bank

Figure 16: Consumption remains South Asia's main growth pillar

Government Consumption Growth (percent change, y-o-y)

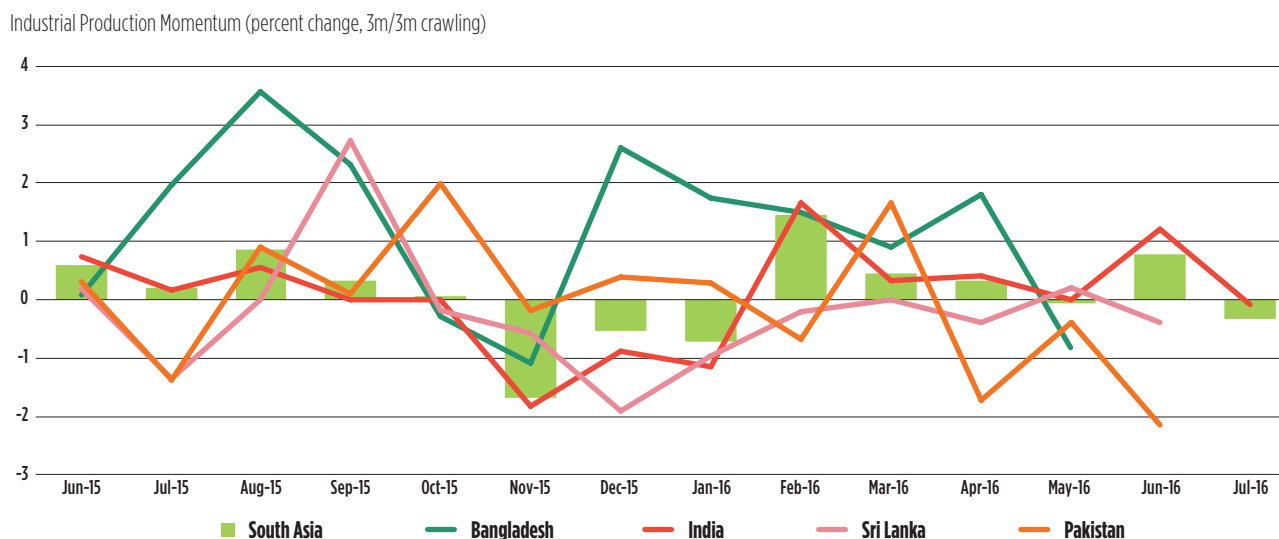
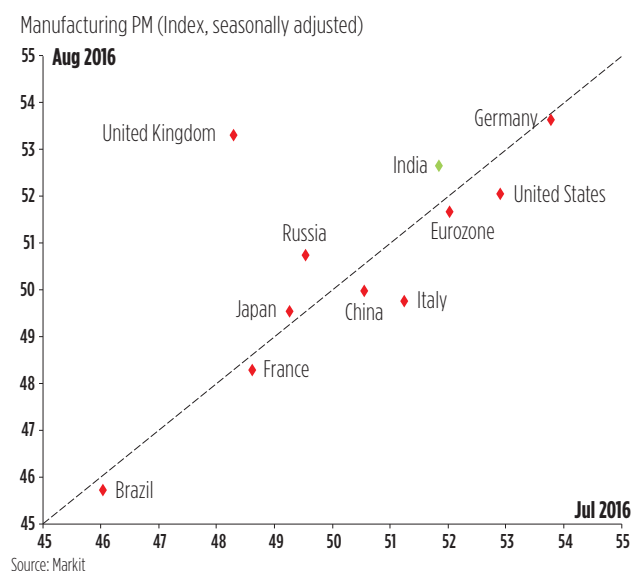


Private Consumption Growth (percent change, y-o-y)



Source: World Bank



Figure 17: Industrial production across South Asia remains lackluster...**Figure 18: ...and only allows for moderate optimism**

exhibits a gradual yet upward growth trend led by its largest economy, India. As a result, in 2016Q2, South Asia grew at 6.8 percent y-o-y (based on preliminary data), while East Asia and the Pacific managed a still solid 6.3 percent y-o-y. Latin American and the Caribbean and Sub-Saharan Africa recorded negative growth owing to persistently low commodity prices for their regions' major economies, Brazil and Venezuela, and Nigeria, respectively. Ultimately, Europe and Central Asia had spent all of 2015 in recession but emerged with a stable, if weak, recovery in 2016 noting a 1 percent growth y-o-y, in the second quarter.

Given its relative size, India remains central to South Asia's economic performance. India's real GDP growth for the second quarter of 2016 is estimated at 6.9 percent and annual FY2016-17 growth should remain at 7.6

percent, the same rate as in FY2015-16. Vibrant urban consumption, underpinned by growth in manufacturing, modern services and personal credit, has compensated for subdued investment momentum. However, early signs of recovery in private investment may be on the horizon during FY2016-17Q1, with capital formation growing at 6.1 percent, *saar*, in spite of slowing public investment. From a sectorial perspective, services remain the main contributor to GDP growth, while manufacturing gained some prominence in FY2015-16, registering 9 percent growth.

For the moment, public and private consumption remain central to the growth momentum across the region. Public consumption had experienced a strong dip in 2015, when it fell to 2.2 percent per year due to fiscal consolidation. But in 2016 it is expected to grow at around 7 percent. Meanwhile, private consumption continues to make a solid contribution to aggregate GDP growth across South Asian economies, and shows no signs of slowing down.

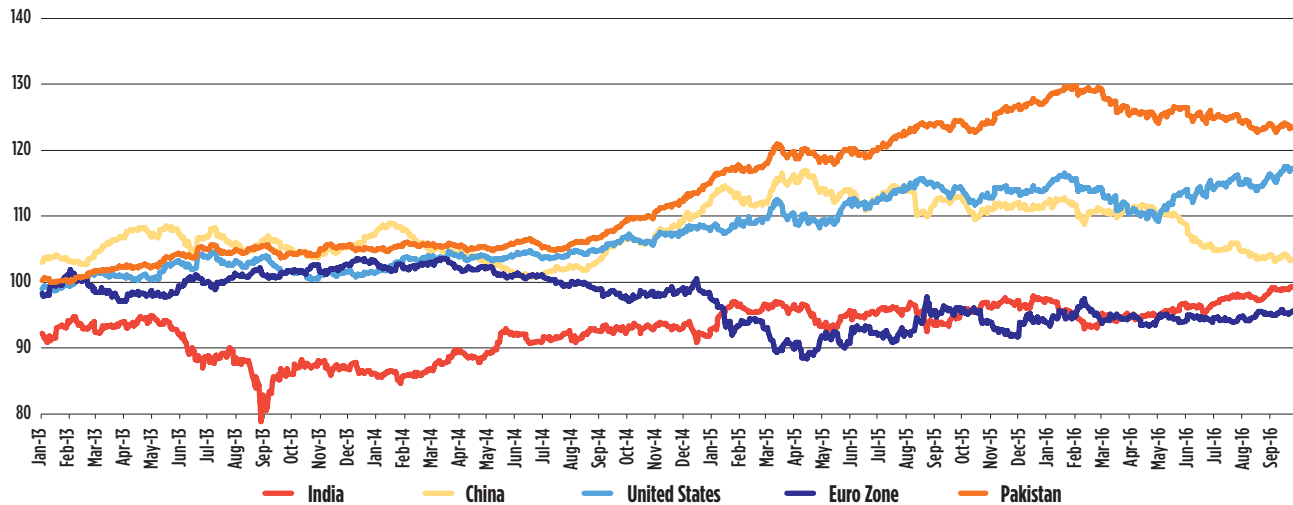
Industrial production indicators remain volatile but there is room for moderate optimism. Market sentiment is often measured through Purchasing Managers' Indices (PMI), with expansion expected when the PMI is above 50. On this basis, markets are slightly optimistic for India, where the August manufacturing PMI ticked up to 52.6 vis-à-vis 51.8 in July. Industrial production (IP) are "noisy" but they generally lack momentum across South Asia. In India, IP growth plunged to -2.4 percent y-o-y in July 2016 as capital goods continue to contract. An exception has been Pakistan, where the outlook has been slightly more positive on the back of large-scale



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Figure 19: No major competitiveness dividends are to be expected in South Asia

Real Broad Effective Exchange Rate - PPI Based (Index, 2010=100)



Source: Haver Analytics and World Bank

Note: A decrease in the REER index constitutes a real effective depreciation.

manufacturing and construction activities driven by infrastructure and energy projects falling under the China-Pakistan Economic Cooperation agreement. However, recent delays may water down expectations.

Effective exchange rates remain broadly stable with the exception of Pakistan, where inflation has led to real depreciation. Unlike other emerging markets, South Asia has seen little change in real effective exchange rates (REER). As a result, the region as a whole has

not benefitted from significant competitiveness effects in 2015. Pakistan defies this trend with some recent REER depreciation in 2016. Meanwhile, the US Federal Reserve is holding off its next interest rate increase probably until December 2016, acting in line with its guidance on an ever more gradual tightening schedule. And European and Japanese monetary policy continue to be loose. Therefore, South Asian currencies may not soften significantly vis-à-vis those of the region's main export markets in the coming year either.



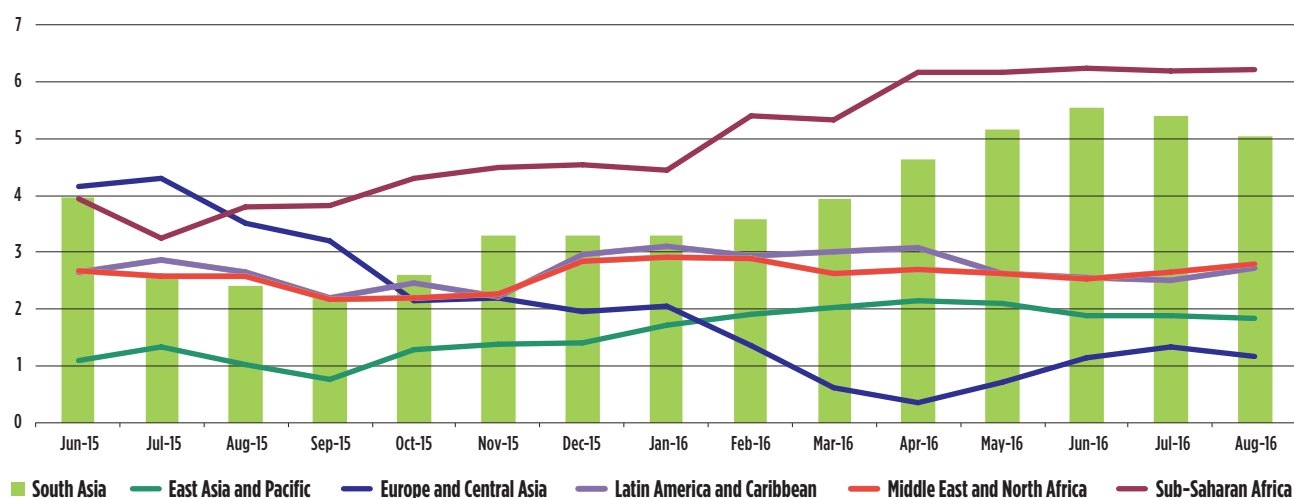
Inflation has come down a long way, but has clearly bottomed out

South Asian headline inflation remains well below historic levels, despite a recent pick up. After a surge in consumer prices between September 2015 and June 2016, inflation can be safely assumed to have bottomed out. This surge put an end to the region's impressive transition from being the region with highest consumer price inflation to being among those with the lowest. The transition was supported by low commodity and food prices. The more recent upward pressure on prices has brought South Asia back to second position. Among all regions, Sub-Saharan Africa has the highest average inflation and Europe and Central Asia the lowest, at 6.2 and 1.2 percent respectively.

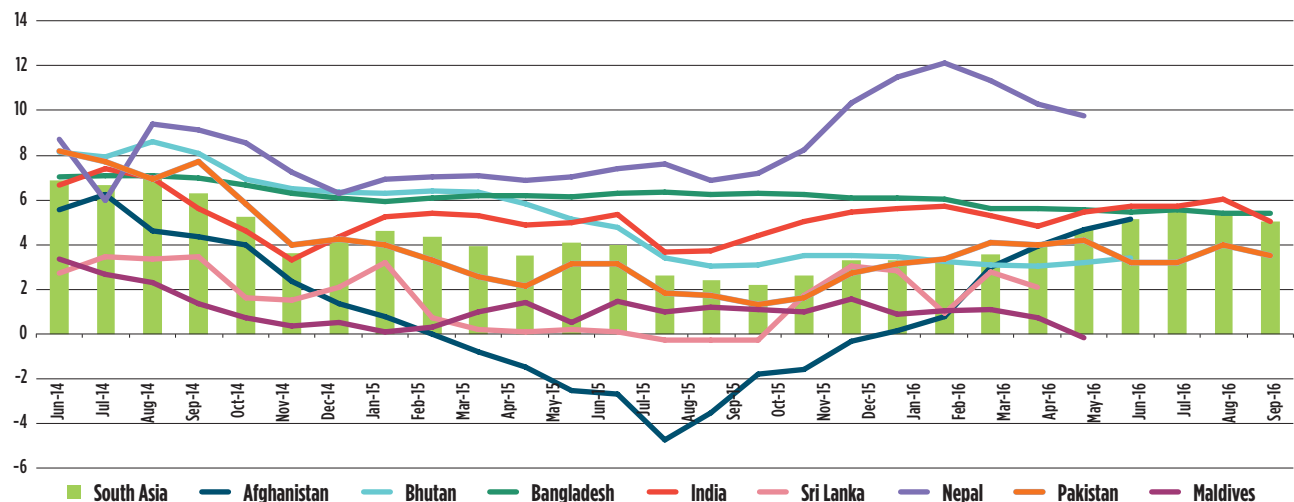
Inflation across South Asia has seen a resurgence and is now hovering up at around 5 percent. In India, the resurgence was partly driven by a slight pick-up in global commodity prices as well as domestic pressures on food prices. With food price inflation at 5.8 percent in August 2016, India is expected to adequately manage the pick-up thanks to an amended inflation target of 4 percent (with a band of plus or minus 2 percent) and a newly established Monetary Policy Committee. Consumer price inflation has actually reverted back to its underlying trend, moderating sharply to 5.0 percent y-o-y, from 6.1 percent. Bangladesh, on the other hand, faces short-term upward pressures on account of higher public sector wages, and a one-off price effect from the introduction of the new Value Added Tax. Despite the end of trade disruption from last winter,

Figure 20: South Asian consumer price inflation has bottomed out and reversed course

Consumer Price Inflation (percent change, y-o-y)

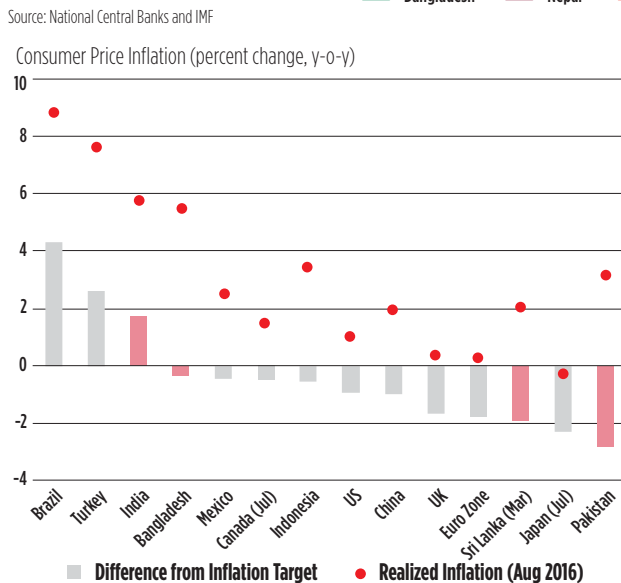
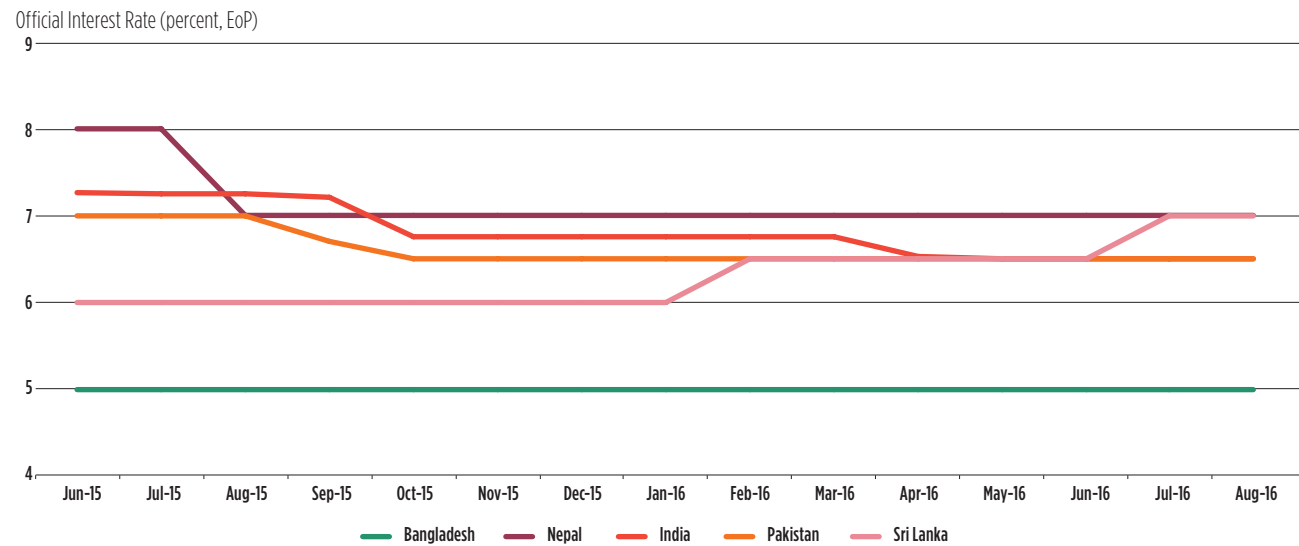


Consumer Price Inflation (percent change, y-o-y)



Source: World Bank and national authorities

Figure 21: Interest rates are broadly stable but a more cautionary monetary policy stance seems to take hold



inflation in Nepal remains elevated at 10.4 percent (y-o-y) by end July.

Early signs of an end to monetary easing are in sight.

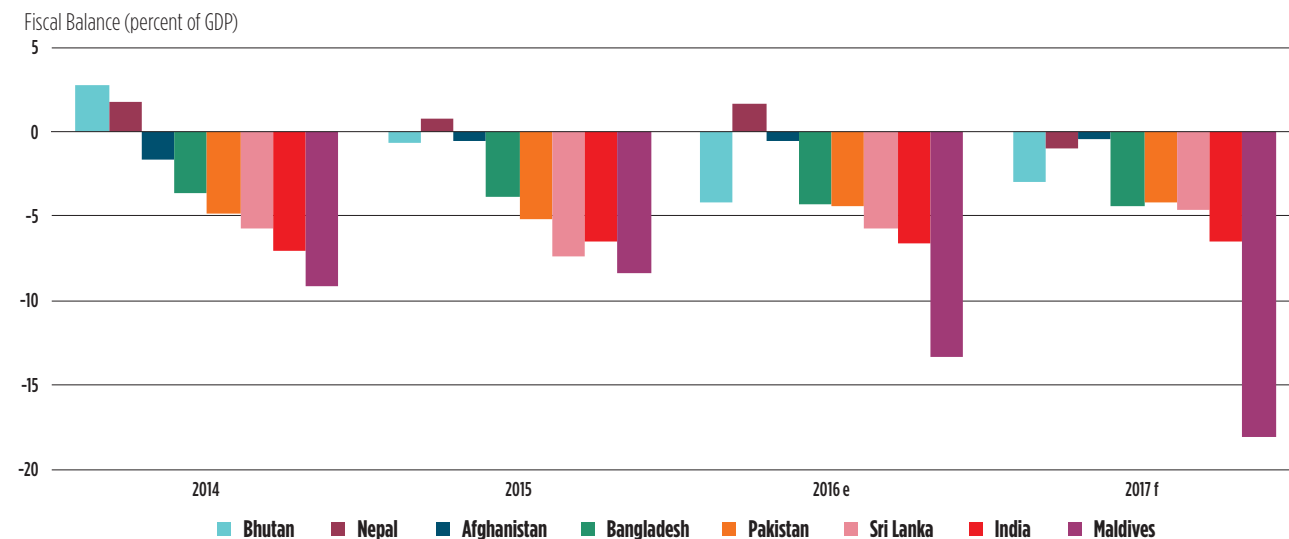
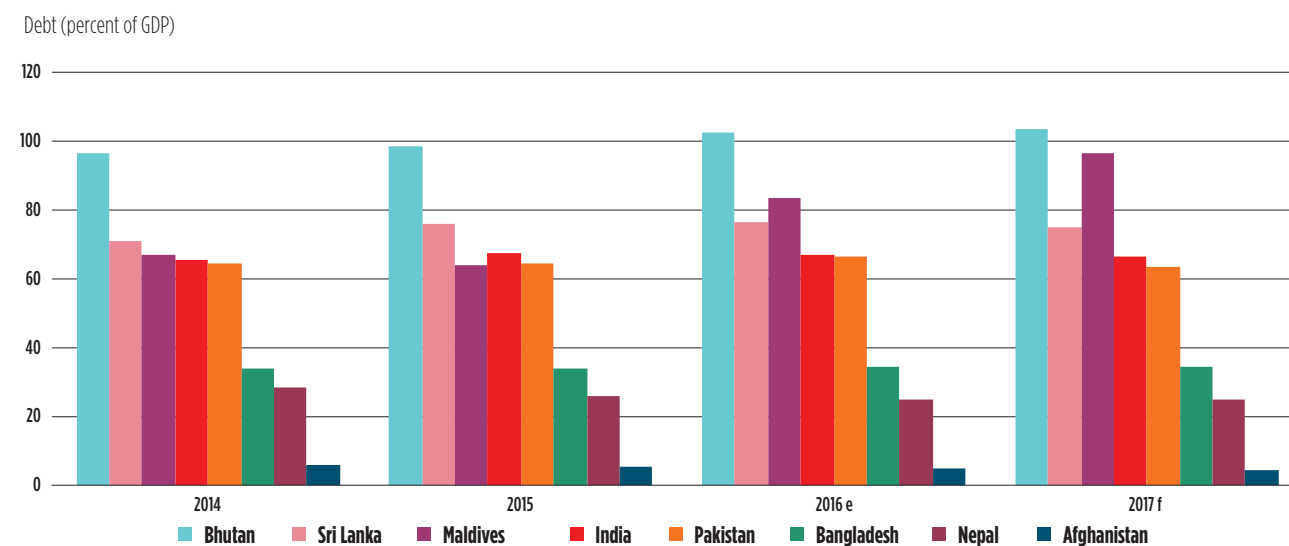
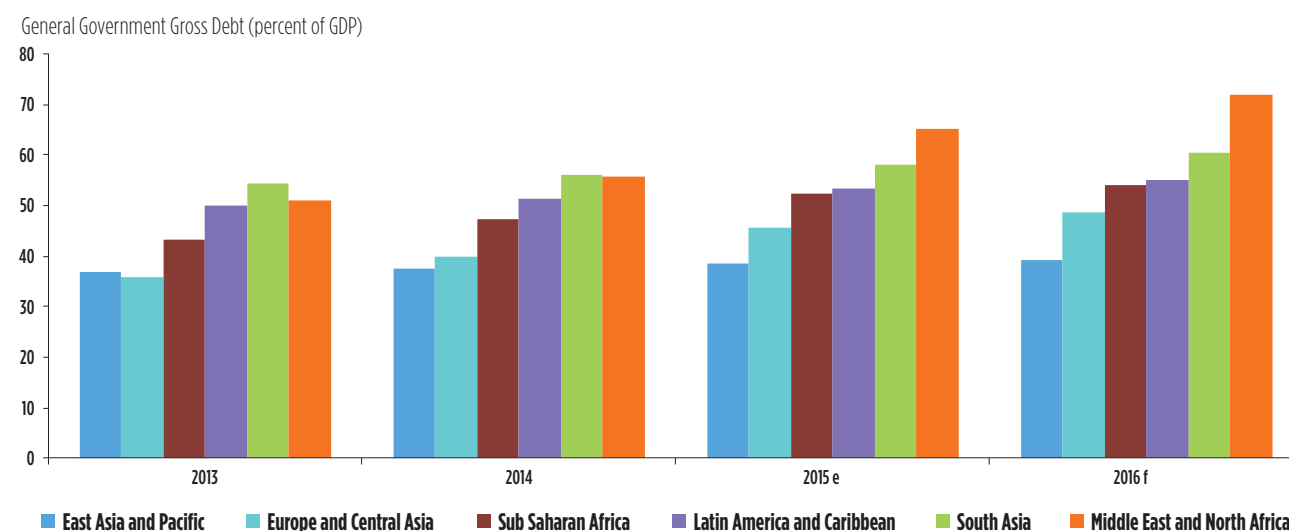
Over large parts of 2015 South Asia enjoyed relative monetary policy space vis-à-vis large advanced economies. However, the recent uptick in consumer prices, coupled perhaps with the memory of not-too-distant high inflation, has led monetary authorities in South Asia to take a more cautionary policy stance. In this spirit, Sri Lanka has hiked up its policy rate to 7 percent, while peers kept rates at previous levels.

