CHAPTER 1

Deceptive strength
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Output growth in South Asia, projected at 6.0–6.1 percent in 2024–25, remains stronger than in other emerging market and developing economies, largely due to strong growth in India. Growth in the rest of the region is picking up, but in most countries is expected to remain well below pre-pandemic averages. More than in other emerging market and developing economies, growth is being driven by the public sector. Many of the underlying vulnerabilities that had caused earlier balance-of-payments pressures remain and point to downside risks to growth. Stronger job creation and the easing of financial market restrictions could help boost growth, private investment, and government revenues, and also facilitate climate adaptation.

Introduction

Global economic growth has slowed as monetary policies remain restrictive. The slowdown has been orderly so far, with output growth gradually converging to its potential growth rate and inflation returning toward target levels.

In South Asia, output growth has surprised on the upside and remains stronger than in other emerging market and developing economies (EMDEs). This is largely a consequence of India’s robust economic expansion (figure 1.1).

Since peaking in mid-2022, inflation in both South Asia and the rest of the world has eased significantly. Supply chains have been resilient to intermittent tensions affecting shipping around the Red Sea and drought in the Panama Canal. The decline of inflation in South Asia has been less rapid than in other EMDEs because of persistent increases in food prices and the lingering effects of past currency depreciations.

Most EMDEs weathered tightening financial conditions around the world with few signs of financial stress. About one in four EMDEs faced difficulties, however, including Afghanistan, Maldives, Pakistan, and Sri Lanka in South Asia. To ease balance-of-payments pressures, several South Asian governments tightened macroeconomic policies, imposed capital controls and import restrictions, and undertaken economic adjustment and reform programs supported by the International Monetary Fund (IMF).

South Asia was the fastest growing EMDE region in 2023, a distinction that is expected to continue this year and next largely due to strong growth in India. As global growth is projected to ease this year, growth in South Asia is also expected to moderate to 6.0 percent—faster than projected in the Fall 2023 edition of the South Asia Development Update, due to the strength of India—and gradual recoveries in countries that had faced recessions in 2022–23. Growth in South Asian economies other than India and Bhutan is projected to remain well below pre-pandemic averages, and growth in South Asia’s financially stressed economies is expected to pick up somewhat more slowly than in their peers. Growth in the region is more reliant than elsewhere on the public sector. This may be difficult to sustain given weak fiscal positions around the region.

More than any other EMDE region, South Asia was buffeted by sharp currency depreciations after the pandemic. Because of fragile fiscal positions and weaker financial systems than elsewhere, several South Asian countries have limited buffers to respond to financial market disruptions or persistent balance-of-payments pressures. This leaves these countries at risk of further currency crises if, for example, monetary policy loosening in major advanced economies is delayed or domestic policy reforms are postponed. A further risk to the region is the possibility that broader global geopolitical and other tensions lead to an increase in trade barriers and other protective measures. This would depress global trade, particularly in services, on which South Asia relies more than other regions and which is highly sensitive to geopolitical developments. Climate change and the increased prevalence of weather extremes also present a particular, growing risk to the region.

Note: This chapter was prepared by Patrick Kirby, with contributions from Jonah Rexer, Siddharth Sharma, Margaret Triyana, and Zoe Lei Yu Xie.
Output growth in South Asia is expected to continue to outperform other emerging market and developing economies (EMDEs), but this is mainly attributable to India. In several South Asian countries, inflation remains above recent historical norms, largely owing to rising food prices. Growth in South Asia relies more than elsewhere on the public sector. Some of the region’s financial sector policies, including interest rate and other controls, risk distorting the allocation of capital.

Output growth in financially stressed EMDEs

Contributions to growth

Financial soundness indicators, 2018–22

Index of interest rate controls

Global economic growth has slowed as monetary policy has remained restrictive in many countries in efforts to lower inflation. Fiscal positions have generally deteriorated, not only because of higher interest rates and the build-up of debt during the pandemic but also because of fiscal policy relaxation in advanced economies.

Thus far, the slowdown in global growth has been orderly. Output growth is gradually converging to its potential rate and inflation is returning toward targets or pre-pandemic levels without triggering recessions in many countries (figure 1.2). The slowdown has been less severe than expected; growth in 2023 has surprised on the upside for several major economies. Even so, geopolitical risks have risen as a result of conflicts in the Middle East.

