

Executive Summary

South Asia's growth is on track to exceed earlier expectations, in a broad-based upturn. The region is expected to remain the fastest-growing among emerging market and developing economies (EMDEs). Several risks could upend this generally promising outlook, including extreme weather events, social unrest, and policy missteps, such as reform delays. But South Asian countries also have considerable untapped potential that could help them further boost productivity growth and employment and adapt to climate change. In particular, with about two-thirds of the region's working-age women out of the labor force, raising female employment rates to those of men could increase per capita income by as much as one-half. Measures to accelerate job creation, remove obstacles to women working, and equalize gender rights would be more effective if combined with a shift toward social norms that looked more favorably on working women. Also, most South Asian countries rank among the EMDEs least open to global trade and investment. Greater openness could boost women's employment, spur the growth of firms, and allow the region to take better advantage of the reshaping of global supply chains and trade. Reducing the cost of conducting business could help the region better harness large-scale remittance inflows.

Chapter 1. Rising Tide, Hidden Rocks. Output growth in South Asia is on track to exceed earlier expectations, at 6.4 percent in 2024 and 6.2 percent a year in 2025–26, in a broad-based upturn. It is expected to remain higher than in all other emerging market and developing economy (EMDE) regions. This outlook is subject to downside risks from extreme weather events, social unrest, debt distress, and reform delays. The region's fragile fiscal and external positions leave few buffers against these downside risks. Boosting productivity growth and employment, especially among women, while adapting to climate change remain core policy challenges. Raising employment among women to levels comparable to those among men could raise output by as much as one-half in the long term. Increased openness to global trade and investment, along with the removal of obstacles to the growth of firms, could attract foreign investment, accelerate the diffusion of new technologies, and spur the private investment needed for job creation.

Box 1.1. Sheltered: Implications of Goeconomic Fragmentation for South Asia. The global economy is fragmenting along geopolitical lines. South Asian economies have limited exposure to geopolitical shocks as they are among the quarter of EMDEs that are least open to global trade and investment. However, their lack of openness is not only protective. It also limits their ability to take advantage of the reshaping of global supply chains and trade. Although South Asian countries maintain fairly diverse trade and investment ties,

they would benefit from further opening to global trade and investment, improvements in infrastructure and logistics, and greater institutional effectiveness. Cultivating diversified trading partners and creditors across the geopolitical spectrum could help South Asian countries mitigate vulnerabilities in a more open and dynamic economy.

Spotlight 1. Heat and Floods in South Asia: Household and Firm Exposure. Climate change is increasingly exposing South Asia to extreme heat, floods, and other weather shocks, but some groups are more exposed than others. Poorer South Asian households experience more heat than wealthier ones. In urban areas, poorer households also experience more damage and disruption from recurring flooding. And, in India, smaller firms are more exposed to both heat and flooding. These disparities highlight a need to remove obstacles to relocation, especially for the poor, and to spur the growth of firms. Information on the location of the most climate-affected people can inform targeting mechanisms for social protection systems that can readily respond to shocks.

Spotlight 2. Mind the Side Effects: Remittances and Economic Structure. Several South Asian countries are among the EMDEs with the highest remittance inflows relative to GDP. While remittances help reduce poverty and improve household education and health, large inflows can create currency appreciation pressures and international competitiveness losses, with adverse

consequences for exports, non-agricultural sectors, and private investment. Governments can encourage remittance inflows but offset the associated loss of competitiveness by reducing other costs of doing business. For example, they can shift away from trade-related taxes and create an environment conducive to faster productivity and employment growth.

Chapter 2. Empower to Prosper: Women Working for Growth. Over the past three decades, South Asia has benefited from strong economic growth, accompanied by a shift toward services sectors, growing exports, and stronger legal protections for women. These changes have expanded opportunities for all, including for many women. And yet, women's employment remains a source of untapped potential. South Asia's female labor force participation remains among the lowest in the world: only 32 percent of working-age women in the region participate in the labor force, far below the EMDE average of 54 percent. This low participation rate represents a costly misallocation of resources: raising this rate to that of men could boost per capita incomes by up to one-half. A wide range of policies could help women enter the workforce. These include legal reforms to improve gender equality, faster job

creation in non-agricultural sectors, and the removal of barriers to women working outside the home. Such measures are likely to be more effective if accompanied by a shift toward social norms that look more favorably upon women's employment.

Box 2.1. The Role of Laws, Beliefs, and Social Expectations in Labor Markets. Both restrictive laws and conservative social norms depress female labor force participation. In part, this may result from weak implementation of de jure rights because of more conservative personal beliefs and, particularly, social expectations.

Box 2.2. The Marriage Penalty in South Asia. Marriage reduces women's labor force participation in South Asia, even without factoring in child-rearing—a phenomenon known as the “marriage penalty.” On average in four South Asian countries (Bangladesh, India, Maldives, Nepal), the share of women employed after marriage is 12 percentage points (about one-third) lower than the share employed before marriage. In contrast, men enjoy a “marriage premium.” In South Asia, education can mitigate a woman's marriage penalty.