Fiscal balances continue to be one of South Asia's weakest spots

Fiscal consolidation remains work in progress and has mainly focused on expenditure cuts. Boosting government revenues is a difficult task and progress proves to be extremely slow, leaving South Asian economies among the weakest generators of government revenue among developing and emerging market peers, relative to GDP. Low revenue should not come as a surprise in a conflict-affected country like Afghanistan, but it is also happening in fast-growing Bangladesh and in relatively wealthier Sri Lanka. Government revenue is also relatively low in Pakistan. Government expenditure, on the other hand, exhibits downward resilience for political and social reasons, leading to reductions in fiscal deficits which are gradual at best. Fiscal indicators have continued to improve in Afghanistan, where revenue growth appears on track to reach budget targets. Government revenue increased 25 percent between 2015H1 and 2016H1, driven by non-tax revenues growing by 57 percent, and tax revenue by 15 percent. Government expenditure showed a modest 4.5 percent increase over the same period.

South Asia's debt-to-GDP ratio is persistently high, second only to the Middle East and North Africa. In 2015, the regional debt-to-GDP ratio stood at 58 percent of GDP, and is forecasted to increase to around 61 percent in 2016. While relatively high when compared to other developing regions, this debt level is broadly sustainable. A vast majority of South Asian countries are facing only low risk of debt distress. In 2015, most debt-to-GDP ratios in South Asia varied between Nepal's 26 percent and Sri



Figure 22: Fiscal deficits across South Asia are decreasing only gradually, if at all

Figure 23: South Asia's debt-to-GDP ratio is one of the highest among all regions


Lanka's 76 percent. Afghanistan was an outlier at the low end of the spectrum, given its status as a grant-recipient country due to its persistent fragility.

At the high end of the spectrum, Maldives and Bhutan remain united in their diversity. Debt-to-GDP ratios in both countries are approaching the 100-percent mark – Bhutan is expected to do so in 2016 while Maldives may cross the line between 2017 and 2018. And yet, the repercussions in terms of external vulnerability could not be more different. Bhutan's debt is largely associated major hydro power projects which are commercially viable, and remains well financed. Furthermore, both electricity exports and external debt are denominated in Indian rupees, hedging the country against exchange rate risks. In Maldives, the accelerating path of debt to GDP is born out of accumulated fiscal deficits due to ever-rising recurrent government spending. While not automatically translating into distress, Maldives' dependency on potentially volatile tourism revenues constitutes a permanent vulnerability.

Political and policy uncertainty remains prevalent in South Asia

Political change and related uncertainty are a constant in South Asia. Afghanistan continues to navigate a security transition and persisting uncertainty stifles economic activity. Nepal faced turmoil in the form of violent protests and strikes after it adopted a new constitution whose delineation of district boundaries was controversial. Severe economic and trade disruptions ensued between August and December 2015. Pakistan and Bangladesh continue to be politically stable but have had to deal with terrorism and security threats. Tension in relation to Kashmir between India and Pakistan, two nuclear powers who have fought four wars, is watched with concern. And Maldives is faced with continued domestic political unrest, a factor that will not play well for its most important income source, tourism. Political economy risks are widespread across South Asia, and uncertainty more broadly needs to be managed, with a view to creating an attractive environment for foreign and domestic investment alike.





Outlook

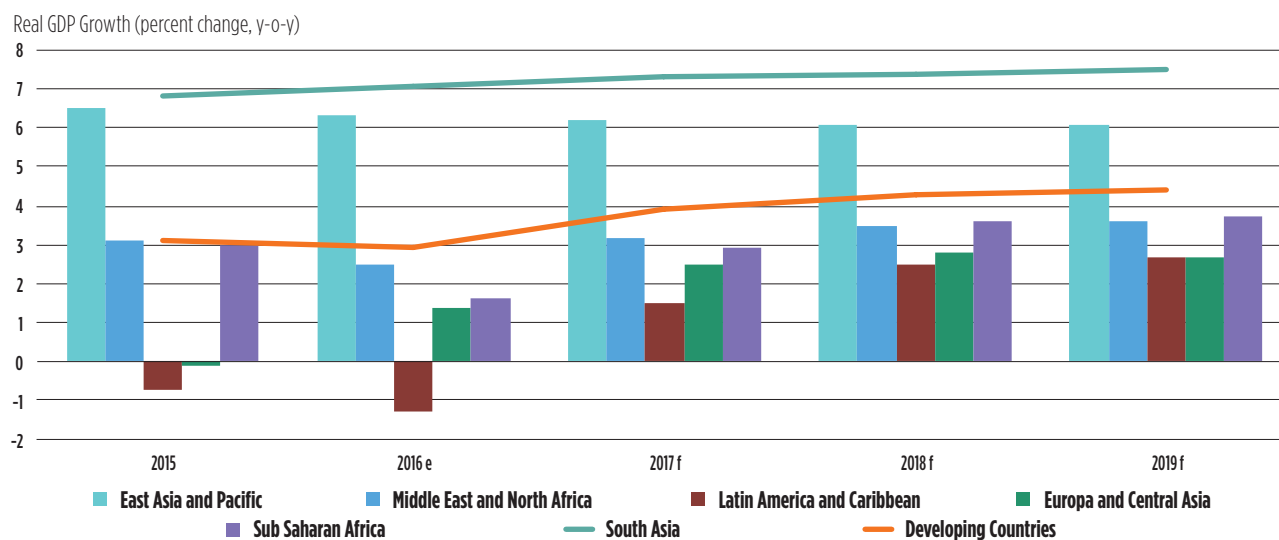
A consolidated growth leader, South Asia will continue to expand on a gradually accelerating path. India is set to grow at 7.6 percent in 2016, the same speed as in 2015, but could increase its pace to 7.7 percent in 2017. The region as a whole will remain steadfast in the face of volatility, and is expected to grow at 7.1 percent in 2016. However, its medium term performance strongly hinges on investment and exports. While export growth is set to return to positive territory, it will deliver only gradually as global demand picks up. Fixed capital formation – the key future growth driver across

South Asia - can be expected to significantly pick up over the medium term. But a sputtering global recovery, regional political uncertainty, and a persistently weak investment climate tilt the risks to the downside.

South Asia's growth acceleration continues

South Asia will be growing slightly above 7 percent in 2016, and remain on a gradual acceleration

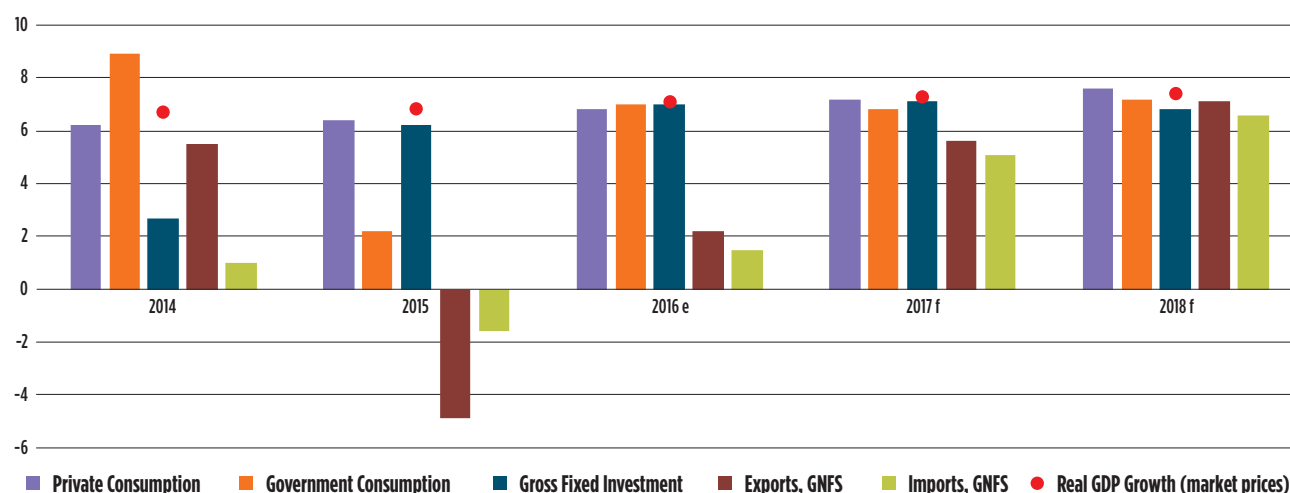
Figure 24: South Asian growth pulls away further



Source: World Bank

Figure 25: Public and private consumption remain the main drivers of South Asia's growth

GDP Growth by Expenditure Component (percent change, y-o-y)



Source: World Bank

Note: GNFS stands for Goods and Non-Factor Services

path towards 2019, when regional growth could reach 7.5 percent. South Asia is increasingly ahead of other developing regions, with emerging market peers hit directly or indirectly by a slowing China, and oil exporting countries suffering from low oil prices. With India expected to further consolidate its position as the fastest-growing large economy, the region can count on being pulled forward. With the exception of Afghanistan and Nepal, all countries in South Asia will either sustain or improve upon last year's growth rates in 2016.

While private and public consumption will remain important growth pillars, investment should increasingly lend a hand. With exports having been a significant drag on GDP growth in 2015, South Asia had yet another year relying heavily on domestic demand. While government consumption grew only by a meager 2.2 percent, its private counterpart noted a solid 6.4 percent growth. Encouragingly, gross fixed investment saw a solid pick up from its dismal 2014 performance, reaching 6.2 percent growth in 2015. Similarly, exports are expected to rebound over the next three years. But in spite of this expected

Table 1: A gradual acceleration of growth will require a solid pick up in investment and exports

	South Asia regional forecast summary (Oct 2016)						percentage point difference from June 2016 projections			
	2014	2015	2016e	2017f	2018f	2019f	2015	2016	2017	2018
GDP at market prices	6.7	6.8	7.1	7.3	7.4	7.5	-0.2	0.0	0.1	0.1
GDP per capita (U.S. dollars)	5.3	5.5	5.8	6.0	6.1	6.2	-0.2	0.0	0.1	0.1
PPP GDP	6.7	6.8	7.1	7.3	7.4	7.5	-0.3	0.0	0.1	0.1
Private Consumption	6.2	6.4	6.8	7.2	7.6	7.8	0.4	0.1	0.4	1.1
Government Consumption	8.9	2.2	7.0	6.8	7.2	7.4	-7.4	0.4	0.3	0.6
Gross Fixed Investment	2.7	6.2	7.0	7.1	6.8	6.7	-1.0	-0.1	-1.0	-2.0
Exports, GNFS	5.5	-4.9	2.2	5.6	7.1	7.4	-2.0	-0.5	-0.3	-0.4
Imports, GNFS	1.0	-1.6	1.5	5.1	6.6	6.9	0.2	-0.1	0.1	0.3
Net exports, contribution to growth	1.0	-0.7	0.1	-0.1	-0.2	-0.2	-0.5	0.0	0.0	-0.2

Source: World Bank

Note: GNFS stands for Goods and Non-Factor Services

rebalancing, consumption will remain the cornerstone of South Asian GDP growth in the medium term.

Relatively stable performance across countries

Most South Asian economies enjoy a stable macro-economic outlook, but their challenges are diverse.

A key current driver of economic activity – consumption – remains a necessary contributor to GDP growth across all countries in the region. But with the exception of Bhutan, the economies in the region will need to boost private investment to sustain growth at current levels. For instance, Bangladesh is projected to grow at 6.8 percent in FY17, down from an estimated 7.1 percent in FY16, due to weaker private and public consumption growth. India's continued gradual acceleration is predicated upon broad-based consumption in the short term – helped by an upcoming election year. But sustained performance will need current efforts in infrastructure spending and better investment climate to bear fruits and crowd-in private investment. Pakistan relies on consumption but counts on rebalancing towards investment for growth – supported by improved electricity supply and infrastructure investment under the China Pakistan Economic Corridor agreement. Sri Lanka is aiming at sustaining its current growth at marginally above 5 percent in 2016, driven by private demand. Stronger performance will require improved short term stability and structural reforms.

Nepal and Afghanistan have had the weakest growth performance in the region in 2016, for different reasons. Nepal registered its weakest economic growth

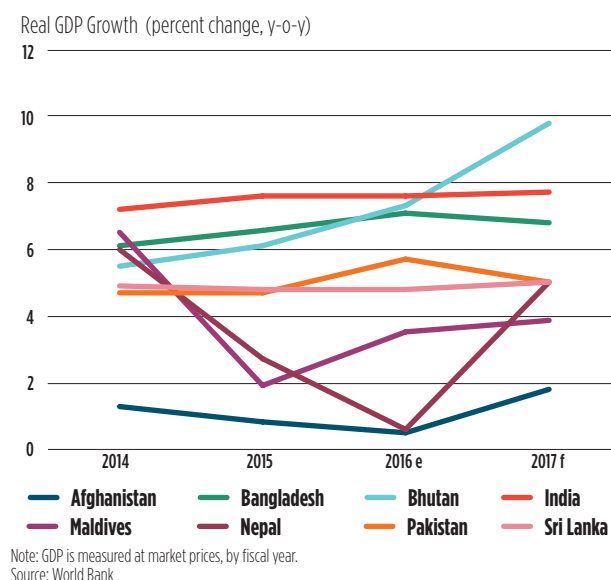
Table 2: Across most of the region a gradual acceleration of growth can be expected

Real GDP Growth	2013	2014	2015	2016 e	2017 f
Afghanistan	2.0	1.3	0.8	0.5	1.8
Bangladesh	6.0	6.1	6.6	7.1	6.8
Bhutan	2.1	5.5	6.1	7.3	9.8
India	6.6	7.2	7.6	7.6	7.7
Maldives	4.7	6.5	1.9	3.5	3.9
Nepal	4.1	6.0	2.7	0.6	5.0
Pakistan	4.4	4.7	4.7	5.7	5.0
Sri Lanka	3.4	4.9	4.8	4.8	5.0

Source: World Bank

Note: GDP is measured at constant market prices. Figures are in percent

Figure 26: Relative stability with some exceptions



in 14 years, after an already weak 2.7 percent growth in FY2015. These dismal figures reflect how challenging the year 2015 was, with two devastating earthquakes and substantial cross-border trade disruptions with India. At the same time remittances, which account for around 30 percent of GDP, have slowed down significantly. However, agriculture is expected to improve, and together with reconstruction efforts and increased public spending, it should help the country rebound to pre-earthquake growth rates around 5 percent by the next fiscal year. Afghanistan similarly experiences its slowest growth spell since emerging from conflict in 2002. The quest to create a stable macroeconomic environment and to ensure security in the aftermath of the 2014 transition will only allow for a gradual and modest recovery. Importantly, Afghanistan's fiscal position has recently started to improve, with revenue growth in track to reach budget targets. This constitutes an important step towards sustained service delivery, despite the growth and security challenges.

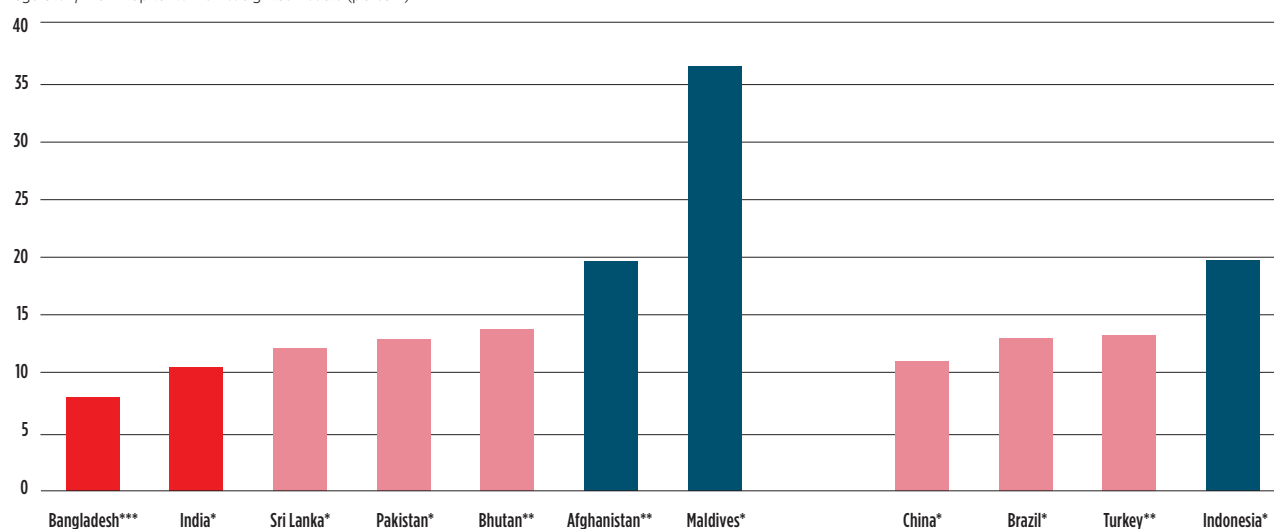
Financial systems may aggravate fiscal pressures in the future

Overall, risks to the South Asian outlook are concentrated around the political, fiscal and financial realms.

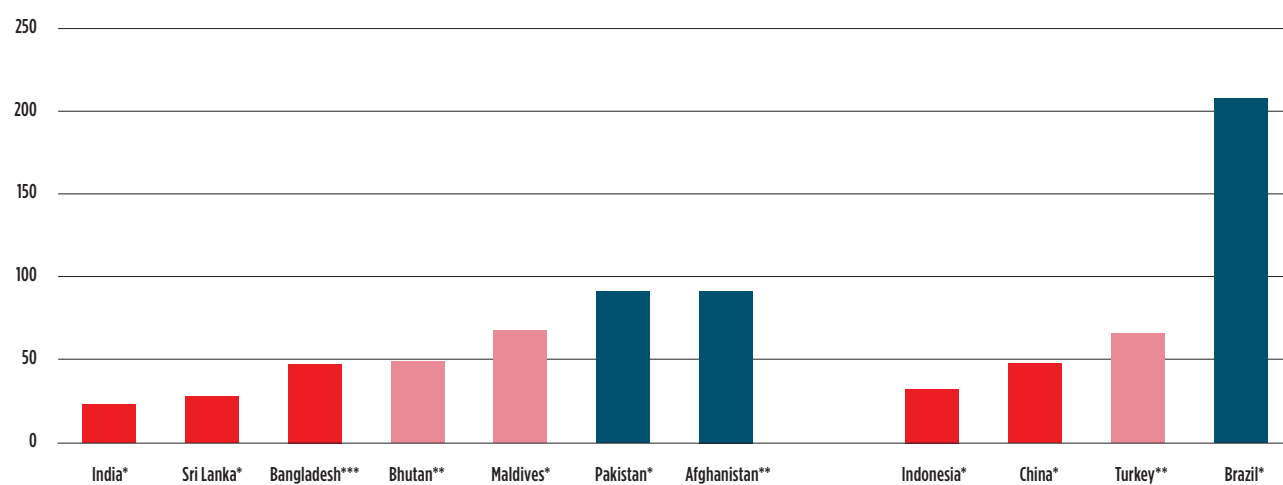
While most countries maintain broad macroeconomic stability, they also have in common an uncomfortable fiscal, financial and political risk triangle. These factors matter individually, but also because of their potential interaction. Notably, risks emanating from financial systems could compound fiscal vulnerabilities. The banking

Figure 27: Financial sector risks persist across South Asia and may interact with fiscal risks

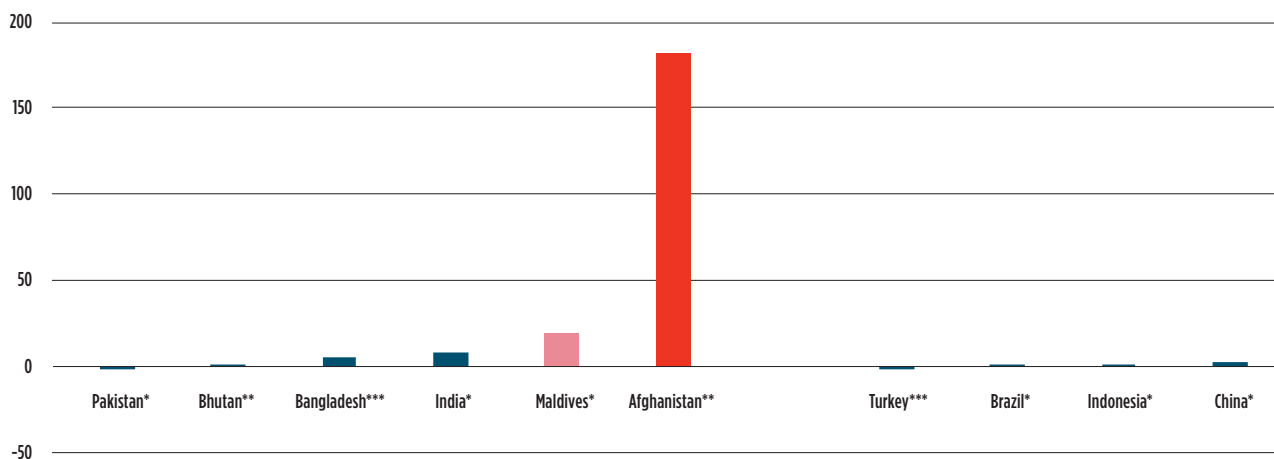
Regulatory Tier 1 Capital to Risk-Weighted Assets (percent)



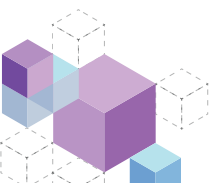
Liquid Assets to Short Term Liabilities (percent)



Net Open Position in Foreign Exchange to Capital (percent)



Note: *2016Q2 data, **2016Q1 data, ***2015Q4 data
Source: IMF



systems of the region feature two important intersections with governments. First, substantial government ownership in the banking sector may result in spillovers from banks to government balance sheets. And second, banks holding significant amounts of government debt opens a potential channel for contagion from fiscal to financial stress. Banking systems with low capital buffers or cash reserves would in principle be more vulnerable. Bangladesh, India, and possibly Sri Lanka fall in this category. In recent years, state-owned banks have needed to be recapitalized in Sri Lanka, India, Bangladesh, and Nepal. All this calls for the reform state-owned banks to avoid moral hazard in the future.