In the United States, output and employment have grown rapidly, partly reflecting a significant fiscal boost to demand in 2023. Estimated growth in 2023 has been upgraded significantly from projections at end-2022, and economic sentiment
 indicators have risen sharply since the end of 2023. Meanwhile inflation has slowed substantially.

In contrast, the euro area economy has shown multiple signs of weakness. GDP growth stalled in 2023 and activity contracted in its largest economy, Germany. The manufacturing sector is struggling with continued high costs and anemic domestic and international demand. Financial conditions remain tight and confidence is low.

China’s economy is experiencing a downturn in the property sector, as major property developers have defaulted on their debts. Policymakers have provided some support to stabilize activity. Both imports and exports contracted steadily for much of 2023, but have rebounded more recently.

For other EMDEs, growth has been stable but weak. Commodity exporters face particularly strong headwinds from weak global manufacturing activity and declining commodity prices. A substantial minority—about one in four EMDEs, including Afghanistan, Maldives, Pakistan, and Sri Lanka in South Asia—are struggling to adjust to restrictive financing conditions. These EMDEs have weak credit ratings and high financing costs. Several have been forced to default on sovereign debts because they have lost access to market-based financing. These countries remain vulnerable to new interest rate shocks, which could trigger a renewed period of capital outflows, currency depreciation, and surging inflation.

**Regional developments**

The South Asian economy (excluding Afghanistan) grew by 6.6 percent in 2023, 1.0 percentage point faster than projected in the October edition, reflecting better-than-expected growth in India. This was the fastest growth rate of any EMDE region. In most countries, earlier large current account deficits have narrowed, in part due to import compression, but capital inflows have continued to be subdued. In several countries, the measures used have continued to impede growth. As a result, growth has mostly been weaker than pre-pandemic averages in South Asian countries other than India.

**FIGURE 1.2 Economic activity**

Global output growth has converged to its potential and growth surprised on the upside for some major economies. Geopolitical risks have risen, but have remained lower than in previous periods of turmoil. In South Asia, too, growth is estimated to have been higher than anticipated, largely due to the public sector. Investment in all South Asian countries remains below pre-pandemic averages. The recovery in international travel has provided some support but travel has yet to return to pre-pandemic levels.

**A. Global actual and potential output growth**

**B. Consensus forecasts and growth outcomes in major economies**

**C. Geopolitical risk index**

**D. Contributions to growth, public and private sectors**

**E. Private investment growth**

**F. Tourist arrivals in South Asia**

Sources: Caldara and Iacoviello (2022); CEIC; Consensus Economics; Haver Analytics; Kilic Celik et al. (2023); WDI (database); WEO (database); World Bank MPO (database); World Bank.

Note: EMDEs = emerging market and developing economies; SAR = South Asia.

A. Red dashed line is computed as the interpolation between the 2021 value from Kilic Celik et al. (2023) and WEO 2028 GDP forecasts.

C. Based on Caldara and Iacoviello (2022). Last observed date for 2024 peak is January 2024. Latest data available is January 2024.

D. Contributions in SAR assume that half of India’s forecasted discrepancy in FY2023/24 is due to public sector. SAR excludes Maldives and Sri Lanka due to lack of data.


F. Cumulative number of tourist arrivals in South Asia since January of each year. Last observation for 2023 is December. Sample includes Maldives, Nepal, and Sri Lanka. Bhutan stopped publishing tourism statistics during the pandemic and has not resumed.
Growth of government consumption and total investment remained robust amid election campaigns in almost all South Asian economies over 2023–24. Government consumption and total investment grew by 6.2 percent and 8.5 percent, respectively, in 2023—more than double the growth of private consumption. Private investment growth in all countries remained well below pre-pandemic averages, however. Robust private investment accelerations that were underway in several South Asian countries before the pandemic have since subsided (box 1.1).

The recovery in international travel to South Asia has been slower than the global average. However, a pickup around the middle of last year has provided some support to growth in tourism-dependent countries such as Maldives, Nepal, and Sri Lanka.

In Bangladesh, growth slowed from around 7 percent in FY2021/22 to 6.1 percent in 2023Q3, according to the provisional estimate of Bangladesh’s Bureau of Statistics. Trade and foreign exchange restrictions put into place in response to balance-of-payments pressures in 2022–23 contributed to a severe import contraction that narrowed the current account deficit. Shortages of imported intermediate goods impeded domestic activity.

In Bhutan, growth was stronger than expected in 2023 and forecasts have been upgraded for 2024–25, largely reflecting strong exports of hydroelectricity and the re-opening of borders in late 2022. The government has partially relaxed the tourism levy imposed on non-Indian foreign visitors, but the number of visitors is still well below pre-pandemic levels. Imports of crypto-mining equipment widened the current account deficit to more than 30 percent of GDP in 2022–23.

In India, economic activity surprised on the upside in 2023Q4, with growth of 8.4 percent from a year ago. The expansion was supported by rapid increases in investment and government consumption. More recent survey data point to continued strong performance. In February, India’s composite purchasing managers index (PMI) stood at 60.6, well above the global average of 52.1 (a value above 50 indicates expansion). Growth in FY2023/24 is estimated to have exceeded earlier forecasts.

In Maldives, the economy grew by 2 percent year-on-year in 2023Q3, a significant slowdown from the 13.9 percent growth of 2022. Tourism activity contracted by 5 percent in the year to 2023Q3, the second consecutive quarterly contraction, as tourists increasingly shifted from high-end resorts to lower-end guesthouses. Fiscal policy began to tighten.

In Nepal, following the lifting of import controls, economic growth has shown signs of recovery as expected from its dip in 2023, especially in the services sector. Remittance inflows grew at a double-digit pace between July 2023 and January 2024, which has helped rebuild foreign reserve buffers to 12 months of imports but has not yet translated into strong private consumption growth.

Pakistan’s growth strengthened to 2.1 percent in 2023Q3 after two consecutive quarters of contraction, propelled by 5 percent growth in agriculture and 3 percent growth in manufacturing. Nevertheless, growth remains less than half its pre-pandemic average and industrial production remains well below its pre-recession level. The current account deficit narrowed in 2023Q4, with both imports and exports recovering.

Sri Lanka’s economy is also returning to growth, as expected. Activity increased by 1.6 percent year-on-year in the year to 2023Q3, ending an extended recession that started in early 2022. A recovery in tourism has boosted growth while also contributing to a substantial improvement in the current account balance. Remittances have also recovered after plummeting in 2021 and 2022, although they remain below pre-pandemic levels.

Afghanistan is struggling with drought and deflation. In 2020–22, nearly 80 percent of the population was food insecure and 30 percent undernourished, on average (FAO, IFAD, UNICEF, WFP, and WHO 2023). An extended period of unusually dry weather will worsen conditions. The economy is likely to be
BOX 1.1 Accelerating Private Investment

Private investment growth has slowed sharply from pre-pandemic averages in all South Asian countries, hampering the region’s efforts to meet development and climate objectives. Historically, sustained accelerations in private investment were most likely to occur when institutional quality was strong, the real exchange rate was competitive, and economies were more open to trade and capital flows.

Introduction

Private investment growth has slowed sharply from pre-pandemic (2015–19) rates in all countries in South Asia (figure B1.1.1). South Asia’s private investment weakness is part of a broader phenomenon in emerging markets and developing economies (EMDEs), although it is less pronounced in South Asia than elsewhere.

Thus far in the 2020s, South Asia’s private investment growth (3.5 percent per year) averaged about half its pace in the five years preceding the pandemic (7.2 percent per year during 2015–19). Notwithstanding this slowdown, South Asia’s private investment growth has remained above that in other EMDEs, where the deceleration has also been pronounced.

Although private investment has grown more quickly than elsewhere, it still makes up a smaller share of output in South Asia than in other EMDEs. Private investment has accounted for 23 percent of GDP since 2020, down from its pre-pandemic share of 24 percent and well below the 31 percent share of GDP among other EMDEs.

With weak private investment, several South Asian countries have relied heavily on public investment for growth (World Bank 2023a). This is unlikely to be sustainable given weak fiscal positions, with high debt-to-GDP ratios and poor revenue collection in most countries in the region.

The shortfall of private investment is an obstacle to achieving both development and climate goals. Achieving those goals will require substantial investment to accelerate fill infrastructure gaps, adapt to climate change, facilitate the energy transition, accelerate poverty reduction, catch up to advanced-economy incomes, and advance shared prosperity (G20 and IEG 2023; Rozenberg and Fay 2019; Stamm and Vorisek 2023; UNEP 2023b).