A healthy financial sector is key to financing investment and supporting South Asia's upward trajectory. Both public and increasingly private investment are expected to become increasingly important drivers of growth across South Asia. But in India, the largest economy in the region and a trend setter, the corporate sector remains heavily leveraged. Its significant debt overhang stresses the need to access strong and reliable equity financing provided by efficient and resilient banks. Addressing financial sector weaknesses is a continuous challenge in Bangladesh as well. Weak bank balance sheets – especially among state-owned banks – limit lending capacity, divert credit away from productive investments, impose large fiscal recapitalization costs, and ultimately curb economic growth.





Investment Reality Check

South Asia has consolidated its position as the growth leader among regions over the past year, outpacing the long-lasting top performer East Asia and the Pacific. The sustainability of South Asia's rapid growth pace, however, hinges upon an increasingly dynamic private sector. The key challenge will be to take weight off domestic consumption while igniting investment as the core driving force of GDP and productivity growth. While committed governments can set up conducive foundations through well-targeted public investment, it is private investment that needs to be sparked and ultimately do the heavy lifting. But what is the actual state of private investment across South Asia? Is the region prepared to take on this challenge, is it already on its way, and if not, what would it take to address it?

Private investment is yet to pick up

Investment across South Asia lacks momentum.

After solid growth rates during the early 2000s, South Asian gross fixed capital formation has been on a slowing trend. The gradual acceleration of regional growth has been sustained by strong domestic consumption, not by exports or by capital accumulation, as was the case before in East Asia and the Pacific. Looking forward, investment growth is expected to stabilize slightly above 6 percent per year, well below pre-crisis rates.

Perhaps more disturbingly, private investment across major regional economies is declining.

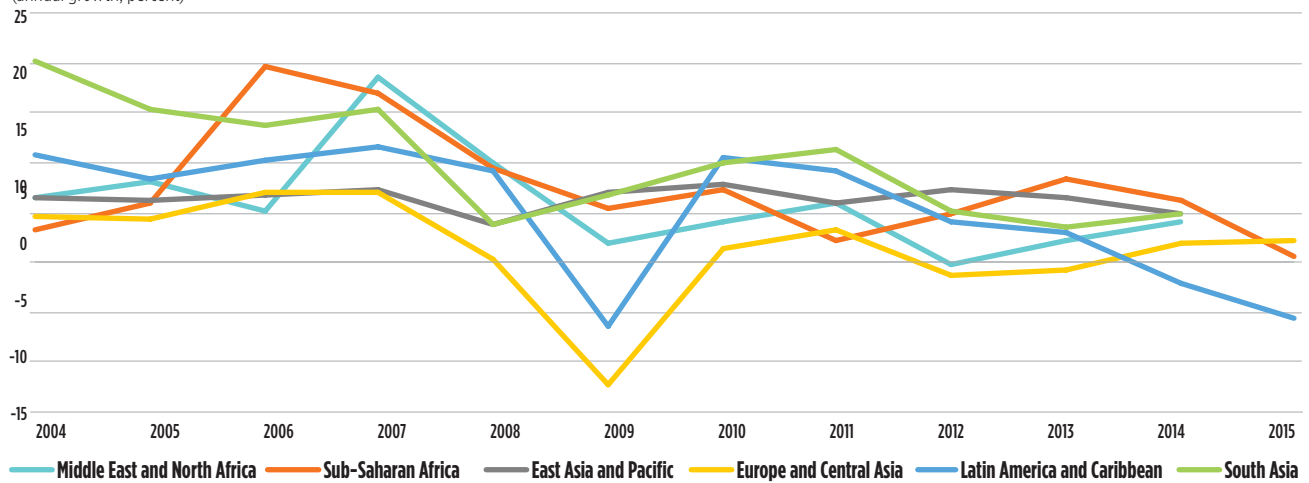
In India, which accounts for 80 percent of South Asian GDP, the sluggishness of investment in general, and private investment in particular, is apparent. Against the longer-term backdrop of a downward trend in gross fixed capital formation since the early 2000s, private investment has been stagnant in recent years. Most recently, in FY16, private investment contracted 1.4 percent y-o-y, pulling down total investment growth to 4 percent y-o-y. This is half the average growth rate of the last two decades. At the same time, public investment grew by 21 percent in FY16. In Pakistan, which accounts for another 10 percent of regional GDP, private investment has traditionally grown more slowly than public investment. However, the sluggishness of private fixed capital investment is reaching new levels. Public investment can expect a boost from projects related to the China-Pakistan Economic Corridor agreement, but remains subject to uncertainty stemming from potential implementation delays.

While other BRICS may be doing worse, this is no consolation for South Asia.

A direct comparison with other large emerging markets and their home regions does not offer great comfort for India and its South Asian peers. In particular, China and East Asia and the Pacific are in a very different situation, coming from years of double-digit investment-led growth. South Asia is still trying to ignite this kind of growth. The challenge the region faces is almost symmetric: while China is rebalancing out of an

Figure 28: South Asian fixed investment has been slowing

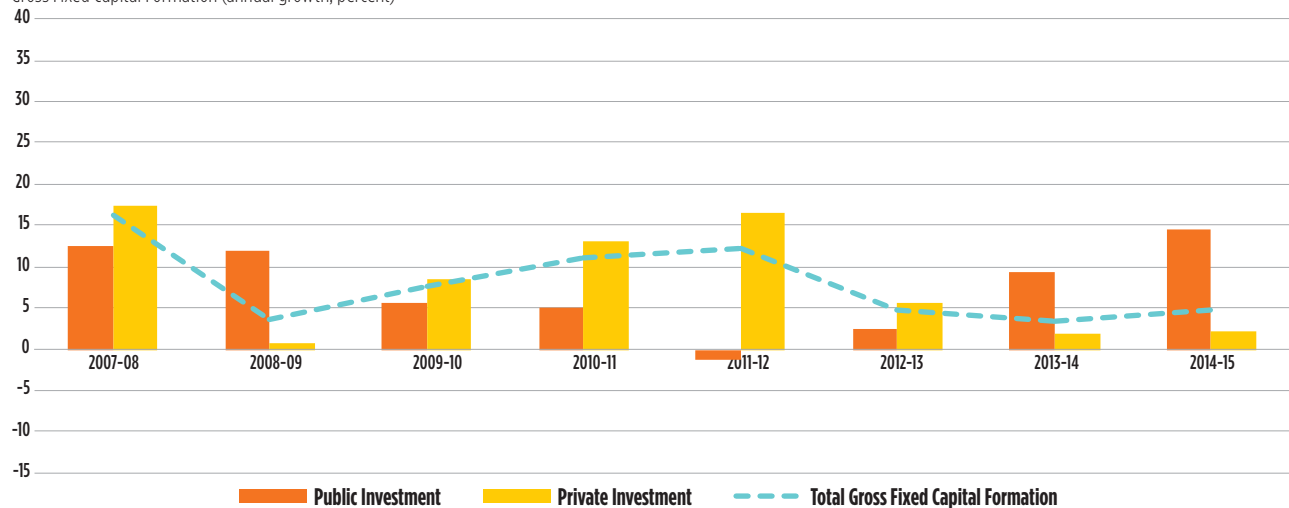
Gross fixed capital formation
(annual growth, percent)



Source: World Bank

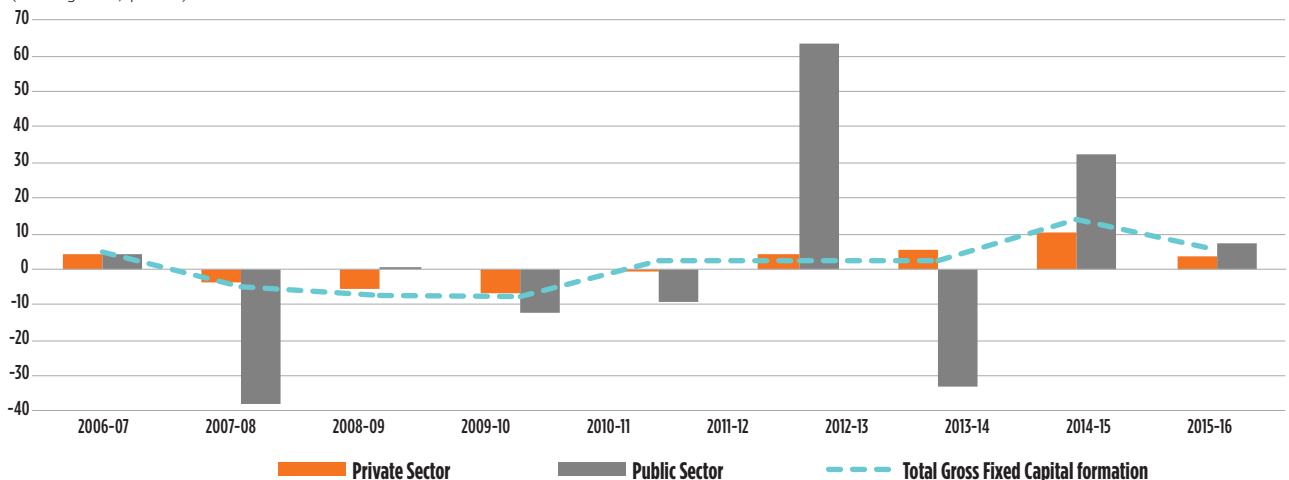
Figure 29: Both India and Pakistan have recently seen private investment growth drop

Gross Fixed Capital Formation (annual growth, percent)

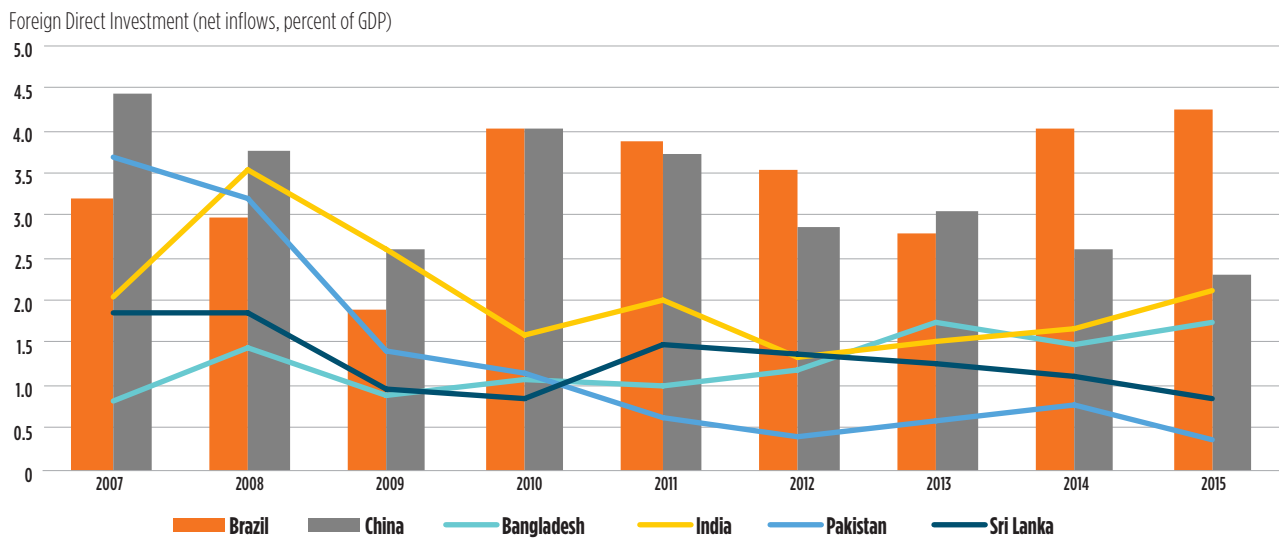
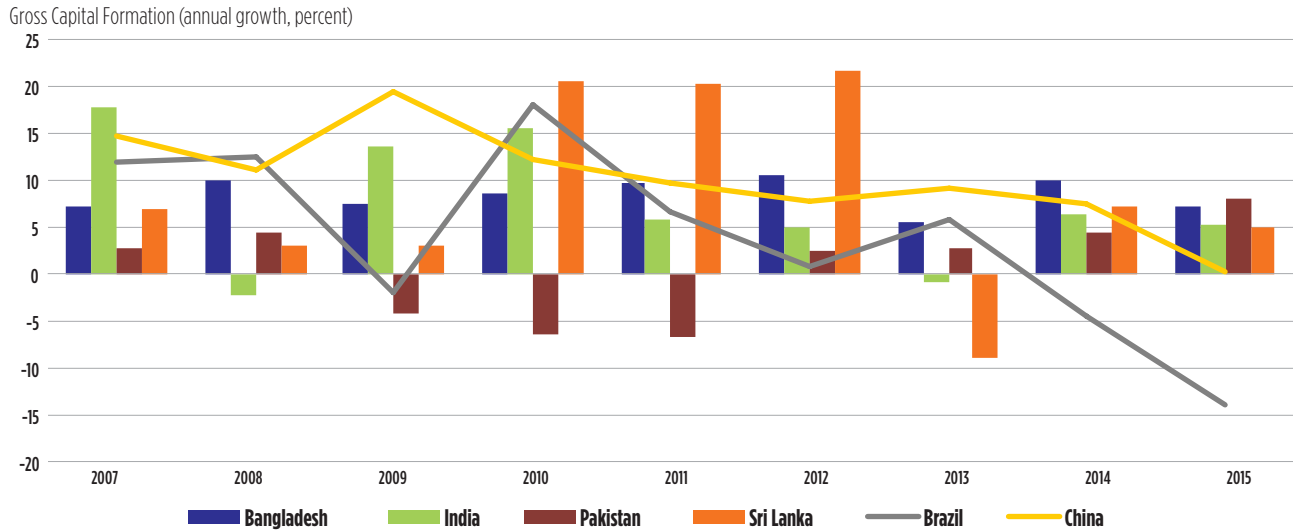


Gross Fixed Capital Formation
(annual growth, percent)

Pakistan



Note: Growth rates are computed at constant prices.
Source: World Bank and Pakistan State Bank.

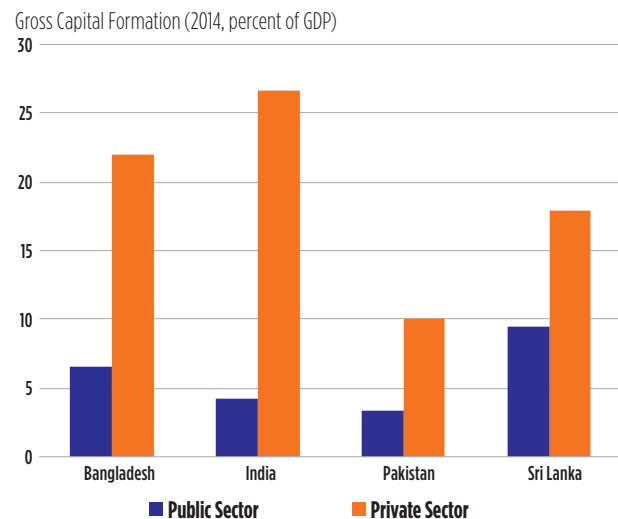
Figure 30: Weak investment growth in peer economies should be no excuse

Source: World Bank.

investment-led growth model into one more strongly supported by consumption, South Asia needs to accomplish the opposite. From this perspective, the recent poor performance of capital formation and in particular private sector investment in China can be seen as part of a successful rebalancing, which in turn may offer an opportunity for South Asia to attract more investment to the region.

Why private investment matters so much

Sluggish private investment matters because the region largely relies on private sector funding for capital formation. All major South Asian economies rely to a large extent on private investment as the source of gross fixed capital formation. While the public sector contributes more than 20 percent to total gross fixed capital formation in Bangladesh, Pakistan and Sri Lanka,

Figure 31: South Asia relies mostly on private sector investment

Source: World Bank



in India the share barely exceeds 10 percent. In addition, the growth rate of public gross fixed capital formation has generally been decreasing over time.

Sri Lanka has relied on public investment to a greater extent than its regional peers, but that may not be sustainable in the longer term. Sri Lanka had a pro-growth fiscal stance in recent years. A strong increase in public fixed capital expenditure supported an infrastructure-driven development model. However, it is not clear whether the current government will continue along those lines, and even more so, whether large infrastructure investment remains affordable in a country with one of the lowest tax revenues, relative to GDP. Besides Sri Lanka, only Bangladesh has recently seen a pickup in public capital expenditure, though at a more moderate pace. Overall, public capital expenditure will play a supporting role, its effectiveness depending on its ability to increase competitiveness and profitability, thus crowding-in complementary private investment.

Are forecasts about private investment overly optimistic?

South Asia's ability to remain at the top of the growth league is predicated on strong private investment forecasts. The recent growth spurt that has pushed South Asia, and India in particular, to the top of regional and emerging market growth tables has been largely driven by strong domestic demand. This may suggest that strong economic performance does not require higher private investment rates. However, the gradual acceleration expected by numerous forecasts is based

on the assumption that private investment will become a more important contributor to economic growth going forward. But how realistic is this assumption?

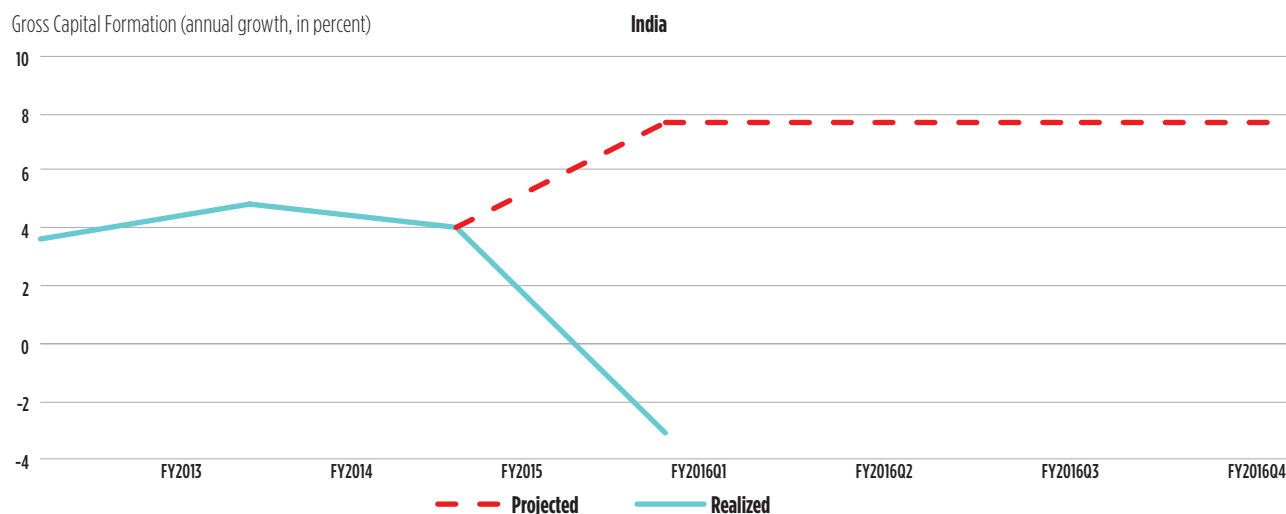
The investment performance of India has so far fell short of expectations. The possible discrepancy between expectations and reality becomes particularly apparent when looking at India, the region's largest economy. Investment has been broadly expected to be close to 8 percent in FY2016, with a further increase anticipated in FY2017. But recent quarterly investment numbers raise doubts that such strong investment growth forecasts will materialize. In fact, investment has been decreasing for two consecutive quarters.

The regional outlook is based on expectations of solid investment growth, following India's pattern closely. Private consumption is expected to keep making a solid contribution to economic performance, with growth rates maintained at above 6 percent per year. Gross fixed capital formation as well as exports, on the other hand, would need to increase substantially over the next two to three years in order for the current GDP growth outlook to materialize. In short, the current optimism about South Asia requires its economies to activate investment growth and reinvigorate export growth, while preserving solid consumption growth.

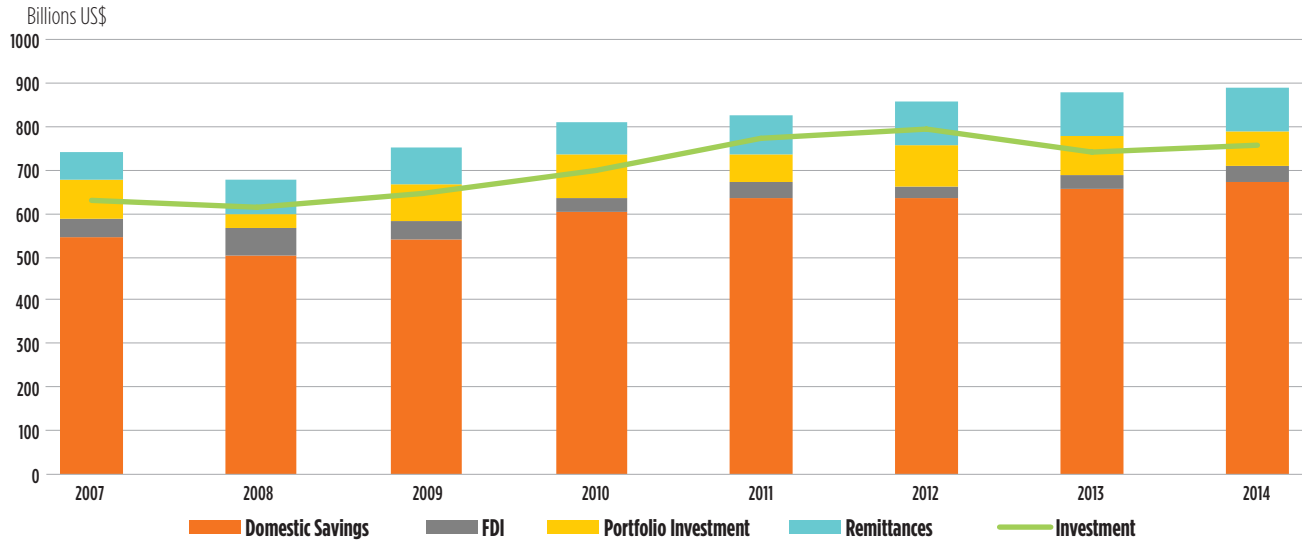
Mobilizing domestic savings remains key at the aggregate level

In an open economy investment and savings need not be equal. By definition, savings is the part of

Figure 32: Can reality live up to expectations?



Source: World Bank and MOSPI
Note: The projection is from the World Bank, as of September 2016. Actual Gross Capital Formation data is from MOSPI.

Figure 33: Domestic savings form the overwhelming part of South Asia's investment funding

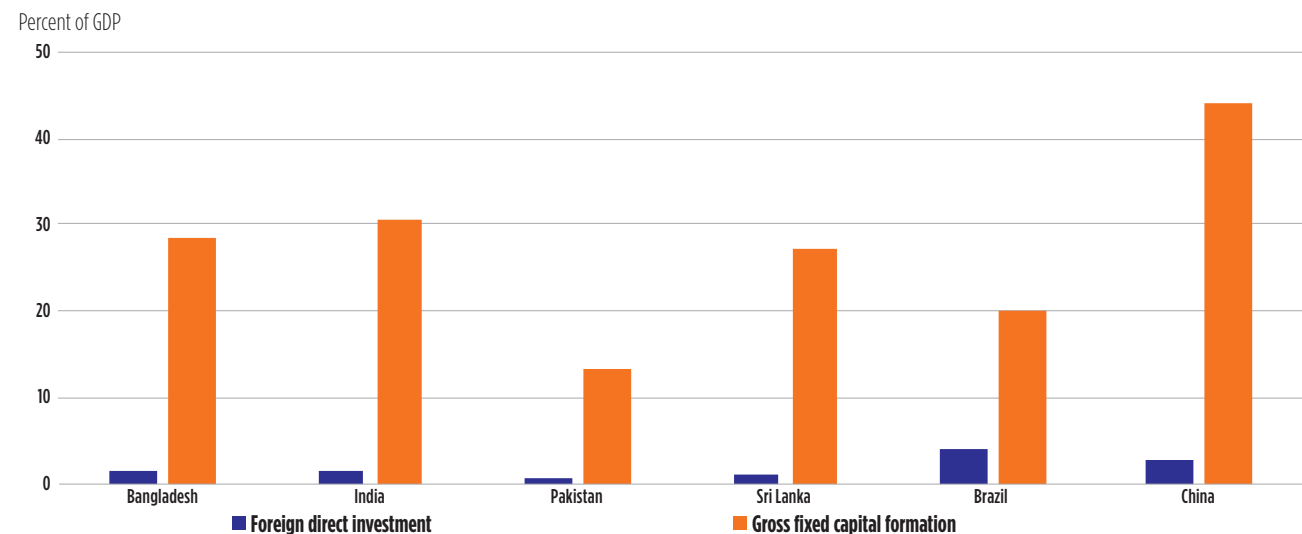
Note: The sum of sources of funding exceeds actual investment because they can also be devoted to other purposes. For example, domestic savings and remittances can be used to purchase gold whereas foreign direct investment can be used to purchase existing firms. None of this represents an addition to the capital stock.
Source: World Bank

income that is not spent on consumption of goods and services. Instead, savings can be invested in capital goods or in financial assets. Sound investments increase a country's capital stock and as a consequence its productivity, leading to greater national income. In an open economy, domestic savings can be larger or smaller than domestic investment depending on the direction of portfolio and foreign direct investment flows. In addition, remittances can be both consumed or invested and hence offer another source of investment funding.

In South Asia, investment is larger than savings, though not by a wide margin. Developing countries are expected to invest more than they save, as this

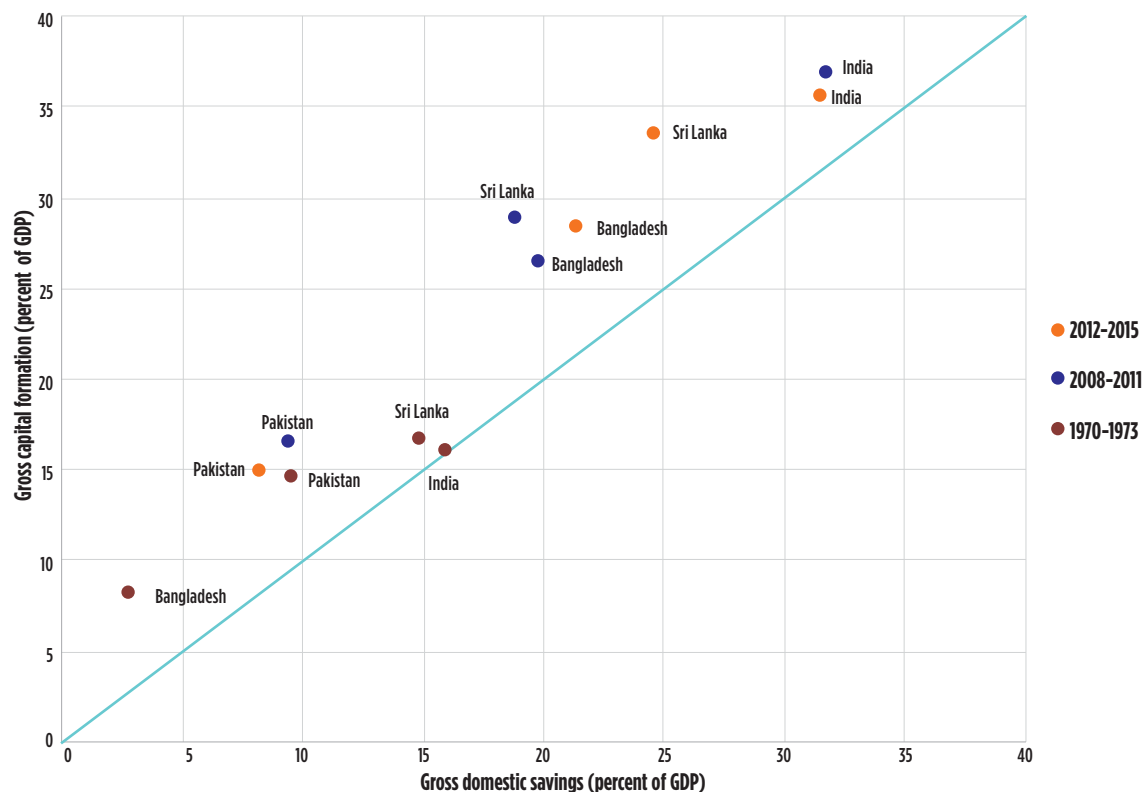
allows them to smooth out consumption levels. Adding foreign investment helps them to grow faster and catch-up with more developed countries. And for investors in advanced economies, investment opportunities in developing countries are attractive due to their high expected return. In South Asia, investment is indeed larger than domestic savings meaning that foreign sources contribute the difference. But domestic savings remain by far the largest source of funding, with remittances, portfolio inflows and foreign direct investment playing a secondary role.

Foreign direct investment, in particular, has not been a major driver of gross capital formation in

Figure 34: Foreign direct investment has played a secondary role

Note: Figures are for 2014. For foreign direct investment, net inflows are reported.
Source: World Bank



Figure 35: Big differences in terms of savings and investment ratios prevail across the region and over time

Note: For India, the most recent observation is for 2012-2014.
Source: World Bank

South Asia. In all four major countries in the region, the contribution of foreign direct investment has actually been minimal. Comparing to other emerging market economies, South Asia appears to be more similar to China in this respect, and very different from Brazil, where foreign direct investment has played a much larger role.

Savings and investment levels vary substantially across countries and over time. In the 1970s, when South Asia as a whole was much poorer, savings amounted to barely more than 15 percent of GDP in India, and less than that in Bangladesh, Pakistan and Sri Lanka, the other three biggest regional economies. In the four decades elapsed since then, the savings rate of India has grown to an impressive third of GDP, but that of Pakistan has remained below 10 percent. Bangladesh and Sri Lanka occupy an intermediate position. Bangladesh, and especially Sri Lanka, have further increased their savings rates during the last decade, whereas changes have been minor in both India and Pakistan. This wide variation across countries and over time highlights the importance of understanding what drives savings and investment decisions, and what makes countries with similar demographics and development levels perform so differently.

On a per-dollar basis, foreign direct investment and remittances are remarkably effective

The key role played by domestic savings in South Asia is corroborated when adopting a dynamic perspective. The analyses above were based on a comparison between the levels of various indicators (domestic savings, foreign direct investment and the like) at the same point in time. Additional insights can be gained by analyzing how changes in the possible sources of funding in one year translate into changes in actual investment in the following year. The analysis is conducted using data from the four largest economies in the region, over a period of roughly 35 years. The results suggest that a 10 percent increase in domestic savings results in an increase in gross fixed capital formation by 5.8 to 6.5 percent, depending on whether the responses are supposed to be the same across all four countries or not. The range broadens slightly when individual countries are removed from the analysis, with the estimate falling to 5.3 percent if Pakistan is excluded, and increasing to 7.6 percent if Sri Lanka is excluded. Beyond the precise figures, this dynamic analysis confirms that changes in domestic savings are the main driver of changes in private investment.

The conclusion does not change when considering a greater disaggregation of sources of funding.

The same logic described above applies to each of the potential sources of funding. Instead of distinguishing only between domestic and foreign savings, the estimation can differentiate between domestic savings, foreign direct investment, portfolio inflows and remittances. The panel results reveal that at 6.5 percent the estimated impact of a 10 percent change in domestic savings on gross fixed capital formation the following year remains roughly unchanged. The corresponding figures for foreign direct investment and portfolio inflows are 0.5 and 0.5 percent respectively. The impact increases to 2.0 percent in the case of remittances.

While domestic savings are key, remittances appear to be increasingly important.

An interesting question to ask is whether the effective contributions from the various funding sources have changed over time. This question can be examined by repeating the analysis above over shorter, rolling 15-year windows. The results suggest that the investment impact from domestic savings has decreased slightly, while that of foreign direct investment, and especially of remittances, has increased steadily. On the other hand, portfolio inflows did not have a significant impact on gross fixed capital formation over the last decade or so, as opposed to when they had at the beginning of the period.

While domestic savings are crucial in the aggregate, on a per-dollar basis other sources of funding are more impactful.

The estimates above refer to the impact of a 10 percent change in each of the potential sources of funding. But foreign direct investment and

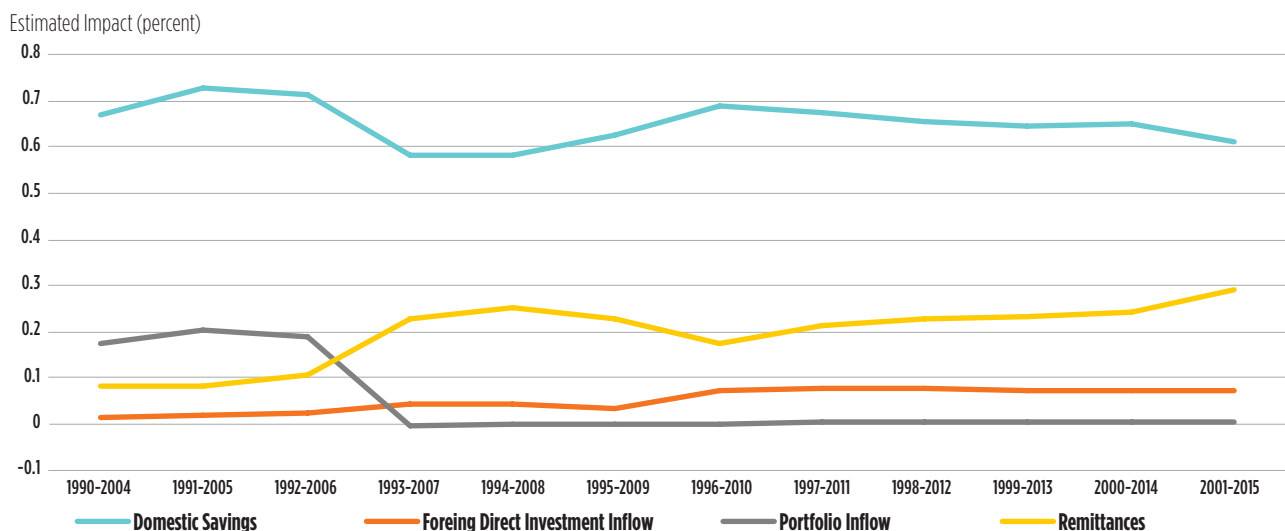
portfolio inflows are smaller than remittances, which in turn are much smaller than domestic savings. Converting these estimates into monetary terms gives a more accurate picture of the contribution one additional dollar in funding from each of the sources makes to gross fixed capital formation. Using the estimates for the period from 2001 to 2015, it appears that one additional dollar in domestic savings increases gross fixed capital accumulation by 70 cents of a dollar. The corresponding figure for portfolio inflows is a meager 13 cents, consistent with the view that short-term capital flows are not necessarily connected with the real economy. But one additional dollar in foreign direct investment translates into 1.46 dollars in additional investment, suggesting a substantial leveraging of domestic sources of funding. And the impact increases to a remarkable 2.40 dollars in the case of remittances.

The determinants of private investment vary across countries

Multiple economic forces shape the profitability of private investment, or constrain its growth.

Over the years, a vast literature has developed on the determinants of private investment decisions. Some analyses emphasize the productivity of capital. Highly effective investment projects, especially those resulting in better infrastructure, can crowd in more investment. But at some point, decreasing returns to capital may deter new projects. This is also true in the case of infrastructure, if its productivity is low, or its financing relies on burdensome taxation. Other analyses emphasize the role of finance. If private firms lack access to credit, or if

Figure 36: The impact of remittances on investment is steadily increasing



Note: The lines indicated the estimated impact of a 1-percent increase in funding from each of the sources.
Source: World Bank



Table 3: Infrastructure in India, finance in Pakistan, the business cycle in most countries...

Country	Capital productivity		Access to finance		Aggregate demand		Uncertainty
	Stock of private capital	Stock of public capital	Change in private credit	Real interest rate	Output gap	Real exchange rate	Stock market Volatility
Bangladesh	+	-	+	-	+		
India	-	+	+	-	-	+	-
Pakistan	+	-	+		+	-	
Sri Lanka	+	-	+	-	+		

Note: **Green** bold signs indicate statistical significance at the 10 percent level or higher. Capital stocks are estimated using the permanent inventory method and expressed in log. All explanatory variables, with the exception of changes in private credit, are lagged one year. The real interest rate and the real exchange rate are not included for all countries due to data limitations.
Source: World Bank

financial institutions are struggling with non-performing portfolios, potentially profitable investments may fail to materialize. The availability of banking credit to the private sector, and the level of real interest rates, are variables to watch in this respect. The business cycle is another important influence on private investment decisions. In times of economic expansion, when actual output surges ahead of predicted (or “potential”) output, there are greater incentives to invest. Greater competitiveness, supported by a higher real exchange rate, could also encourage stronger investments in sectors selling abroad or competing with imports. Finally, in countries where capital markets are fairly developed, financial sector volatility could reflect uncertainty and lead to a wait attitude, thus discouraging private investment.

Public infrastructure crowds-in investments in India, finance constrains investments in Pakistan, and the business cycle matters everywhere. In Bangladesh, Pakistan and Sri Lanka, past private investments seem to make new investments more attractive. Not so in India, where more standard decreasing returns to capital appear to be at play. But in India public sector investments (mainly infrastructure) play an important crowd-in role, to an extent not seen in the other major countries in the region. As expected, a relaxation of credit constraints increases investment in all countries, but the effect is statistically significant only in Pakistan. In the other major countries in the region, the impact of financial sector conditions is felt through the more traditional interest rate channel, but it is significant only in Bangladesh. The effects of the business cycle are also in line with standard predictions from economic theory. The output gap,

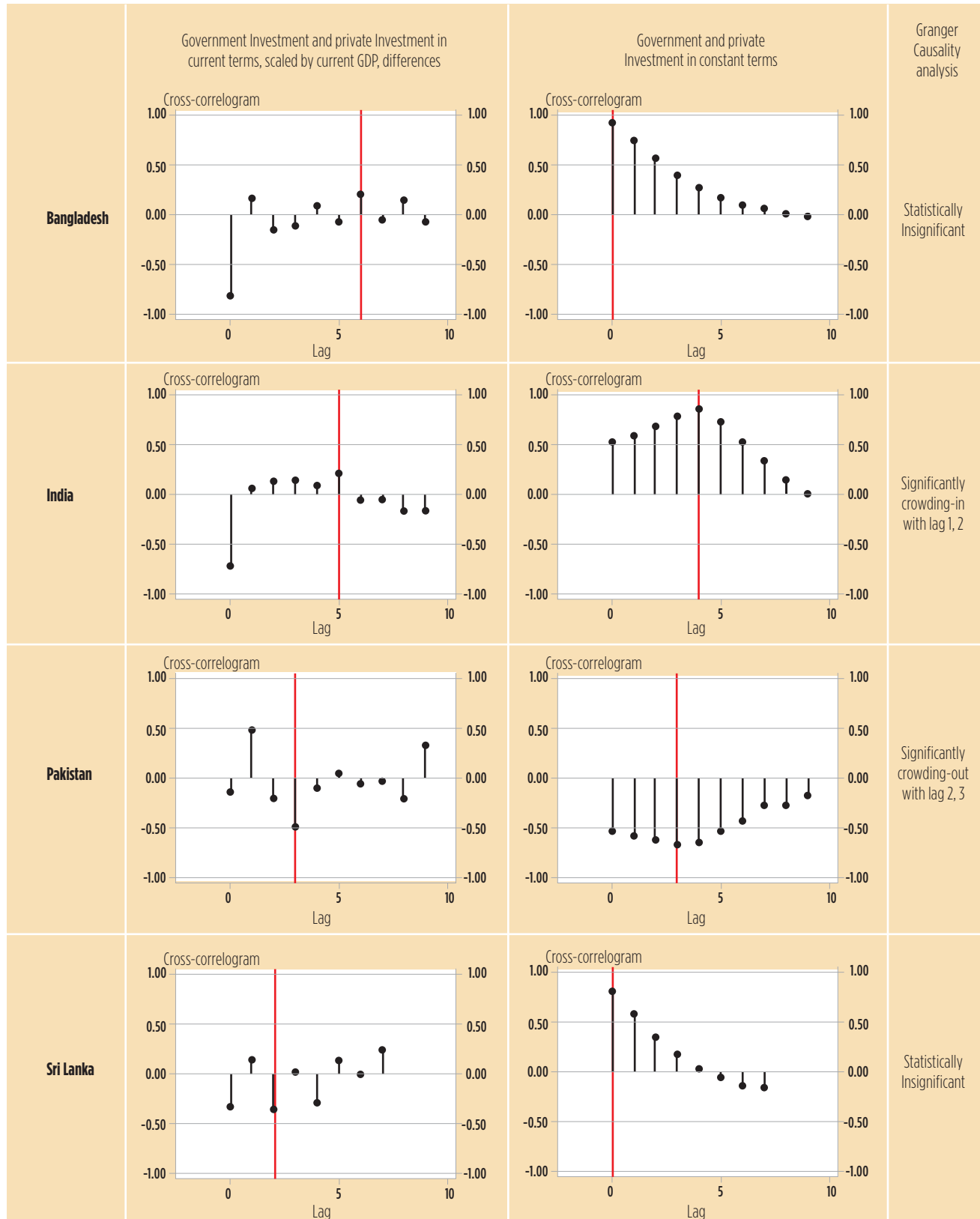
namely the difference between actual and potential GDP, is positively associated with investment levels in Bangladesh, Pakistan and Sri Lanka. In a different specification, using the change in the GDP growth rate as an indicator, the business cycle impacts private investment in all countries, and significantly so in Bangladesh and Sri Lanka. Finally, there is weak evidence that stock market volatility matters in India, the only country where this determinant was considered.

Public investment can further boost but also dampen private investment

Infrastructure development can crowd in private investment, but this is not happening across the board. The analysis above suggests that only India has managed to activate this virtuous circle. And this finding seems to be fairly robust as it not only holds in the investment equation estimations above but also when using other statistical techniques. In particular, a Vector Auto Regression (VAR) analysis was conducted using two distinct investment series from 1990-2015: investment in constant terms and the change in the ratio of investment to GDP. In India, public investment crowds in private investment in a significant way. Based on Granger causality tests, public investment leads to higher private investment one and two years later, with no reverse impact. On the surface the correlations are similar for Bangladesh and Sri Lanka, but they are not statistically significant. Based on this approach, however, Pakistan’s public investment seems to crowd out private investment with a time lag of two to three years.