Private investment can lay the foundation for future growth. It increases the capital stock available to workers and it contributes to technological progress, as it often embodies productivity-enhancing technologies and facilitates the reallocation of resources toward more productive uses (Dieppe, Kilic Celik, and Okou 2021; Syverson 2011). Progress on these fronts is essential to raise labor productivity in South Asia, which is about one-third of other EMDEs. The region consumes twice as much energy per unit of output as the global average, in part because firms lag in adopting advanced energy-efficient technologies (World Bank 2023a).

A sustained acceleration of private investment should be a policy priority for South Asia. Investment accelerations are typically periods of rapid growth in output, employment, and productivity, accompanied by improvements in fiscal positions, poverty, and inequality (World Bank 2024a). This box investigates two questions.

- What have been the features of private investment accelerations?
- What have been the preconditions associated with starts of private investment acceleration?

Contribution. This box extends the analysis of aggregate investment accelerations in World Bank (2024a) to private investment, which is a more pressing concern for South Asia. Earlier research has examined output accelerations in event studies (Berg, Ostry, and Zettelmeyer 2012; Hausmann, Pritchett, and Rodrik 2005; Jones and Olken 2008) and the correlates of aggregate investment in panel regressions (Anand and Tulin 2014; Caselli, Pagano, and Schivardi 2003; Kose et al. 2017; Qureshi, Diaz-Sanchez, and Varoudakis 2015; World Bank 2019). None of these studies has identified the correlates of private investment accelerations.

Main findings. The main findings of this box include the following.

- Private investment accelerations have lasted about eight years, with private investment growth...
averaging 12 percent a year during these episodes. Hence, episodes of private investment acceleration have been somewhat shorter and shallower than episodes of total investment acceleration. Accelerations in South Asia have been somewhat stronger and shorter than those in the average EMDE.

- Most private investment accelerations in EMDEs have tapered off gently rather than ending in crisis.

Only about one-tenth of private investment accelerations in EMDEs ended in financial crises and one-fifth in recessions (although mostly coinciding with global recessions).

- Private investment accelerations have been more likely to start when institutional environments were strong, when countries were more open to global trade and finance, and when real exchange rates were competitive.
**BOX 1.1 Accelerating Private Investment (continued)**

- The probability of initiating a private investment acceleration in South Asia could be almost two-thirds higher if the region moved to the EMDE average in its openness to global trade and finance and if its institutional quality was brought in line with the top quartile of EMDEs.

**Data.** Private investment is defined as real gross fixed capital formation by the private sector, as reported by the IMF. This study focuses on growth in private investment per capita because it parallels growth in GDP per capita, the most basic measure of growth in living standards and central to the analysis of long-term economic growth (Libman, Montecino, and Razmi 2019). The dataset covers up to 105 EMDEs over 1960–2022.

**Definitions and methodology.** Following World Bank (2024a), an event study approach is used to identify private investment accelerations. The approach follows earlier studies on accelerations of output and capital stock, and imposes rules to ensure that the identified episodes feature sustained increases in private investment growth to a rapid rate. Each episode is defined by the following characteristics: 1) it must be sustained for at least six years; 2) average annual per capita growth of private investment in the acceleration must be at least 4 percent; 3) the average annual growth rate of private investment per capita must be at least 2 percentage points higher than the average of the previous six years to ensure that the episode is an acceleration; and 4) the private capital stock per capita at the end of the episode must exceed its pre-episode peak. These rules help exclude purely cyclical rebounds in investment growth (Barro and Sala-i-Martin 1992; Christiano and Fitzgerald 2003).


**Features of private investment accelerations**

**EMDEs.** The average private investment acceleration in EMDEs lasted 8.1 years, somewhat shorter than the average total investment acceleration (figure B1.1.2). During accelerations, private investment grew by 12.2 percent per year, on average—somewhat more slowly than during the average total investment acceleration. Private investment accelerations were often accompanied by strong public investment. Most accelerations tapered off smoothly; few ended in financial crises. Specifically, only 11 percent of the 187 private investment accelerations in the sample ended in a currency, banking, or debt crisis—as defined by Laeven and Valencia (2020)—within one year of the end of the episode. Nor did these episodes end in recessions: only one-fifth of private investment accelerations were followed by a recession in the two years following the end of the episode, with more than half of these recessions coincided with global recessions.

**South Asia.** Countries in South Asia have had more investment accelerations over the past 50 years than other EMDEs, experiencing an average of 2.4 acceleration episodes per country compared with 1.8 in other EMDEs. Although private investment accelerations became less common in EMDEs generally in the 2010s, they became more frequent in South Asia. In South Asia, as in EMDEs generally, private investment growth averaged 12.0 percent per year during acceleration episodes. Accelerations in South Asia tended to start stronger, but fade more quickly than in EMDEs generally—75 percent of accelerations in South Asia lasted 6–7 years, compared with 60 percent in EMDEs overall. As with EMDEs generally, private investment accelerations in South Asia rarely turned into crises: Only one of the 12 private investment accelerations in South Asia culminated in a banking, currency, or debt crisis in the following year—in line with the 11 percent of accelerations that ended in crisis in EMDEs generally.

**Correlates of starts of private investment accelerations**

A rich body of empirical research has shown that investment growth is affected by economic policies, including those related to the institutional environment, monetary frameworks, exchange rate competitiveness, and macroeconomic stability. An
BOX 1.1 Accelerating Private Investment (continued)

FIGURE B1.1.2 Features of private investment accelerations in EMDEs

The average private investment acceleration was somewhat shorter and shallower than the average total investment acceleration. In the pre-pandemic decade, the number of South Asian countries in a private investment acceleration increased, in contrast to other emerging market and developing economies (EMDEs). Private investment accelerations in South Asia have tended to start stronger but fade more quickly than those in other EMDEs.

Econometric approach. A panel logit regression is used to estimate the correlates of the onset of a private investment acceleration episode, including currency overvaluation (measured by the index developed by Rodrik 2008); institutional quality (as captured by the law and order index of the International Country Risk Guide ICRG); trade openness (measured as in Alesina et al. 2020); and capital account openness (measured in the index developed by Chinn and Ito 2008). These correlates are the same as those used to estimate the probability of an aggregate investment acceleration in World Bank (2024a). Table B1.1.1 shows the estimation results.

Estimation results. Private investment accelerations started in 4.5 percent of the country-year pairs in the sample; this can be interpreted as the unconditional probability of a private investment acceleration starting in the average country in an average year. Several factors increased this probability significantly.

- Openness to trade and international capital. A reduction in restrictions on trade or capital flows coincided with about 60 percent and 20 percent of the starts of private investment accelerations, respectively.
- Institutional quality. The probability of an investment acceleration starting in the average EMDE in the bottom quartile of ICRG’s law and order index (for example, Guatemala) was three-quarters that of the average EMDE in the top quartile (for example, Vietnam). Also, institutional quality amplified the benefits of trade openness (as captured by the interaction term in table B1.1.1).
- Real exchange rates. A larger deviation of the real exchange rate from its predicted level based on the cross-country pattern of per capita incomes—a larger “overvaluation” as measured by Rodrik (2008)—was associated with a statistically significantly lower probability that a private investment acceleration takes off in the subsequent year. For every 10 percentage-point deviation, the probability of the start of a private investment...
BOX 1.1 Accelerating Private Investment (continued)

**FIGURE B1.1.3 Correlates of the probability of a private investment acceleration starting**

Weaker-than-average institutional quality and less trade and capital account openness reduce the likelihood of a private investment acceleration starting in South Asia. Reforms that open trade and capital accounts and improve institutional quality could make sustained private investment accelerations more likely.

A. Trade and capital account openness, latest data

B. Institutional quality and average annual ten-year real depreciation, 2022

C. Difference in marginal probability of private investment acceleration starting, had South Asia ranked higher among EMDEs

Sources: Haver Analytics; WDI (database).

Note: SAR = South Asia. EMDEs = emerging market and developing economies.

A. Latest available data are from 2022 for trade in percent of GDP and from 2021 for capital account restrictions.

B. Latest available data are from 2022. Blue bars show the pace of average annual real effective exchange rate depreciation ("Depreciation") from 2013 to 2022, as measured by the deviation of the logarithm of the real exchange rate from its predicted value in a cross-country regression on the logarithm of per capita GDP (in percentage points)

C. Panel based on regression results shown in table B1.1.1. "Inst. quality" = institutional quality. Bars show the impact of improvements in economic policies on the probability of initiating a private investment acceleration. Policies consist of raising the trade and capital account openness in SAR to the EMDE average over ten years and moving institutional quality to the top quartile of EMDEs. The combined reform impact estimates the effect of implementing all policies concurrently.

acceleration in the subsequent year was reduced by 1.3 percentage points.