Figure 37: Public investment crowds in private investment in India, the opposite is true in Pakistan



Source: World Bank



Table 4: The business environment is more challenging in South Asia than in competing investment destinations

Issue	Firms who view the issue as a major or severe constraint (percent)											
	Afghanistan	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka	South Asia	China	South Africa	Turkey	Vietnam
	(2014)	(2013)	(2015)	(2014)	(2013)	(2013)	(2011)		(2012)	(2007)	(2013)	(2015)
Finance	49	23	19	15	40	22	33	18	5	16	10	14
Politics	76	76	12	16	85	34	13	28	1	3	13	3
Crime	58	8	1	5	14	35	7	10	1	38	8	5
Taxes	56	20	24	31	23	55	41	36	7	8	25	8
Corruption	62	49	4	36	42	64	15	42	1	17	12	5
Informality	33	9	10	17	29	12	28	14	7	11	14	11
Infrastructure	81	55	29	26	79	79	36	42	6	24	25	18
Electricity	66	52	14	21	69	75	26	35	3	21	18	4
Telecom	59	3	15	4	3	14	6	7	4	4	9	8
Transport	43	15	14	10	32	27	12	15	3	4	10	10
Labor laws	11	3	15	11	3	12	13	12	1	6	6	4
Skills	53	16	14	9	9	23	16	13	2	9	10	8
Customs	47	8	9	12	29	30	31	18	4	2	11	24

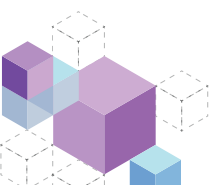
Source: World Bank

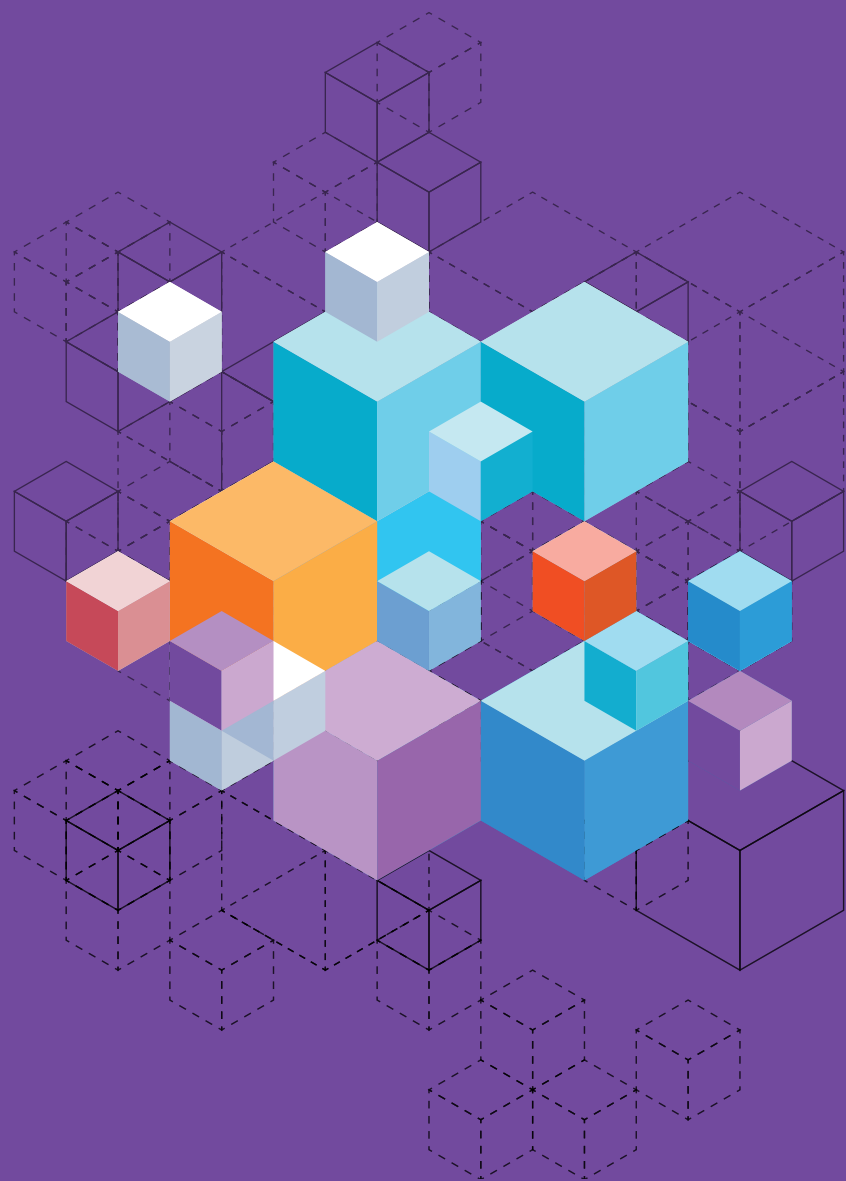
The investment climate sets the broader stage for private investment

The business environment in South Asia remains less than ideal. There is general agreement that the region's business environment is challenging. Doing Business indicators provide an internationally comparable metric, based on the legal requirements a medium-size single-owner limited liability company would face. These requirements refer to standard business transactions, such as registering an enterprise, obtaining a construction permit, or paying taxes. Enterprise Surveys ask established firms whether a range of potential constraints are relevant in their case. The specifics vary depending on the approach considered, but both metrics suggest that businesses in South Asia face a clear disadvantage vis-à-vis competing investment destinations. Inefficiency,

red tape and corruption may significantly reduce firm productivity, hence the incentives to invest. Increasing private investment will require continued policy reform efforts across the region, even if the emphases may vary from country to country.

Uncertainty and insecurity may be important constraints in some countries. As investment projects pay off over long periods of time, uncertainty can discourage committing resources to them. In conflict-prone environments, or when the reform stance of the government is unclear, it makes sense to postpone investment decisions. Differences in predictability may explain some of the wide variation in savings and investment rates across countries in South Asia. Preserving peace and counteracting insecurity are thus key priorities from an investment perspective.





South Asia country



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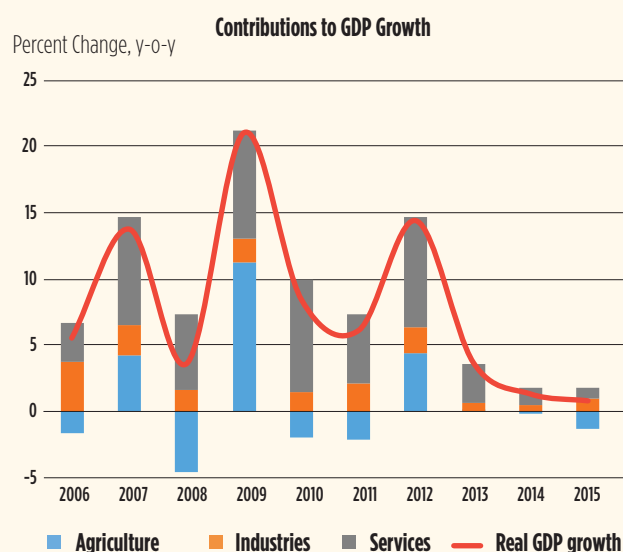
Sri Lanka

Afghanistan

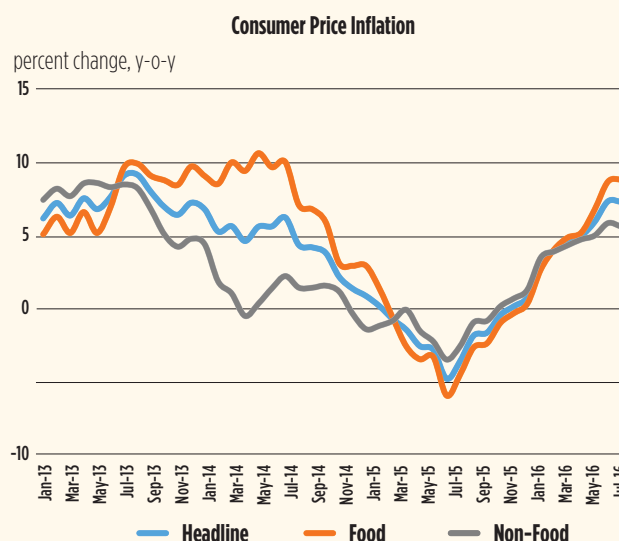
Afghanistan's economy is experiencing its slowest growth spell since emerging from conflict in 2002. Modest recovery is expected over the next three years predicated on political stability and strong reform implementation. While the fiscal situation has stabilized, risks to fiscal stability over the medium-term remain pronounced as substantial donor grants are required to meet the country's basic development needs.

	2015
Population, million	32.5
GDP, current US\$ billion	19.6
GDP per capita, current US\$	601

Sources: World Bank WDI and Macro Poverty Outlook.



Source: Central Statistics Organization and World Bank staff estimates



Recent Developments

Growth and employment are yet to recover from the impact of the security and political transition in 2014. The insurgency has intensified and the security situation has markedly deteriorated. Delays in the appointment of key officials and slow pace of policy actions are undermining the overall efforts to improve governance and restore confidence. Risks and uncertainty are growing and negatively affect aggregate demand and investment.

Real GDP growth has slowed from 1.3 percent in 2014 to 0.8 percent in 2015, driven by a sharp contraction in agriculture output (-5.7 percent). Other sectors including construction, wholesale and retail trade, and communication services grew, albeit much slower than historical average, offsetting the decline in agriculture output. Growth in these sectors may have experienced a lagged investment effect of previously-committed infrastructure projects and modest recovery of consumer confidence.

Early indications point to continuation of a weak economic performance in 2016. Recent agriculture surveys indicate a weather-induced decline of cereals production by over 20 percent in 2016. This may be partially offset by an increase in horticulture which has contributed to an increase in exports (5 percent) over the first half of 2016. A 10 percent decline in imports over the same period across all product categories, however, suggests a possible slowdown in aggregate demand and in growth of industrial sectors. The number of new firm registrations halved in comparison with registrations over the first half of 2015. Business reports point to a slowdown in ICT and transportation sectors which jointly with agriculture account for 48 percent of Afghanistan's economy.

CPI inflation increased from 0.2 percent (year-on-year) in December 2015 to 7.4 percent in July 2016, driven by higher prices in both food and non-food items. On a 12-month average basis, inflation increased from -1.5 percent to 1.9



percent over the same period. The exchange rate depreciated by around 3 percent against the US dollar between December 2015 and June 2016, which is partly attributed to inflationary pressures building up through the import channel.

Foreign exchange reserves increased from US\$ 6.9 billion in December 2015 to US\$ 7.4 billion in June 2016, which is equivalent to about 9 months of imports.

In contrast to other economic developments, the fiscal position continued to improve. Revenue growth appears to be on track to reach the budget targets, continuing the upward trend in 2015. Over the first half of the year, domestic revenues reached Afs 65.5 billion – a 25-percent increase over the same period last year. Over half of the revenue increase was facilitated by growth in non-tax revenues (57 percent). Tax revenue growth (15 percent) was driven by a range of policy measures and improvements in tax and customs collection.

Total recurrent and development spending amounted to Afs 134 billion in the first half of 2016, showing an increase of about 4.5 percent over the same period in the previous year. In proportion to annual budgets, however, the actual spending has been at similar rates as in the first half of previous year, i.e. around 30 percent execution of total budget.

Outlook

The medium-term outlook points towards a slow recovery over the next three years. Growth is projected to decline to 0.5 percent in 2016, and gradually increasing to 3.5 percent by 2018. The downside risks are high, and growth recovery is predicated on improvements in security, restoration of political stability, acceleration in high-priority reforms and continued high levels of aid. Given rapid population

growth (3 percent), income per capita is expected to further decline over next three years.

Scope for expanding social, development, and poverty-reducing spending over coming years is limited by growing security costs, higher operations & maintenance needs, and an increasing wage bill. Total on-budget spending is projected to increase to nearly 32 percent of GDP by 2018, up from 27 percent in 2015. Domestic revenues, on the other hand, are projected to increase to only 12 percent of GDP by 2018. At this level, revenues will cover only less than 40 percent of total budget spending, creating an annual funding gap of nearly 20 percent of GDP (equivalent to around US\$ 4 billion) to be financed through external grants.

Risks and Challenges

Medium-term challenges, arising particularly from fiscal sustainability risks, are enormous. The Government's ability to expand or even sustain the current levels of service delivery will critically depend on future commitments for civilian aid for the next years, which will be agreed in early October.

There is a growing number of returnees from Pakistan, which will exacerbate pressures on service delivery. More than 220,000 Afghans are expected to return in 2016 alone. Given the precarious security situation, low economic and social absorption capacity and the scarcity of land and shelter, forced displacement and the return of displaced populations pose important humanitarian and poverty challenges.

Reducing poverty will require a combination of improved security, growth and more financing resources. Growth alone will not be sufficient to restore welfare and livelihoods, and there is a real risk that progress made in human



Table: Afghanistan (annual percent change unless noted otherwise)

	2013	2014	2015	2016 e	2017 f	2018 f
Real GDP growth, at constant market prices	2.0	1.3	0.8	0.5	1.8	3.0
Private Consumption	2.0	1.5	-0.2	0.9	2.1	2.3
Government Consumption	7.4	4.5	3.7	4.7	2.8	4.8
Gross Fixed Capital Investment	3.8	12.5	1.9	1.4	3.1	5.7
Exports, Goods and Services	22.1	6.8	4.8	3.4	6.9	7.6
Imports, Goods and Services	35.7	-5.6	2.4	3.2	4.0	5.1
Real GDP growth, at constant factor prices	1.9	1.8	0.8	0.8	1.8	3.0
Agriculture	0.0	-0.1	-5.7	-5.0	2.5	3.5
Industry	1.8	2.4	4.1	2.5	2.2	3.0
Services	2.6	2.2	1.6	2.0	1.4	2.9
Inflation (Consumer Price Index)	7.7	4.6	-1.5	6.0	5.0	5.0
Current Account Balance (% of GDP)	7.4	8.0	5.0	3.7	3.6	2.8
Financial and Capital Account (% of GDP)	-0.5	-7.1	-5.0	-3.7	-3.6	-2.8
Net Foreign Direct Investment (% of GDP)	0.5	0.6	0.9	0.3	1.1	0.5
Fiscal Balance (% of GDP) ^(a)	1.1	-1.7	-0.6	-0.5	-0.4	-0.2
Primary Balance (% of GDP) ^(a)	1.1	-1.6	-0.5	-0.5	-0.4	-0.2

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice

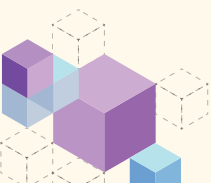
Notes: e=estimate, f=forecast.

(a) Fiscal balance includes donor grants.

development outcomes and service delivery will be reversed. The Afghan population, which is already exposed to extraordinary high levels of risks, remains extremely vulnerable to the ongoing security challenges.

The National Unity Government presented an ambitious reform agenda in 2014 to revitalize the economy, tackle

corruption and improve the investment climate. However, reform implementation has yet to gain momentum. Any setback in reform implementation would further slowdown the pace of human capital accumulation in Afghanistan and reduce future prospects of growth and poverty reduction.

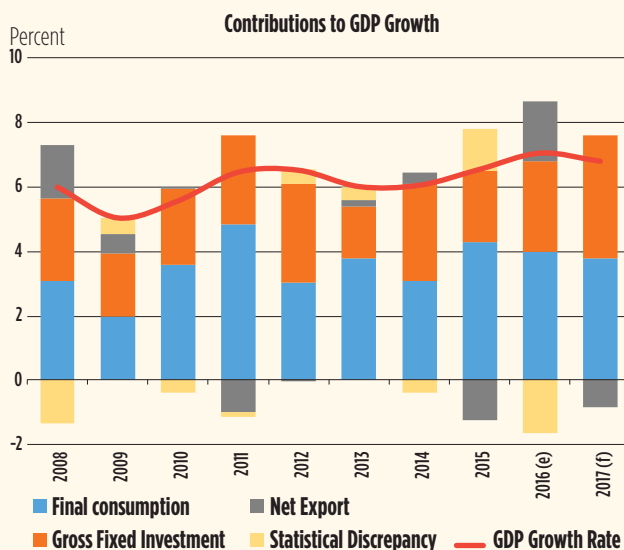


Bangladesh

Growth remained robust despite internal and external headwinds. Overall inflation has moderated. Interest rates decline continued while foreign exchange reserves are adequate. The fiscal deficit remained contained despite a revenue shortfall and monetary policy was accommodative. Near term macroeconomic outlook is stable. Security, trade and financial sector shocks are the main risks. Boosting productivity and private investment by reforming business regulations, mitigating infrastructure deficiencies and addressing financial sector weaknesses remain the central challenges.

	2015
Population, million	161.0
GDP, current US\$ billion	195.2
GDP per capita, current US\$	1212

Sources: World Bank WDI and Macro Poverty Outlook.



Sources: Bangladesh Bureau of Statistics (BBS) and World Bank staff estimates

Recent Developments

Growth has remained robust. Provisional estimates of GDP growth for FY16 indicated strong recovery despite a declining private investment rate, driven by windfalls from public sector wage increases. Bangladesh needs to translate the macroeconomic stability into higher investment and growth. Bangladesh will also need to prioritize development strategies and policies in light of the Sustainable Development Goals. Stagnating private investment, decline in agricultural growth, appreciation of the real effective exchange rate, weak public sector banking performance, and low efficiency of capital spending threaten to undermine the development prospects.

Moderation in headline inflation continued. Driven by a decline in food inflation to 4.9%, FY16 ended with an overall inflation rate of 5.9%, the lowest in last 12 years. Nonfood

inflation rose from 6% in FY15 to 7.5% in FY16. Falling international commodity prices and good rice harvests propelled the decline in food inflation. In the non-food category, apart from a rise in demand enabled by sustained political stability, the uptick likely reflects pay increases for public employees and hikes in electricity and gas tariffs.

Increased external surplus boosted foreign exchange holdings. Foreign exchange reserves have grown fast to surpass \$30 billion, equivalent to almost 8 months' imports, by end-June 2016. Large current account surpluses signify some sluggishness in the domestic economy. Subdued price levels in global commodity markets contributed to keeping import growth low in FY16 despite a significant rise in import intensive exports. Combined with a continued large surplus in the financial account, this led to accumulation of foreign exchange holdings by the Bangladesh Bank and the commercial banks.

Macroeconomic management is challenged by revenue shortfall and a weak banking sector. The FY16 budget deficit was within the 5% of GDP target, despite significant downward revision of the revenue target. As usual, the revenue shortfall was more than offset by lower than targeted public expenditure. Deficit financing was characterized by low net intake from foreign sources and increased reliance on domestic non-bank financing. Booming sales of high yielding national savings certificates (with administered interest rates) led to significant undershooting of bank borrowing target in FY16. Tax collections underperformed due to a decline in import prices and weaknesses in tax policy and administration. Weak demand for bank credit contributed to sustained high liquidity in the banking system and declining short-term interest rates. Overall credit risk exposure of the banking sector increased in 2015.



Outlook

The near term outlook is stable. Real GDP is projected to grow at 6.8% in FY17, reflecting relatively weaker growth in private consumption (5%) and government consumption (10.4%) than the preliminary estimates for FY16. Growth is projected to fall to 6.2% in FY18, driven by slower consumption growth and somewhat slower export growth. Without boosting TFP growth and private investment relative to GDP, Bangladesh may not reach 7% growth target. Delivering the necessary energy, infrastructural, and regulatory improvements remain critically important to ensure sustained and inclusive GDP growth with strong employment creation capacity.

Inflation may edge up in FY17–18 on account of higher public sector wages, a one-off effect from the introduction of the new VAT, and overheating, with actual output exceeding the potential. The current account surplus is projected to turn into deficit over the medium term. Fiscal deficit is projected to remain below 5% of GDP. Macroeconomic policies in the near-term need to focus on safeguarding stability. Counter-cyclical fiscal policy responses would be needed in response to large temporary shocks. The exchange rate should be allowed to depreciate if the shocks are protracted.

Risks and Challenges

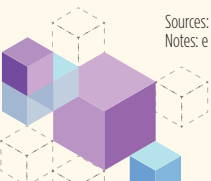
Security, financial and trade shocks are the main risks. Escalation of terrorist attacks in recent months has heightened security concerns and created new types of uncertainties that could adversely impact investment, growth, and inflation. Security shocks could damage investment and consumer confidence. Continued weakness in the state-owned banks could undermine growth prospects and affect fiscal sustainability, as would further delay in launching the new VAT. On the external side, a protracted slowdown in the European Union due to Brexit related uncertainties could hurt exports. Remittances remain vulnerable as persistent low oil prices could further worsen investment and employment in GCC countries.

The challenge is to boost productivity and private investment by reforming business regulations, overcoming infrastructure and energy deficiency and increasing intermediation efficiency. Disabling regulations and bottlenecks in energy and transport, have become more binding in recent years as the economy expanded. These stem from low public investment and inadequate infrastructure maintenance. Weak bank balance sheets and governance in the financial sector limit lending capacity, divert credit away from productive investment, and impose large fiscal recapitalization costs.

Table: Bangladesh (annual percent change unless indicated otherwise)

	2013	2014	2015	2016 e	2017 f	2018 f
Real GDP growth, at constant market prices	6.0	6.1	6.6	7.1	6.8	6.2
Private Consumption	5.1	4.0	5.8	5.3	5.0	4.3
Government Consumption	5.8	7.9	8.8	10.7	10.4	7.6
Gross Fixed Capital Investment	5.4	9.9	7.1	8.9	11.9	11.3
Exports, Goods and Services	2.5	3.2	-2.8	-0.3	8.6	12.9
Imports, Goods and Services	1.2	1.2	3.2	-8.9	12.1	15.0
Real GDP growth, at constant factor prices	6.1	6.1	6.5	7.1	6.8	6.2
Agriculture	2.5	4.4	3.3	2.6	2.9	3.0
Industry	9.6	8.2	9.7	10.1	9.3	8.8
Services	5.5	5.6	5.8	6.7	6.5	5.6
Inflation (Consumer Price Index)	6.8	7.3	6.4	5.9	6.1	6.2
Current Account Balance (% of GDP)	1.6	0.8	1.5	1.7	0.0	-0.4
Financial and Capital Account (% of GDP)	2.3	1.9	1.2	0.9	2.2	2.2
Net Foreign Direct Investment (% of GDP)	1.2	0.8	0.9	0.9	0.8	0.7
Fiscal Balance (% of GDP)	-3.9	-3.6	-3.9	-4.3	-4.4	-4.7
Debt (% of GDP)	34.4	33.9	33.6	34.4	34.4	34.8
Primary Balance (% of GDP)	-1.9	-1.5	-1.8	-2.3	-2.3	-2.9

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice
Notes: e = estimate, f = forecast.