**Implications for South Asia.** On average, South Asian countries rank below the average EMDE in trade and capital account openness and in the ICRG’s law and order index (figures B1.1.3). The estimation results suggest that private investment accelerations might be more likely to start in South Asia if the region was more open to trade and finance, and had stronger institutional quality.

- **Trade and capital account openness.** Were South Asia to move to the level of trade and capital openness of the average EMDEs, it would have a 1.9-percentage-point higher probability of sparking a private investment acceleration in any year, over a decade.

- **Institutional quality.** Were the average South Asian country’s law and order index at the level of the best-rated quartile among EMDEs, a private investment acceleration would be 5.7 percentage points more likely to start.

Because of limited data, the econometric exercise examined only a subset of factors. Beyond this perimeter of the regression, the probability of starting an investment acceleration in South Asia would likely be higher still if combined with public investment in physical and human capital, regulatory streamlining, reduced government support for state-owned enterprises, and improved access for the private sector to credit. For example, public infrastructure projects—such as the construction of the Padma Bridge in Bangladesh and various railways and road projects in India—can spur private investment and economic activity more broadly in the surrounding area (World Bank 2023b, 2023c).

**Conclusion**

Economic development is rarely a smooth, linear process. Countries have often transitioned from poverty to wealth through a series of sustained accelerations, during which per capita GDP grows and poverty declines rapidly as entire sectors are transformed. Increasing the probability of these accelerations can help
fill infrastructure gaps, enable adaptation to climate change, facilitate the energy transition away from fossil fuels, accelerate poverty reduction, and advance shared prosperity. Several policy options are available to increase the likelihood of a private investment acceleration.

**Supportive institutions.** Public institutions also tend to attract more private investment and foreign direct investment (Ali, Fiess, and MacDonald 2010; Gwartney, Holcombe, and Lawson 2006; Heilbron and Whyte 2019). Surveys of firms regularly show that policy and regulatory uncertainty, followed by taxation and burdensome regulations, are the most critical barriers to private sector investment (OECD 2015). Public institutions can also provide critical complementary services to enable efficiently functioning markets and allow greater scope for competition that can help unleash private investment.

**Business environment.** Spurts of reforms to improve the investment climate, especially in EMDEs, have been associated with an increase in real investment growth of about 6 percentage points per year (Stamm and Vorisek 2023). In Pakistan, tax policies discourage investment in the tradable sector, and investment laws discriminate against foreign investors (World Bank 2023d). Reducing subsidies or budgetary support to state-owned enterprises in Bhutan, Nepal, and Pakistan could allow greater private sector participation, while also increasing the room in state budgets for other programs (World Bank 2022a, 2023d, 2023e). Similarly, in Pakistan, state-owned enterprises tend to have low investment rates, while consuming government resources equivalent to about 23 percent of the fiscal deficit in FY2023 (World Bank 2023f). Better governance of state-owned enterprises and a more level playing field could improve the allocation of capital (World Bank 2023g).

**Other factors.** In addition to the variables identified by the regression, other factors are likely to facilitate private investment, in particular improved access to finance or land. Adverse liquidity shocks caused by troubled banks can hinder investment (Kalemli-Ozcan, Kamil, and Villegas-Sanchez 2016). Unclear or difficult-to-enforce ownership rights to assets such as land can limit the collateral available to potentially successful small companies, which could be an important engine of vigorous private investment growth (Zhang et al. 2020).

**Box 1.1 Accelerating Private Investment (continued)**

Since peaking in mid-2022, inflation in both South Asia and the rest of the world has receded rapidly. In most countries, however, it remains above its pre-pandemic pace and the midpoint of central bank targets.

**Global developments**

Median global consumer price headline inflation peaked at 9.4 percent (year-on-year) in July 2022. It has since steadily declined to 3.4 percent in January 2024 (figure 1.3). The fall in inflation can be attributed to the effects on global demand of monetary policy tightening since 2021 and easing supply disruptions in commodity markets. Supply chains appear to have recovered from pandemic-related disruptions and seem resilient despite tensions around the Red Sea and drought that has limited shipping in the Panama Canal.

**Inflation**

Inflation has also declined in South Asia, but not as quickly as in other EMDEs. Consumer price inflation in the median EMDE peaked at 10 percent (year-on-year) and has fallen to 4.2 percent in the most recent data. Meanwhile, in South Asia, median inflation peaked at 8.9 percent and has fallen to 5.9 percent in January 2024.