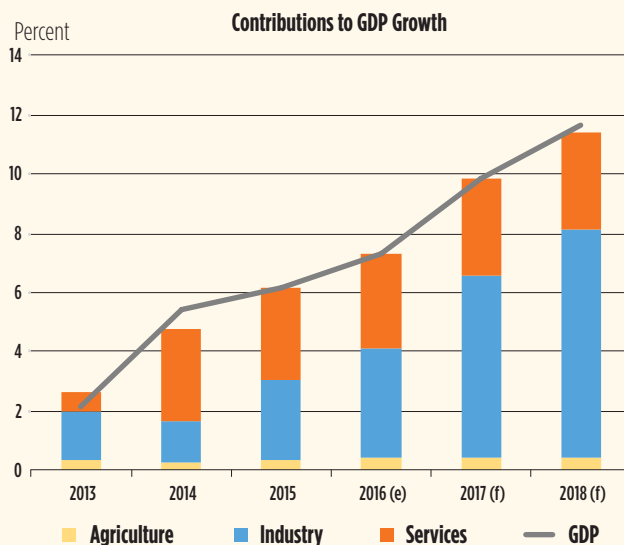


Bhutan

Bhutan has maintained a solid macroeconomic performance in 2016. Hydropower projects, supportive fiscal and monetary policy have contributed to growth. Low inflation, a stable exchange rate and accumulating international reserves attest macroeconomic stability. Steady growth with stability is likely to continue, which should result in poverty reduction. However, structural challenges remain: large current account deficits, an underdeveloped private sector and high youth unemployment. To address these, the Government is revising the Economic Development Policy and has started preparation on the 12th five-year plan.

	2015
Population, million	0.8
GDP, current US\$ billion	2.0
GDP per capita, current US\$	2532

Sources: World Bank WDI and Macro Poverty Outlook.



Source: National Statistical Bureau, Royal Monetary Authority, Ministry of Finance, World Bank

Recent Developments

Bhutan's economy has been steadily recovering from the aftermath of the shortage of the Indian Rupee of 2012. GDP growth revived from a low of 2.1 percent in 2013 to about 6 percent (estimated) in 2015. The recovery has been sustained by a combination of accelerated investments in hydropower, good agriculture harvests, and supportive fiscal and monetary policy to boost the implementation of the five-year-plan. On the demand side, private consumption has been supported by a resumption of credit (20 percent y/y as of June 2016), with services, automobiles and personal loans showing strong growth. Investments remained robust in hydropower through construction and services. The improved growth performance has been accompanied with macroeconomic stability. Inflation has been below 5 percent, the exchange rate has marginally depreciated, and

international reserves covered 11 months of goods and services imports in the first half of 2016. Although there have been high current account deficits (higher than 25 percent of GDP), these are related to hydropower projects and thus are mostly financed by loans from India.

Outlook

Growth is expected to accelerate over the 2016-2018 period. Construction will start at three hydropower projects in the next three years and two hydropower dams will become operational in 2018. Macroeconomic stability would allow fiscal and monetary policy flexibility to keep supporting economic activities. Given the close economic relationship with its southern neighbor, a positive economic outlook in India will also help Bhutan's growth to accelerate. Low global commodity prices and the pegged exchange rate against the Indian Rupee are expected to anchor a stable inflation rate. While high current deficits are likely to continue due to imports associated with hydropower constructions, these are expected to be covered by secured financing sources. Projections based on GDP growth indicate steady and continuous poverty reduction since 2012, the last year for which survey-based estimates are available. Poverty headcount rate is projected to fall to 10.9 percent by 2015 and 6.0 percent by 2018 at the US\$3.10 a day line.

Risks and Challenges

Bhutan's main challenge is how to manage the hydropower projects and impacts of the projects on the economy. The construction and commissioning of hydropower projects is likely to stimulate domestic demand, which would result in additional pressure on the



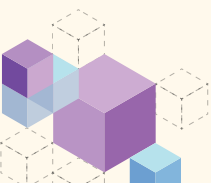
Table: Bhutan (annual percent change unless indicated otherwise)

	2013	2014	2015	2016 e	2017 f	2018 f
Real GDP growth, at constant market prices	2.1	5.5	6.1	7.3	9.8	11.6
Private Consumption	13.1	18.0	7.1	7.5	7.0	6.5
Government Consumption	-10.1	2.4	10.1	5.4	1.8	0.2
Gross Fixed Capital Investment	-35.7	38.3	6.1	11.7	11.0	13.5
Exports, Goods and Services	3.9	-6.0	-0.2	-2.0	6.0	8.0
Imports, Goods and Services	-1.8	-3.5	4.3	5.5	3.2	3.3
Real GDP growth, at constant factor prices	2.1	5.5	6.1	7.3	9.8	11.6
Agriculture	2.4	2.4	3.0	3.4	3.5	3.6
Industry	3.9	3.1	6.1	8.5	14.0	17.0
Services	1.6	8.2	8.1	8.2	8.3	8.4
Inflation (Consumer Price Index)	8.8	8.3	5.2	4.6	4.3	4.0
Current Account Balance (% of GDP)	-23.1	-24.6	-30.0	-29.4	-23.7	-15.7
Fiscal Balance (% of GDP)	-0.2	2.7	-0.7	-4.2	-3.0	4.1
Debt (% of GDP)	98.1	96.4	98.2	102.1	103.2	97.7
Primary Balance (% of GDP)	2.0	4.4	0.8	-2.8	-1.9	6.2

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice
 Notes: e = estimate, f = forecast.

overall balance of payments. To measure these risks, credit growth and international reserves will have to be carefully monitored. Increasing foreign direct investment (FDI) and remittances will be more important to finance the current account deficits. The impact of the slowdown of the global economy on Bhutan's economy is expected to be modest due to the country's limited linkage with the rest of the world other than India. Nevertheless, deceleration of the global economy will be felt through its effect on the Indian economy or the tourism sector. The latest debt sustainability analysis (DSA) in mid-2016 concluded that Bhutan's external debt risk is moderate, as much of the external debt is linked to the India hydropower project

loans. Besides the challenges related to hydropower, a large current account deficit, underdeveloped private sector and high youth unemployment are the other major challenges. The implementation of the new Economic Development Policy is expected improve the business climate, which in turn would be expected to create jobs especially for the youth. Bhutan remains largely rural, with an estimated 61 percent of population living in rural areas in 2015. The country is therefore in urgent need of private sector development to diversify its economy, building on the foundation created by the hydropower industry. The development of the private sector will also help curtail its urban youth unemployment.

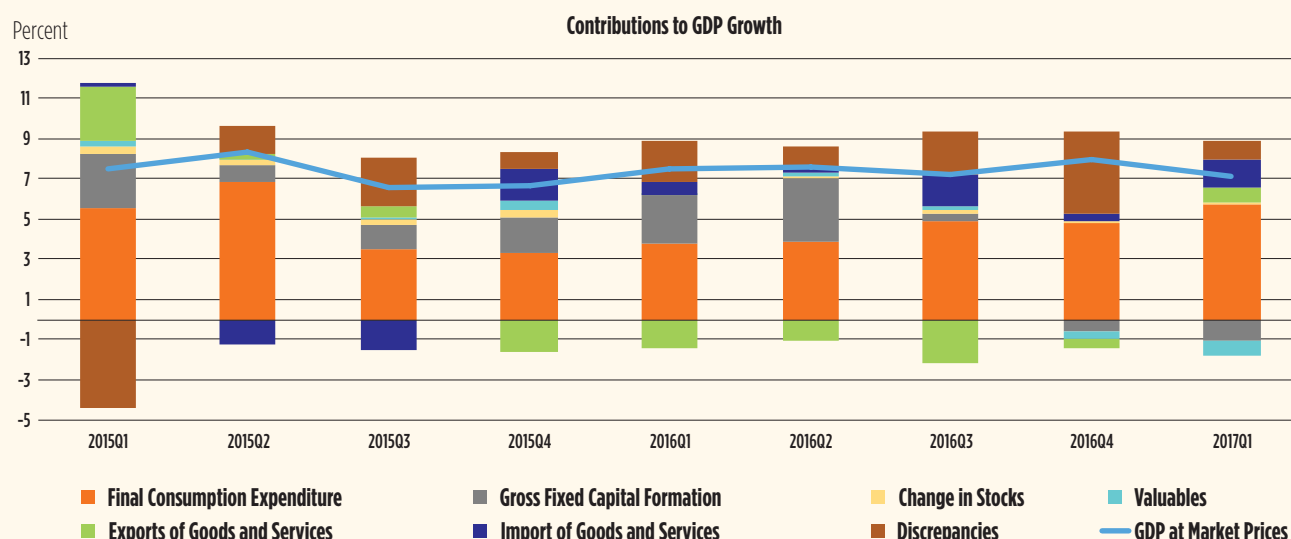


India

Economic growth in India remained robust, which, as in the past, is expected to support continued poverty reduction. This year is expected to see some convergence in rural and urban economies, supported by stimulating policies, such as passage of GST and civil pay revisions, along with good monsoons. Re-balancing of growth drivers will in turn support the sustainability and inclusiveness of GDP and household income growth going forward.

	2015
Population, million	1308.2
GDP, current US\$ billion	2189.7
GDP per capita, current US\$	1674

Sources: World Bank WDI and Macro Poverty Outlook



Source: CSO, CEIC and World Bank staff estimates

Recent Developments

Economic growth remains robust. GDP growth accelerated to 7.5 percent y/y in the four quarters ending June 2016 from average of 6.5 percent in the previous twelve quarters. This acceleration has been led by urban consumption and public infrastructure investments. Rural consumption has been constrained by two successive drought-years and subdued growth in rural wages. Sustained growth in manufacturing and modern services, as well as growth in personal credit have underpinned urban consumption. Investment momentum remained subdued despite concerted growth in public spending, largely due to global excess capacity and deleveraging of corporate and bank balance sheets. Nevertheless, early signs of recovery in private investments have emerged in Q1 FY17, with capital formation growing by 6.1 percent saar, despite a moderation in public investments.

Manufacturing remained an important growth driver. While services continued to be the largest contributor to growth

in gross value added, manufacturing gained prominence in FY16, registering 9 percent y/y growth in the four quarters ending June 2016. External demand remained subdued, but exports showed signs of pick-up in mid-2016, driven by services. In volume terms export growth turned positive after 5 quarters in Q1 FY17 at 3.2 percent y/y. Partly reflecting weak investment, import growth remained firmly in the negative territory, pulling down trade deficit to its lowest-ever level at 0.1 of GDP in Q1 FY17.

Outlook

Economic activity is expected to accelerate gradually. GDP is projected to expand by 7.6 percent in FY17, before accelerating to 7.8 percent by FY19. Initially, growth will be driven by a rebound in agriculture due to normal monsoons, which along with civil service pay revisions will support broad-based consumption growth and offset continued weakness in exports and private investment. In later years, growth will be underpinned by a recovery



in private investments, as the recent push to accelerate infrastructure spending and a better investment climate (due in part to the passage of the GST and Bankruptcy Code) 'crowd in' the private sector. International trade conditions are expected to recover, but at a subdued pace.

Inflationary pressures are likely to remain muted in the near term on account of stable commodity prices. The Government amended the RBI act to reflect an inflation target of 4 (+/-2) percent and establish a monetary policy committee. These measures boost the credibility of the central bank, enhancing its ability to meet the medium-term inflation target. The normal monsoons, which also replenish India's reservoirs, will further support a stabilization in prices over the coming year.

Risks and Challenges

There are significant downside risks in the near term. First, continued uncertainties in the global environment, volatility in commodity prices, broader spillovers from Brexit on world trade, and a further slowdown of the Chinese economy, could further delay a recovery of external demand. Second, the government has set ambitious targets for raising revenues from divestments

and spectrum auctions. If these are not met, there is a risk that growth-enhancing capital and social spending may be cut to meet fiscal targets, or that fiscal targets may be missed, undermining the credibility of fiscal policy. Third, the expected boost to rural consumption from favorable monsoons could be dampened by deleveraging of debt incurred by farmers over the previous two drought years. Fourth, private investment also faces several domestic impediments in the form of corporate debt overhang, stress in the financial sector, and regulatory and policy challenges. If these bottlenecks are not alleviated, subdued private investment would create downside pressures on India's potential growth.

Optimism on the growth front needs to be balanced with caution when translating to broad-based poverty reduction. Despite the recent success in poverty reduction, gains have been uneven, with greater progress in states and social groups that were already better-off. India faces the challenge of further accelerating the responsiveness of poverty reduction to growth, enforcing inclusion of presently excluded groups (such as women and scheduled tribes), and extending gains to a broader range of human development outcomes related to health, nutrition, education and gender, where the country continues to rank poorly.

Table: India (annual percent change unless noted otherwise)

	2013	2014	2015	2016 e	2017 f	2018 f
Real GDP growth, at constant market prices	6.6	7.2	7.6	7.6	7.7	7.8
Private Consumption	6.8	6.2	7.4	7.7	7.6	7.4
Government Consumption	0.4	12.8	2.2	8.6	9.0	8.8
Gross Fixed Capital Investment	3.4	4.9	3.9	7.7	9.8	10.2
Exports, Goods and Services	7.8	1.7	-5.2	6.2	5.8	6.9
Imports, Goods and Services	-8.2	0.8	-2.8	5.5	7.6	8.0
Real GDP growth, at constant factor prices	6.3	7.1	7.2	7.5	7.7	7.7
Agriculture	4.2	-0.2	1.2	3.1	2.5	2.5
Industry	5.0	5.9	7.4	7.2	7.6	7.6
Services	7.8	10.3	8.9	9.0	9.1	9.1
Inflation (Consumer Price Index)	9.4	5.9	4.9	5.0	4.0	4.0
Current Account Balance (% of GDP)	-6.0	-2.8	-2.3	-1.7	-1.8	-1.7
Financial and Capital Account (% of GDP)	5.6	2.3	1.7	1.2	1.3	1.3
Net Foreign Direct Investment (% of GDP)	1.1	1.1	1.4	1.5	1.5	1.4
Fiscal Balance (% of GDP)	-6.5	-7.1	-6.5	-6.6	-6.5	-6.3
Debt (% of GDP)	64.7	65.2	67.1	66.9	66.4	65.7
Primary Balance (% of GDP)	-1.9	-2.3	-1.6	-1.8	-1.7	-1.6

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice
Notes: e = estimate, f = forecast.

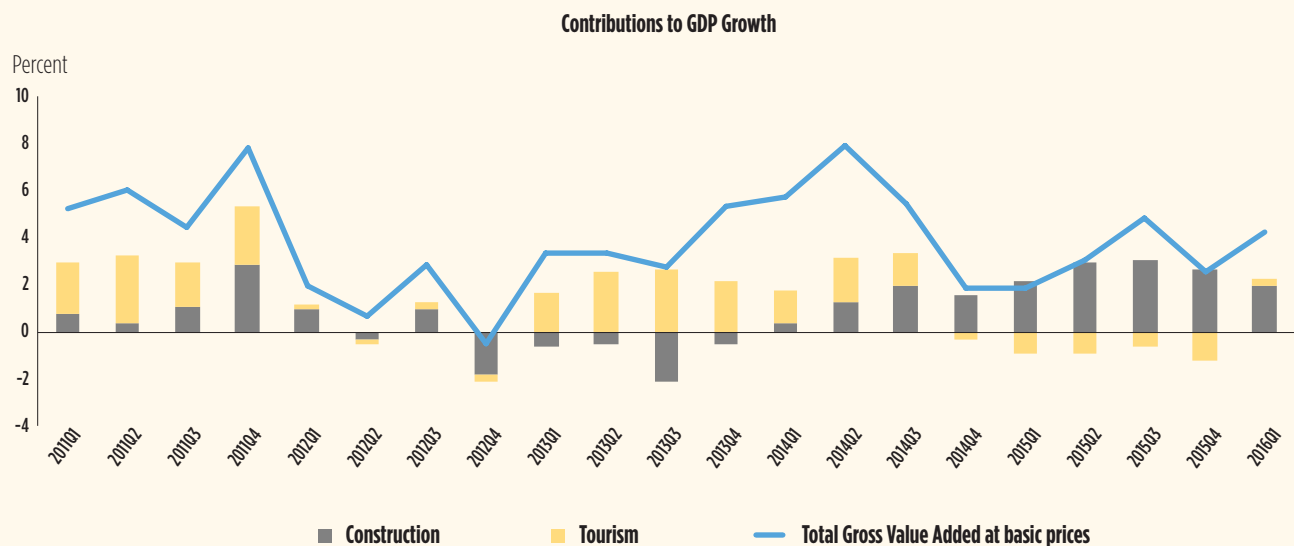


Maldives

Construction has taken over tourism as the main driver of growth since late 2014, the latter affected by a decline in tourist arrivals from Russia and China. The medium-term fiscal plan is anchored by large multi-year public investment projects. Given the lag between infrastructure spending and its growth impact, public debt situation is expected to deteriorate in the medium-term—raising the risk of external debt distress to high. A more gradual fiscal expansion and prioritization of investment projects are needed to lift growth to a moderate level while maintaining macroeconomic stability.

	2015
Population, million	0.4
GDP, current US\$ billion	3.1
GDP per capita, current US\$	7630.9

Sources: World Bank WDI and Macro Poverty Outlook.



Sources: Ministry of Finance, World Bank staff calculations, Joint Bank-Fund Debt Sustainability Analysis

Recent Developments

After peaking at 6.5 percent in 2014, growth is expected to decelerate to 1.9 percent,¹ dragged down by a slowdown in tourist arrivals, especially from Russia and China. While tourism is still the single largest sector, construction has overtaken tourism as the most important driver of growth, fueled by a surge in both public and private investments.

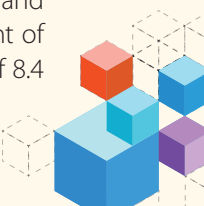
Following the global decline in commodity prices, CPI inflation has trended downward since 2013, and became negative in April 2016 (year-on-year), dragged down by

food (mainly fish) prices, housing, water, electricity, gas and other fuel prices and transport prices.

Maldives' high levels of fiscal deficits and public debt pose a significant risk, as the country is structurally spending beyond its means. Even though the high costs of public service delivery is inevitable in a multi-island country with scattered population, high levels of public spending in recent years have been primarily driven by the country's redistributive model, including the high public sector wage bill, pensions, universal health insurance and subsidies for food and electricity, and transfers to state-owned enterprises.

Based on current trends, staff estimates that revenue and public spending have increased to 36 and 44 percent of GDP respectively in 2015, resulting in a fiscal deficit of 8.4

¹ Staff projections. The official final macroeconomic numbers for 2015 are not yet available. The Maldives Monetary Authority monthly bulletin of August 2016 published preliminary estimates for GDP growth, the fiscal deficit and the current account deficit for 2015. Until these numbers are final, staff estimates for 2015 are used in this analysis.



percent of GDP. While, net external financing has been negative in 2014 and 2015, heavy reliance of domestic sources of financing has increased the exposure of the domestic banking system to sovereign risk. In response to fast rising domestic interest rates, Treasury bill auctions were replaced by a “tap system” fixing interest rates at low levels in mid-2014.

2016 fiscal policy is expansionary with large public investment projects. Staff projects revenue to reach 35.6 percent of GDP and expenditure 48.9 percent of GDP. Wages are projected to be frozen in nominal terms, while the budget foresees significant reduction in electricity and food subsidies. The budget includes a number of large multi-year investment projects: airport expansion, a bridge between the capital Malé and Hulhumalé Island and housing construction in Hulhumalé island.

The slowdown in tourism in 2015 has led to a decline in net service exports. While the import bill of petroleum products declined thanks to low global commodity prices, it was partially offset by increased imports of transport equipment and building materials driven by the construction boom. The current account deficit is estimated at 8.8 percent of GDP, financed by strong FDI inflows into the

tourism sector. Gross official reserves reached USD 623 million by July 2016, although usable reserves² are only USD 209 million—equivalent to 1.2 months of imports of goods and services. But this is less of a concern than it may appear, since the tourism industry has been able to supply sufficient quantities of foreign exchange at a stable premium over the de facto fixed exchange rate of 15.4 rufiyaa per dollar.

Outlook

In the near term, growth is expected to be driven by construction, fueled by both private sector construction and large public investment projects, while tourism growth is likely to remain subdued because of a slowdown in China, the recession in Russia, the appreciation of the MVR (pegged against the USD) against major currencies. Inflation is projected to remain subdued as long as global commodity prices remain low, with positive impacts on the current and fiscal accounts.

2 Net of short-term foreign liabilities of the central bank to the banking sector.

Table: Maldives (annual percent change unless noted otherwise)

	2013	2014	2015 p	2015 e	2016 f	2017 f	2018 f
Real GDP growth, at constant market prices	4.7	6.5	2.1	1.9	3.5	3.9	4.6
Private Consumption	...	...	...	...	...	...	...
Government Consumption	...	...	...	...	...	...	...
Gross Fixed Capital Investment	...	...	...	...	...	...	...
Exports, Goods and Services	...	...	...	...	...	...	...
Imports, Goods and Services	...	...	...	...	...	...	...
Real GDP growth, at constant factor prices	4.2	5.9	3.5	...	...	...	...
Agriculture	5.1	0.2	-2.9	...	...	...	...
Industry	-7.6	12.9	26	...	...	...	...
Services	6.4	5	-0.1	...	...	...	...
Inflation (Consumer Price Index)	2.3	2.1	1.0	0.4	1.3	2.5	2.8
Current Account Balance (% of GDP)	-4.6	-3.9	8.8	-8.0	-7.7	-11.7	-14.6
Financial and Capital Account (% of GDP)	2.6	17.8	11.4	6.7	9.7	16.8	17.7
Net Foreign Direct Investment (% of GDP)	13.0	10.9	9.6	10.6	10.0	10.9	10.8
Fiscal Balance (% of GDP)	-7.4	-9.1	-6.9	-8.5	-13.0	-13.8	-11.9
Debt (% of GDP)	64.8	66.6	63.9	72.1	81.9	91.0	96.9
Primary Balance (% of GDP)	-4.9	-6.3	-4.4	-5.5	-10.5	-10.5	-7.7

Source: Maldives Monetary Authority, Ministry of Finance and Treasury, World Bank staff estimates for 2015 and forecasts for 2016-2018.
Note: p = preliminary estimate published in MMA bulletin, e = World Bank estimate, f = World Bank forecast

The planned large increase in front-loaded capital investment has increased the risk of external debt distress to high according to the most recent Debt Sustainability Analysis.³ A more gradual implementation could mitigate this risk but without additional expenditure and revenue measures this could still lead to fiscal deficit of close to 14 percent of GDP with the public debt-to-GDP ratio approaching 100 percent.

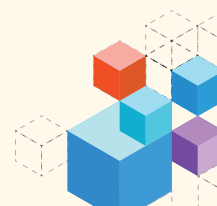
Risks and Challenges

The immediate macroeconomic challenge is to address the fiscal and external imbalances driven by high and rising public spending. The projected fiscal path is not enough to bring public debt-to-GDP trajectory on a declining path. Restoring debt sustainability would require significant fiscal consolidation by raising revenue and reducing expenditure. Limited international reserves, a high level of public debt and the short maturity of domestic debt adds additional vulnerability.

Meanwhile, political risks and a slowdown in countries important for tourism could lead to further reductions in tourism visits, which will put pressure on growth, revenue and the balance of payments.

There are limited investment opportunities in the private sector outside tourism, and banks prefer to park their available assets at the central bank and abroad. .

³ Joint World Bank-IMF Debt Sustainability Analysis, included in the IMF Article IV report of May 2016.

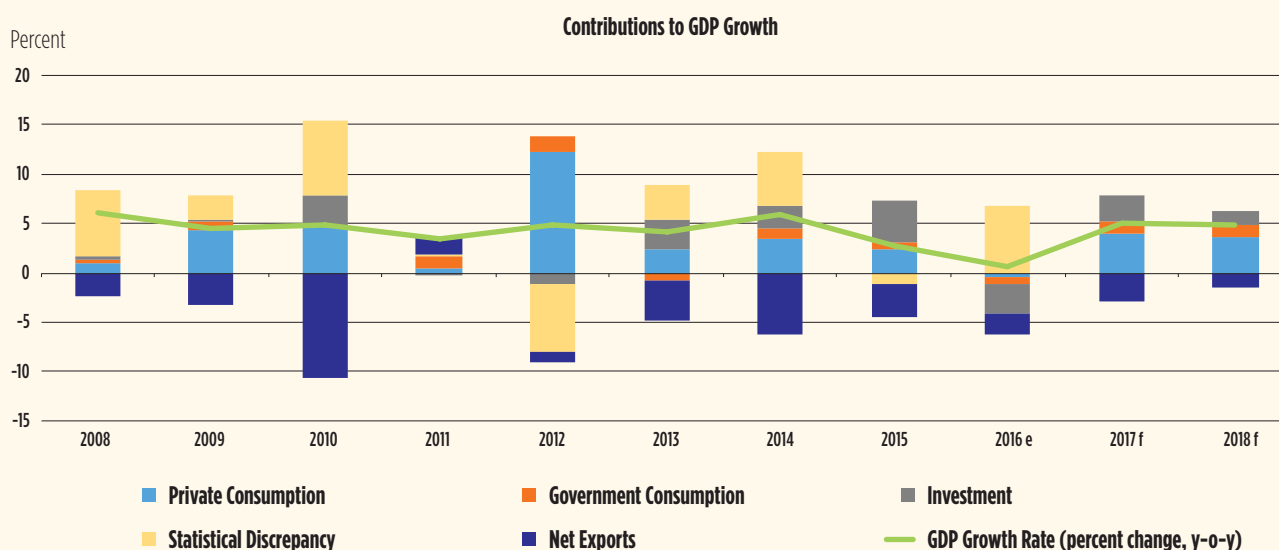


Nepal

After registering the weakest growth in 14 years during FY2016, economic activity is recovering in Nepal. Agriculture and construction are expected to improve on the account of a good monsoon as well as increased disbursements of housing reconstruction grants. Coupled with increased government spending, this is expected to push FY2017 growth to 5 percent and to remain in line with potential thereafter.

	2015
Population, million	28.5
GDP, current US\$ billion	22.4
GDP per capita, current US\$	786

Sources: World Bank WDI and Macro Poverty Outlook.



Sources: Central Bureau of Statistics (CBS) and World Bank staff estimates

Recent Developments

Nepal experienced its slowest growth in 14 years. Real GDP growth, which had already fallen to 2.7 percent in FY2015 on account of a devastating earthquake, was dragged further down to 0.6 percent in FY2016, on account of the sluggish post-earthquake reconstruction activities and disruption in cross-border trade with India. An earlier estimate suggests that the earthquake pushed as much as 1 million people back into poverty. However, economic activity is recovering in Nepal.

Following two years of sub-par rainfall, the current monsoon is progressing well with precipitation averaging between 90-110 percent of the long-term average. Expected rice production is forecasted to be 4.8 million tons, up from 4.2 million tons a year ago, giving a much needed boost to incomes of the 60 percent of the population that works in agriculture. Post-earthquake reconstruction activities are picking up speed after a slow start, with over half a million households been determined eligible

for the rural household reconstruction grant, of which 430,000 households have signed the grant agreement and 350,000 households have received the first of the three tranches.

Imports have rebounded fast following the end of trade disruptions and have recovered to the same level as last year (down 0.7 percent y/y in NPR terms). Exports, however, are yet to recover to their pre-disruptions level and have contracted 24 percent for the year as whole. Consequently, trade deficit for FY2016 has increased to around 30 percent of GDP. While the growth rate of remittances has slowed to 7 percent for the year—lowest in 5 years—these are still at a record level of 29.6 percent of GDP, helping offset the trade deficit.

Despite normalization in imports and favorable external environment (i.e. low food and oil prices and moderating inflation in India), inflation in Nepal continues to be elevated at 10.4 percent (y/y) in July. Sharp uptick in rental

prices of housing following the earthquake is the largest contributor to headline inflation.

In contrast with other economic activities, government revenues performed well. Driven by surging imports in the last six months of the FY, as well as one-off improvement in collection of outstanding taxes, revenues increased to 23.2 percent of GDP, up from 20.9 percent in the previous year. Expenditure, driven in part by higher spending on reconstruction activities, increased as well to 22.9 percent of GDP, up from 21.9 percent from a year ago, resulting in a surplus of 0.3 percent.

Outlook

Growth in FY2017 is expected to recover to 5 percent after two years of sub-par growth and remain in line with potential thereafter. The rebound in growth is on the back of a normal monsoon that will boost agricultural output and supported by increased investment (both public and private) as the political process stabilizes and earthquake recovery gathers speed. Manufacturing in particular is expected to get some boost starting from FY2017 with the apparels and garment industry getting a duty free access in the US market. The high inflation induced by the trade disruptions is expected to remain elevated owing to

persistent supply-side bottlenecks during the forecast period and continue to affect the poor and the vulnerable.

Fiscal deficit is expected to widen during the forecast, but to remain within manageable limits. Budget for FY2017 calls for an expenditure increase of nearly 10 percent of GDP. However, as in the previous years, significant underspending of the budget is likely. Nonetheless, government's recurrent expenditure is expected to grow substantially in FY2017 owing to increase in earthquake related cash assistance as well as measures introduced to increase civil servants' compensations, pensions and social protection. Overall, fiscal deficit is expected to widen in the forecast period. Similarly, current account surplus is expected to narrow and turn into a deficit as imports pick-up, driven by reconstruction efforts and slower growth in remittances.

Risks and Challenges

Domestic risks predominate and are on the downside. Political environment remains fluid as coalition governments have changed, on average, once a year since 2007. Latest government was sworn in in July and its term is already announced to last nine months as a part of the power sharing agreement among the coalition partners. The new constitution adopted last year stipulates a series

Table: Nepal (annual percent change unless noted otherwise)

	2013	2014	2015	2016 e	2017 f	2018 f
Real GDP growth, at constant market prices	4.1	6.0	2.7	0.6	5.0	4.8
Private Consumption	2.9	4.1	2.9	-0.6	5.0	4.5
Government Consumption	-6.6	10.1	7.3	-5.4	11.0	11.0
Gross Fixed Capital Investment	16.8	11.4	19.6	-12.2	12.6	6.0
Exports, Goods and Services	10.3	18.4	7.5	-3.2	13.6	8.9
Imports, Goods and Services	14.2	21.0	9.5	3.5	10.1	5.9
Real GDP growth, at constant factor prices	3.8	5.7	2.4	0.6	5.0	4.8
Agriculture	1.1	4.5	0.8	1.3	3.5	3.0
Industry	2.7	7.1	1.5	-6.3	4.0	4.0
Services	6.2	6.0	3.8	2.3	6.3	6.2
Inflation (Consumer Price Index)	9.9	9.1	7.2	9.9	9.0	8.0
Current Account Balance (% of GDP)	3.1	4.8	3.8	4.1	0.3	-1.6
Fiscal Balance (% of GDP)	0.5	0.6	-1.8	0.3	-1.1	-1.4
Debt (% of GDP)	32.2	28.5	25.6	25.1	25.9	26.3
Primary Balance (% of GDP)	2.4	2.4	1.5	2.4	0.0	-0.4

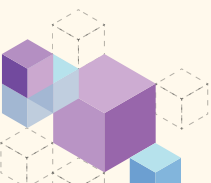
Sources: World Bank, Macroeconomics and Fiscal Management Global Practice
Notes: e = estimate, f = forecast.



of elections (local, provincial, federal) by the beginning of 2018, which will further add to policy uncertainty.

The external environment is likely to be less favorable as well. With remittances comprising nearly 30 percent of GDP, the Nepalese economy is extremely dependent on these flows. Oil-exporting Gulf Co-operation Countries and Malaysia, which represent almost 97 percent of total Nepali migrants excluding India, are a key source of remittances. As oil prices in particular, and commodity prices in general, are likely to remain at present levels during the forecast period, the possibility of a slowdown in remittances has increased.

Nepal faces several simultaneous and daunting challenges: From completion of political transition and setting up of a new federal structure to successfully leveraging its endowments (hydropower potential, human capital) to achieve rapid growth, faster poverty reduction and expanding economic opportunities for its citizens. Re-gaining investors' confidence, particularly for hydropower development, is an added challenge after series of shocks for a country that does not have a favorable track-record in mobilizing large-scale private investment.

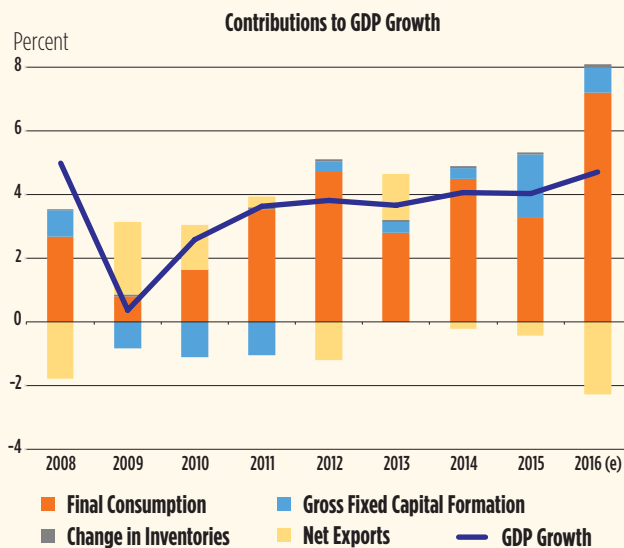


Pakistan

Pakistan maintained macroeconomic stability with government's better economic management under the recently concluded International Monetary Fund program. Economic growth, though gradual, continues to recover. Poverty has also shown a steady decline over the past 15 years. Increasing remittances have likely helped the pace of poverty reduction in recent years. Sustainable and inclusive growth and poverty reduction, however, will require greater private sector investment and the development of infrastructure, as well as a continued focus on fiscal consolidation and structural reforms.

	2015
Population, million	188.9
GDP, current US\$ billion	2714
GDP per capita, current US\$	1437

Sources: World Bank WDI and Macro Poverty Outlook.



Recent Developments

The onset of FY2017 saw government conclude the 12th and final review of a three year Extended Fund Facility (EFF) program with the International Monetary Fund (IMF). During these three years, the economy has achieved macroeconomic stability primarily on the back of fiscal discipline shown by the government and a reduction in the current account deficit due to falling global commodity prices and buoyant remittances. This stability has set the stage for the government to further implement structural reforms to help unlock sustained and inclusive growth in the medium term.

Despite experiencing negative growth in the agriculture sector, overall economic growth in FY2016 experienced moderate acceleration compared to FY2015. Industrial sector recorded significant growth due to the better performance of cement, fertilizer and automobile industries, compensating the adverse impact of contraction in

commodity production. Improved industrial performance can be attributed to rise in construction activities, greater availability of credit and electricity, and continued improvement in the business environment. The services sector, which is the largest contributor to the national economy, continued to exhibit strong economic growth. On the demand side, GDP growth was primarily led by an increase in public and private consumption. Investment growth was below expectations considering the increase in public investment and private sector credit in FY2015/16.

Pakistan's current account deficit continued to shrink in FY2016 despite widening of the trade deficit. Exports exhibited further contraction, however continuous fall in global oil prices, coupled with robust growth in remittances, assisted in curtailing the current account deficit. The capital and financial flows received during the year were more than adequate to finance the current account deficit, resulting in an accumulation of foreign exchange reserves which stood at US\$18.1 billion at the end of FY2016. Government's continuous efforts of mobilizing revenues resulted in surpassing the tax revenue target in FY2016, which assisted in reducing the fiscal deficit. This allowed the government to continue with fiscal consolidation efforts without curtailing government's investment spending.

Continuous improvement in domestic and external imbalances and declining global commodity prices also kept CPI inflation (y-o-y) at single digit levels and created space for the central bank to continue the process of monetary easing. The monetary policy rate saw a cumulative reduction of 75 bps during FY2016.

Outlook

Pakistan's economic growth is expected to increase gradually, and the economy is projected to grow by



Table: Pakistan (annual percent change unless noted otherwise)

	2013	2014	2015	2016 e	2017 f	2018 f
Real GDP growth, at constant market prices	4.4	4.7	4.7	5.7	5.0	5.4
Private Consumption	2.1	5.6	3.2	7.0	4.4	4.7
Government Consumption	10.1	1.5	8.1	15.1	8.9	10.4
Gross Fixed Capital Investment	2.6	2.5	14.1	5.7	8.2	6.9
Exports, Goods and Services	13.6	-1.5	-6.3	-4.8	0.7	3.6
Imports, Goods and Services	1.8	0.3	-1.6	12.4	4.5	5.5
Real GDP growth, at constant factor prices	3.7	4.1	4.0	4.7	5.0	5.4
Agriculture	2.7	2.5	2.5	-0.2	2.7	2.6
Industry	0.8	4.5	4.8	6.8	5.7	6.0
Services	5.1	4.5	4.3	5.7	5.6	6.1
Inflation (Consumer Price Index)	7.4	8.6	4.5	2.9	4.6	5.0
Current Account Balance (% of GDP)	-1.1	-1.3	-1.0	-0.9	-1.7	-2.4
Financial and Capital Account (% of GDP)	0.4	3.0	2.0	1.8	1.7	2.4
Net Foreign Direct Investment (% of GDP)	0.5	0.6	0.3	0.4	0.8	0.9
Fiscal Balance (% of GDP)	-8.4	-4.9	-5.2	-4.4	-4.2	-4.0
Debt (% of GDP)	64.7	64.4	64.1	66.1	63.2	60.2
Primary Balance (% of GDP)	-3.9	-0.3	-0.5	-0.1	0.5	0.0

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice.
Notes: e = estimate, f = forecast.

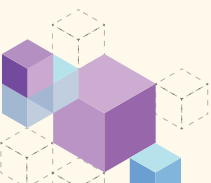
5 percent in FY2017 and 5.4 percent in FY2018. Economic growth is primarily driven by public and private consumption, however some rebalancing in growth components is expected due to a rise in investments. This will primarily be driven by infrastructure projects under the China Pakistan Economic Corridor (CPEC) and public investment. These projects are expected to accelerate growth in the domestic construction industry and increase electricity generation. Improved electricity availability will support growth in the industry and services sectors.

The current account deficit is expected to widen during FY2017 and FY2018. The key contributor to this will be a widening trade deficit due to moderate growth in exports and rapid growth in CPEC related imports. However, continuous growth in remittances and financial flows will help in financing the current account deficit. The fiscal deficit is projected to be 4.2 percent in FY2017 and 4.0 percent in FY2018. This improvement in fiscal accounts hinges upon the government's will to persist with the fiscal consolidation through revenue mobilization efforts and expenditure

rationalization. Increased economic activity, and marginal rise in global oil prices are expected to increase domestic prices, with inflation projected to increase from 2.9 percent in FY2016 to 4.6 percent in FY2017 and 5.0 percent by FY2018.

Risks and Challenges

The gradual growth trend is underpinned by increased public investment supported by CPEC. A delay in the completion of CPEC projects, as evident from the first year performance, and inability of government to mobilize revenues and rationalize expenditures, can affect investment and hurt economic growth during the projection period. Pakistan's external and fiscal balance continues to benefit from low global oil prices, however a sudden upward shock to these prices can disrupt this stability. Remittances are projected to grow moderately but a further slowdown in public spending in Gulf Cooperation Council (GCC) economies could affect remittances growth negatively and widen the current account deficit and slow down the pace of poverty reduction.

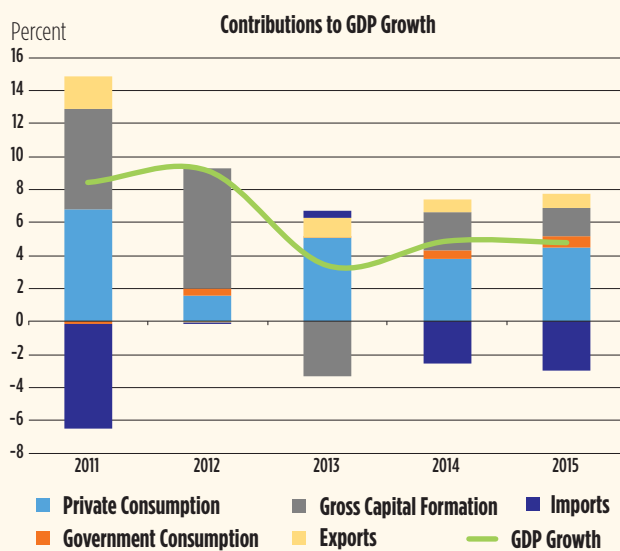


Sri Lanka

Sri Lanka is faced with a challenging macroeconomic environment characterized by high fiscal deficit, elevated public debt; and relatively weak external buffers. Recent policy measures along with the IMF supported program are expected to restore macroeconomic stability in the short-run. However, it is imperative to expedite high priority structural reforms to raise competitiveness, improve governance and consolidate fiscal situation in order to ensure sustained growth and development.

	2015
Population, million	21.0
GDP, current US\$ billion	82.3
GDP per capita, current US\$	3924

Sources: World Bank WDI and Macro Poverty Outlook.



Sources: Ministry of Finance, World Bank staff calculations, Joint Bank-Fund Debt Sustainability Analysis

Recent Developments

Sri Lanka's macroeconomic performance deteriorated in 2015. Net outflows from the government securities market and sluggish FDI inflows presented a challenging external landscape despite low oil prices and increased tourism. Domestically, a large fiscal deficit and an accommodative monetary policy led to an increase in consumption and non-oil imports. Although swap facilities from India and new Eurobonds partially negated resultant balance of payments pressures, the external buffers deteriorated and the currency depreciated by 10 percent against the US dollar. Public debt increased on account of high primary deficit, currency depreciation and rising real interest rates.

The authorities took policy measures to arrest the situation in 2016. After passing the budget for 2016, which had a deficit target of 5.9 percent of GDP, a fresh set of proposals on income tax and Value Added Tax (VAT) were passed by

the Cabinet in order to reduce the deficit to 5.4 percent of GDP. Monetary policy was tightened in the first quarter, which was followed by a rate hike in July to tame the stubbornly high credit growth and rising inflation.

The policy measures were followed by a new International Monetary Fund program. The 36-month Extended Fund Facility (EFF) for about US\$ 1.5 billion is aiming to offer a policy anchor for macroeconomic stability and structural reforms. Complementing the EFF, the World Bank approved a USD 100 million Development Policy Financing (DPF) operation, supporting the government to carry out reforms in competitiveness, transparency and public sector and fiscal management.

In the first quarter 2016, the economy grew by 5.5 percent, year-on-year, with main contributions from industry and service sectors. The year-on-year inflation in the Colombo Consumer Price Index jumped to 4.0 percent in August while core inflation, computed excluding fresh food and energy, remained high at 4.1 percent. The increase reflects the impact of base effect, floods in the month of May and underlying demand pressures amid high credit growth. The fiscal deficit in the first five months marginally improved on account of increased tax collection. However, a Supreme Court ruling halted the implementation of new VAT proposals in July, one month after they were introduced. The external current account improved in the first quarter thanks to a reduced oil bill and increased tourism. Although FDI continued to underperform, net inflows to the government securities market have turned positive since April. Gross official reserves, which deteriorated in the first half due to debt repayment and currency defense, received a boost in July with the issuance of new Eurobonds. However, the reserve cover in months of imports at 3.5 still remains below the end-2015 level of 3.8.



Outlook

Monetary tightening and enhanced currency flexibility have contributed to improving short-term stability. The IMF program will add to the confidence while supporting fiscal sustainability. Structural reforms supported by the DPF will yield benefits in the medium term.

Growth is expected to remain unchanged in 2016 and grow marginally over 5.0 percent beyond, driven by private consumption and postponed FDI in 2015. The reduced drag from imports on low commodity prices along with recent policy measures will contribute to the increase in growth. The impact of past currency depreciation and the increase of the VAT rate will increase inflation in 2016 and 2017 despite downward pressure from low international commodity prices. The external current account is projected to improve in 2016 with reduced imports and increased tourism. The fiscal deficit is projected at 5.7 percent of GDP for 2016 after considering delays in implementation of revenue measures.

Risks and Challenges

The immediate challenge is to increase 2016 revenue amid legal obstacles on VAT. Structural challenges include increasing fiscal revenue in the medium term to meet the requirements of a middle income country; and narrowing

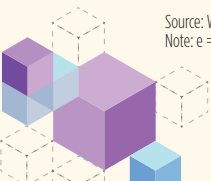
a persistent current account deficit linked to structural competitiveness issues. With the country approaching upper middle income status, borrowing terms are becoming more commercial, affecting affordability. Finally, with limited national savings compared to national investment, more FDI is needed into manufacturing and export sectors to sustain a high growth path. Key risks include a growth slowdown, which would lead to fast rising public debt. While the direct impact of a slowdown in China and the Brexit would be limited, continued economic woes in the Middle East, the EU and Russia could adversely affect exports and remittances. Tightening global financial conditions could elevate capital outflows and make borrowing more expensive.

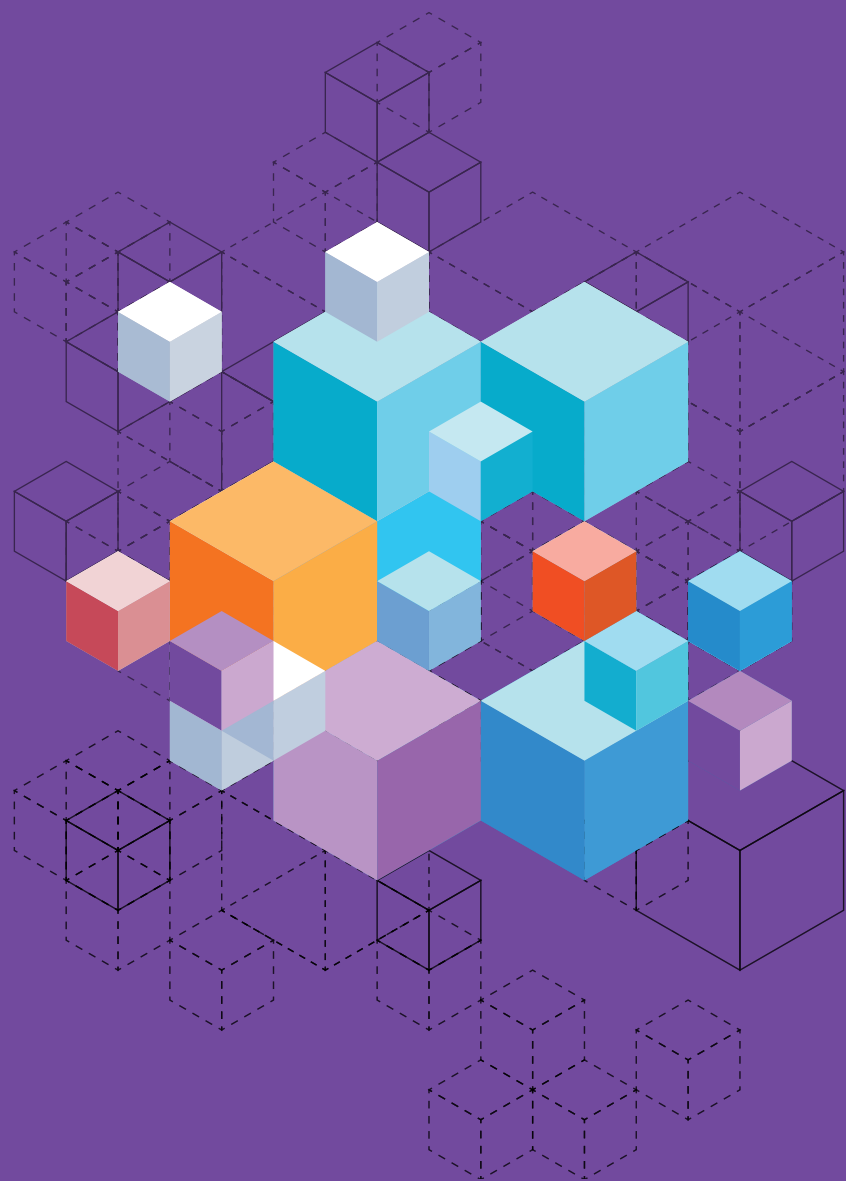
It is important that fiscal consolidation is designed to minimize the impact on the poor. Removing VAT exemptions, which tend to disproportionately benefit wealthier households, would constitute a positive first step. However, personal income tax and transfer spending are much more progressive than VAT. A recent assessment of the distributional impact found that the fiscal policy has become more progressive since 2009, largely because of an increase in direct transfers, but personal income tax revenue remains small. Ongoing reforms to implement criteria to select beneficiaries of Samurdhi, the main cash transfer program for the poor, will be crucial to assist the poor and maintain political support for reforms.

Table: Sri Lanka (annual percent change unless noted otherwise)

	2013	2014	2015	2016 e	2017 f	2018 f
Real GDP growth, at constant market prices	3.4	4.9	4.8	4.8	5.0	5.1
Private Consumption	7.8	5.7	6.5	4.4	5.0	5.1
Government Consumption	0.1	6.1	10.3	2.7	1.9	1.7
Gross Fixed Capital Investment	5.0	-3.2	1.0	2.7	11.4	9.7
Exports, Goods and Services	6.6	4.3	4.7	5.7	5.0	5.0
Imports, Goods and Services	-1.5	9.6	10.6	0.7	8.4	7.0
Real GDP growth, at constant factor prices	3.8	4.7	4.6	4.8	5.0	5.1
Agriculture	3.2	4.9	5.5	1.5	3.5	3.5
Industry	4.1	3.5	3.0	4.2	4.7	5.1
Services	3.8	5.2	5.3	5.5	5.3	5.3
Inflation (Consumer Price Index)	6.9	3.3	0.9	4.0	4.5	4.7
Current Account Balance (% of GDP)	-3.4	-2.5	-2.4	-0.6	-1.4	-2.1
Financial and Capital Account (% of GDP)	4.2	2.0	2.8	0.6	1.4	2.1
Net Foreign Direct Investment (% of GDP)	1.2	1.0	0.8	0.8	1.6	1.8
Fiscal Balance (% of GDP)	-5.4	-5.7	-7.4	-5.7	-4.6	-4.4
Debt (% of GDP)	70.8	70.7	76.0	76.1	74.9	73.4
Primary Balance (% of GDP)	-0.8	-1.5	-2.9	-1.0	-0.1	0.4

Source: World Bank, Macroeconomics and Fiscal Management Global Practice
Note: e = estimate, f = forecast





South Asia at a glance

			AFG (1)	BGD (5)	BTN (10)	IND (13)	MDV (20)	NPL (22)	PAK (25)	LKA (32)	SAR (39)
BALANCE of PAYMENTS	Real GDP Growth (%, y-o-y)	2013	2.0	6.0	2.1	6.6	4.7	4.1	4.4	3.4	..
		2014	1.3	6.1	5.5	7.2	6.5	6.0	4.7	4.9	6.7
		2015	0.8	6.6	6.1	7.6	1.9	2.7	4.7	4.8	6.8
		2016 (est)	0.5	7.1	7.3	7.6	3.5	0.6	5.7	4.8	7.1
		2016 Q1	..	..	..	8.0	..	..	..	5.2	8.0
		2016 Q2	..	..	..	7.0	..	..	..	2.6	6.8
	Inflation (Consumer Price Index)	2013	7.7	6.8	8.8	9.4	2.3	9.9	7.4	6.9	7.7
		2014	4.6	7.3	8.3	5.9	2.1	9.1	8.6	3.3	6.8
		2015	-1.5	6.4	5.2	4.9	0.4	7.2	4.5	0.9	3.5
		2016 (est)	6.0	5.9	4.6	5.0	1.3	9.9	2.9	4.0	3.4
		2016 Jul	..	5.4	..	6.1	..	..	4.0	..	5.4
		2016 Aug	..	5.4	..	5.0	..	..	3.5	..	5.0
	REER (CY)	2013	100.8	84.1	98.2	94.5	98.6	98.5	102.2	95.1	95.2
		2014	97.7	97.0	99.4	96.1	98.2	99.0	104.2	96.8	96.8
		2015	97.6	103.2	99.3	103.8	106.6	101.9	112.1	97.0	104.6
		2016 (est)	..	..	..	104.6	..	..	113.5	..	105.4
		2016 Jul	..	..	..	106.2	..	..	113.5	..	106.9
		2016 Aug	..	..	..	106.5	..	..	112.7	..	107.1
	Current Account Balance (% of GDP)	2013	7.4	1.6	-23.1	-6.0	-4.6	3.1	-1.1	-3.4	-3.3
		2014	8.0	0.8	-24.6	-2.8	-3.9	4.8	-1.3	-2.5	-2.7
		2015	5.0	1.5	-30	-2.3	-8.0	3.8	-1.0	-2.4	-4.2
		2016 (est)	3.7	1.7	-29.4	-1.7	-7.7	4.1	-0.9	-0.6	-3.9
	Trade Balance (% of GDP)	2012	-39.7	-6.6	-24.1	-5.0	18.7	-27.7	-8.3	-8.7	-6.0
		2013	-33.6	-7.0	-23.4	-3.3	18.3	-32.2	-8.4	-8.0	-4.6
		2014	..	-5.4	-24.3	..	13.3	-26.2	-7.0	-7.4	-1.5
	Import Growth (%, y-o-y)	2013	35.7	1.2	-1.8	-8.2	..	14.2	1.8	-1.5	..
		2014	-5.6	1.2	-3.5	0.8	..	21.0	0.3	9.6	1.0
		2015	2.4	3.2	4.3	-2.8	..	9.5	-1.6	10.6	-1.6
		2016 (est)	3.2	-8.9	5.5	5.5	..	3.5	12.4	0.7	1.5
	Export Growth (%, y-o-y)	2013	22.1	2.5	3.9	7.8	..	10.3	13.6	6.6	..
		2014	6.8	3.2	-6.0	1.7	..	18.4	-1.5	4.3	5.5
		2015	4.8	-2.8	-0.2	-5.2	..	7.5	-6.3	4.7	-4.9
		2016 (est)	3.4	-0.3	-2.0	6.2	..	-3.2	-4.8	5.7	2.2
		2016 Q1	..	4.1	..	-5.2	..	..	-12.9	-7.3	..
		2016 Q2	..	..	..	-2.2	..	..	-12.2	..	..

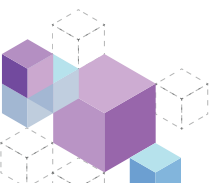


			AFG (1)	BGD (5)	BTN (10)	IND (13)	MDV (20)	NPL (22)	PAK (25)	LKA (32)	SAR (39)	
BALANCE of PAYMENTS	Foreign Reserves, months of import cover (CY)	2013	9.1	5.0	9.3	7.5	1.7	8.6	2.6	5.5	7.0	
		2014	10.3	6.0	11.9	8.1	2.4	8.4	2.9	6.2	7.6	
		2015	..	7.6	9.6	10.6	2.2	12.5	4.6	5.5	9.9	
		2016 (est)	..	8.4	..	12.7	..	..	5.3	5.3	11.5
		2016 Jul	..	..	..	13.1	..	..	..	..	11.8
		2016 Aug	..	..	..	12.7	..	..	..	..	11.4
	Remittances (US\$ million) (CY)	2012	252	14,120	18	68,821	3	4,793	14,007	6,000	108,013	
		2013	314	13,867	12	69,970	3	5,589	14,629	6,422	110,806	
		2014	268	14,988	14	70,389	3	5,889	17,244	7,036	115,831	
		2015	..	15,388	20	..	4	6,730	19,306	7,000	48,447	
		2016 Q1	..	3,572	..	8,010	..	..	4,698	1,793	..
		2016 Q2	..	3,872	..	8,824	..	..	5,529	1,820	..
GOVERNMENT FINANCES	Fiscal Balance (% of GDP)	2013	1.1	-3.9	-0.2	-6.5	-7.4	0.5	-8.4	-5.4	-7.2	
		2014	-1.7	-3.6	2.7	-7.1	-9.1	0.6	-4.9	-5.7	-6.2	
		2015	-0.6	-3.9	-0.7	-6.5	-8.5	-1.8	-5.2	-7.4	-6.4	
		2016 (est)	-0.5	-4.3	-4.2	-6.6	-13.0	0.3	-4.4	-5.7	-6.2	
	Public Debt (% of GDP)	2013	6.7	34.4	98.1	64.7	64.8	32.2	64.7	70.8	54.5	
		2014	6.0	33.9	96.4	65.2	66.6	28.5	64.4	70.7	56.0	
		2015	5.2	33.6	98.2	67.1	72.1	25.6	64.1	76.0	58.0	
		2016 (est)	5.0	34.4	102.1	66.9	81.9	25.1	66.1	76.1	60.5	
	CONSUMPTION and INVESTMENT	Private Consumption Growth (% , y-o-y)	2013	2.0	5.1	13.1	6.8	..	2.9	2.1	7.8	..
			2014	1.5	4.0	18.0	6.2	..	4.1	5.6	5.7	6.2
2015			-0.2	5.8	7.1	7.4	..	2.9	3.2	6.5	6.4	
2016 (est)			0.9	5.3	7.5	7.7	..	-0.6	7.0	4.4	6.8	
Gross Fixed Capital Investment Growth (% , y-o-y)		2013	3.8	5.4	-35.7	3.4	..	16.8	2.6	5.0	..	
		2014	12.5	9.9	38.3	4.9	..	11.4	2.5	-3.2	2.7	
		2015	1.9	7.1	6.1	3.9	..	19.6	14.1	1.0	6.2	
		2016 (est)	1.4	8.9	11.7	7.7	..	-12.2	5.7	2.7	7.0	
Net Foreign Direct Investment (% of GDP)		2013	0.5	1.2	2.8	1.1	13.0	0.4	0.5	1.2	1.4	
		2014	0.6	0.8	0.4	1.1	10.9	0.2	0.6	1.1	1.5	
		2015	0.9	0.9	1.7	1.4	10.6	0.1	0.3	0.8	1.9	
		2016 (est)	0.3	0.9	..	1.5	10.0	..	0.4	0.8	..	
Portfolio Investment (US\$ million)		2013	29	-127	..	-6,858	53	..	-27	-2,068	..	
		2014	-27	-968	..	-37,740	17	..	-3,836	-2,065	..	
		2015	..	-300	..	..	5	..	-909	-689	..
		2016 Q1	..	..	..	..	..	..	..	-578	..



Notes

est	Estimate
f	Forecast
CY	Series for Calendar Year
FY	Series for Fiscal Year
Sources	World Bank MFM, World Bank DECPG, World Bank WDI, IMF WEO, national authorities and Haver
Real GDP Growth	Real GDP growth rates (percent change, y-o-y) at Market Prices, measured in Constant 2010 US\$
Inflation (Consumer Price Index)	Period average percent change in CPI inflation
REER (CY)	January-September average for 2016 observation
Current Account Balance (% of GDP)	Does not include grants unless otherwise stated
Trade Balance (% of GDP)	Net balance of gross trade in goods and non-factor services (GNFS) (% of GDP)
Import Growth (% , y-o-y)	Annual (respective) fiscal year percent change of goods and non-factor services (GNFS) imports
Export Growth (% , y-o-y)	Annual (respective) fiscal year percent change of goods and non-factor services (GNFS) exports
Foreign Reserves, months of import cover (CY)	Gross reserves to number of months of import coverage, EOP
Remittances (US\$ million) (CY)	Personal remittances including personal transfers and compensation of employees in Current US\$
Fiscal Balance (% of GDP)	Does not include grants unless otherwise stated
Public Debt (% of GDP)	Gross public debt stock including domestic and foreign liabilities, End of Period
Private Consumption Growth (% , y-o-y)	Annual (respective) fiscal year percent change in gross consumption expenditure
Gross Fixed Capital Investment Growth (% , y-o-y)	Annual (respective) fiscal year percent change in gross fixed capital expenditure
Net Foreign Direct Investment (% of GDP)	Net balance of Foreign Direct Investment assets and liabilities as a ratio to GDP
Portfolio Investment (US\$ million)	Net balance of Foreign Portfolio Investment assets and liabilities in Current US\$



Afghanistan

- 1 Real GDP Growth figures for calendar year
- 2 Foreign Reserves, months of import cover (CY): World Bank WDI
- 3 Current Account Balance (% of GDP): Including donor grants
- 4 Fiscal Balance: Includes donor grants

Bangladesh

- 5 Fiscal Year runs from Jul-1 to Jun-30; for example: for 2016 observations 2015-2016 values are used
- 6 Inflation (Consumer Price Index) monthly data is End-of-Period values
- 7 Foreign Reserves, months of import cover (CY): World Bank DECPG
- 8 Quarterly Export Growth includes merchandise trade customs, in constant seasonally adjusted 2010 US\$
- 9 Remittances (US\$ million) (CY): Haver Analytics (National Sources)

Bhutan

- 10 Fiscal Year runs from Jul-1 to Jun-30; for example: for 2016 observations 2015-2016 values are used
- 11 Foreign Reserves, months of import cover (CY): World Bank WDI
- 12 Net Foreign Direct Investment (% of GDP): World Bank WDI

India

- 13 Fiscal Year runs from Apr-1 to Mar-31; for example: for 2016 observations 2015-2016 values are used
- 14 Quarterly Real GDP Growth: World Bank DECPG
- 15 Monthly Inflation (Consumer Price Index) uses nominal, seasonally adjusted data from World Bank DECPG
- 16 REER (CY): World Bank DECPG
- 17 Quarterly Export Growth includes merchandise trade customs, in constant seasonally adjusted 2010 US\$
- 18 Foreign Reserves, months of import cover (CY): World Bank DECPG
- 19 Remittances (US\$ million) (CY): Haver Analytics (National Sources)

Maldives

- 20 Real GDP Growth figures for calendar year
- 21 Foreign Reserves, months of import cover (CY): World Bank WDI

Nepal

- 22 Fiscal Year runs from Jul-16 to Jul-15; for example: for 2016 observations 2015-2016 values are used



23 Foreign Reserves, months of import cover (CY): World Bank WDI

24 Net Foreign Direct Investment (% of GDP): World Bank WDI

Pakistan

25 Fiscal Year runs from Jul-1 to Jun-30; for example: for 2016 observations 2015-2016 values are used

26 Real GDP growth reported at factor cost

27 Monthly Inflation (Consumer Price Index) uses nominal, seasonally adjusted data from World Bank DECPG

28 REER (CY): World Bank DECPG

29 Quarterly Export Growth includes merchandise trade customs, in constant seasonally adjusted 2010 US\$

30 Foreign Reserves, months of import cover (CY): World Bank DECPG

31 Remittances (US\$ million) (CY): Haver Analytics (National Sources)

Sri Lanka

32 Real GDP Growth figures for calendar year

33 Quarterly Real GDP Growth: World Bank DECPG

34 Quarterly Export Growth includes merchandise trade customs, in constant seasonally adjusted 2010 US\$

35 Consumption and Investment: WB Staff Calculations

36 Foreign Reserves, months of import cover (CY): World Bank DECPG

37 Remittances (US\$ million) (CY): Haver Analytics (National Sources)

38 Portfolio Investment (US\$ million): Haver Analytics (IMF BoP)

SAR

39 Real GDP Growth figures for calendar year

40 Quarterly Real GDP Growth: World Bank DECPG

41 Inflation data is seasonally adjusted median weighted CPI percent change, y-o-y

42 Current Account Balance (% of GDP): WB Staff calculations

43 Import Growth (% , y-o-y): World Bank DECPG

44 Export Growth (% , y-o-y): World Bank DECPG

45 Foreign Reserves, months of import cover (CY): World Bank DECPG

46 Remittances: 2015 data does not include Afghanistan and India

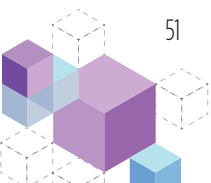
47 Fiscal Balance (% of GDP): WB staff Calculations based on IMF WEO data

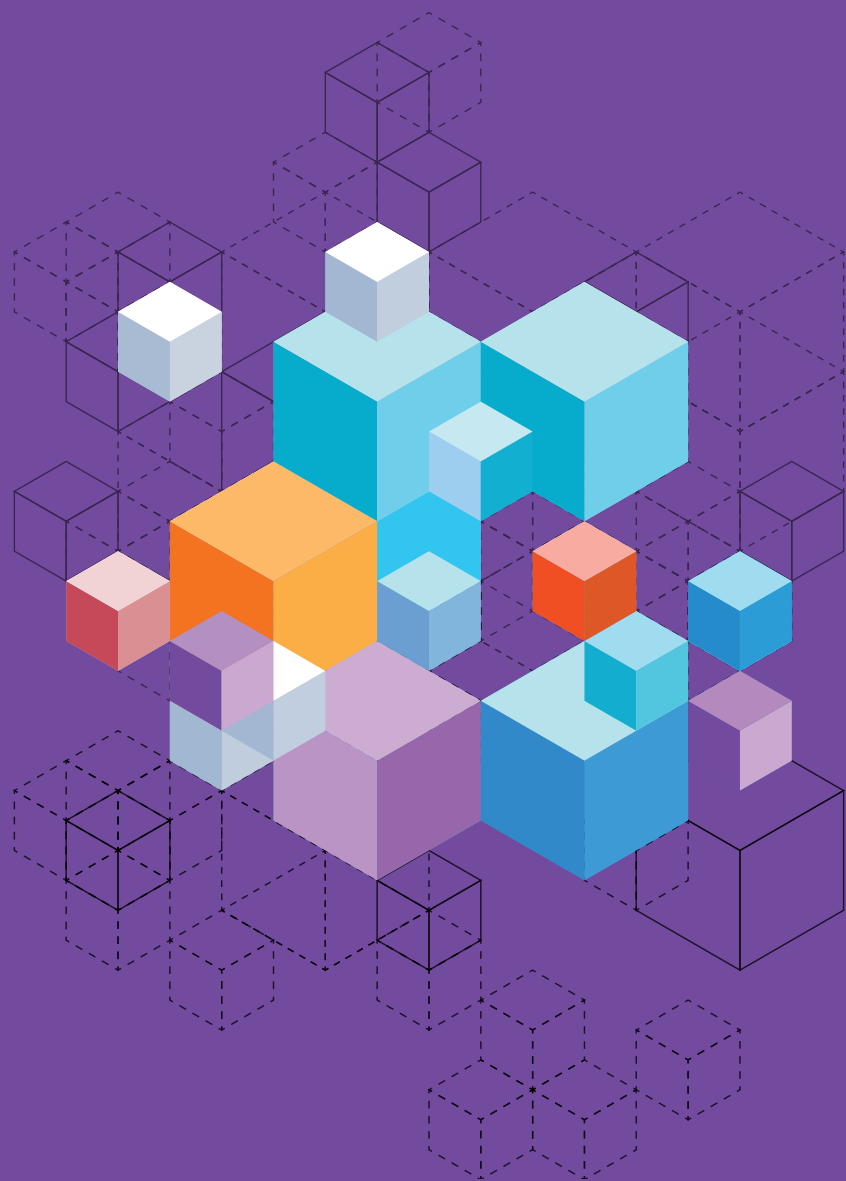
48 Public Debt to GDP: WB staff Calculations based on IMF WEO data

49 Private Consumption Growth (% , y-o-y): World Bank DECPG

50 Gross Fixed Capital Investment Growth (% , y-o-y): World Bank DECPG

51 Net Foreign Direct Investment (% of GDP): World Bank staff calculations based on World Bank WDI data







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