Persistently higher regional food inflation is an important reason that inflation has receded more slowly in South Asia. On global markets, most food prices have been declining or stable in recent years, while prices for non-food commodities have been rising, in part because of bottlenecks. In South Asia, however, the food basket is more weighty than the non-food basket, and supply disruptions in commodity markets. Supply chains appear to have recovered from pandemic-related disruptions and seem resilient despite tensions around the Red Sea and drought that has limited shipping in the Panama Canal.
Global inflation has declined since mid-2022. Supply chains have been resilient to recent disruptions around the Red Sea. In Bangladesh and Pakistan, inflation remains above recent historical norms. Inflation in South Asia is expected to continue declining, and monetary policy has started to loosen in some countries.

In Bangladesh, Pakistan, and Sri Lanka, exchange rate depreciations have been a major driver of inflation since 2021.

Inflation is expected to slow across the region as a result of the fading impact of previous currency depreciations, falling commodity prices, and previous central bank tightening. After raising policy rates during 2022 and part of 2023, monetary policy rates for most countries in the region have either been held steady at high levels or started to be cut.

In Bangladesh, inflation has been persistently above the central bank’s target of 6 percent since early 2022, when prices were pushed up by the commodity price spike caused by Russia’s invasion of Ukraine, significant currency depreciation, and an increase in administered domestic prices of fuel, gas and electricity. Recently, core inflation (excluding food and energy prices) and inflation expectations have declined, but headline inflation remains close to 10 percent. The central bank has responded to elevated inflation by increasing its policy rate by 300 basis points since April 2022.

In India, inflation has remained within the Reserve Bank of India’s 2–6 percent target range since a spike in mid-2023, and the policy rate has remained unchanged since February 2023. Food price inflation has been elevated, partly reflecting a weak harvest due to El Niño.

In Pakistan, headline inflation was 23 percent in the year to February 2024, down substantially from its peak of 38 percent in May 2023. The decline in inflation has reflected the stabilization of the currency and falling global commodity prices. Agricultural production has recovered from the effects of last year’s floods, reducing the country’s reliance on costly imports. The State Bank of Pakistan has kept its policy rate unchanged at 22 percent since June 2023.

Sources: CEIC; Consensus Economics; Haver Analytics; Federal Reserve Bank of New York; World Bank.

Note: AEs = advanced economies; AFG = Afghanistan; BGD = Bangladesh; BTN = Bhutan; EMDEs = emerging market and developing economies; IND = India; LKA = Sri Lanka; MDV = Maldives; NPL = Nepal; PAK = Pakistan; SAR = South Asia.

A. Solid lines show median of year-on-year headline inflation. Last observation is January 2024.
B. Global Supply Chain Pressure Index integrates transportation cost data and manufacturing indicators.
C. Yellow whiskers denote inflation target bands of central banks. Last observation is February 2024 for India and Pakistan and January 2024 for all others.
D. Positive values denote year-on-year depreciation of monthly average exchange rates against the U.S. dollar.
E. Bars show inflation forecasts from Consensus Economics surveys for March 2024. Latest actual headline Consumer Price Index is January 2024.
F. Solid lines show the policy rate for each country. Last observation is February 2024.
The global monetary tightening episode appears to have ended. The pace of loosening is expected to be more gradual than after previous episodes. Monetary tightening across the region has contributed to slowing private credit growth. Market risk perception of most South Asian countries has declined but remains high.

Financial conditions

Restrictive monetary policies in major advanced economies are continuing to contribute to elevated borrowing costs, slowing credit growth, and rising corporate bankruptcies. Most EMDEs have weathered this period with few signs of financial stress, with many countries that in the past suffered crises in similar contexts apparently benefiting from improved monetary, fiscal, and financial policy frameworks (Ha, Kose, and Ohnsorge 2019).

Around the world, monetary policy rates appear to have peaked, with an increasing number of central banks loosening policy, particularly in EMDEs (figure 1.4). In light of still-elevated inflation in many countries, the pace of loosening is expected to be more gradual than in past episodes.

Regional developments

In the first half of 2023, several South Asian countries experienced balance-of-payments crises with significant capital outflows, widening credit spreads, exchange rate depreciations, and declines in foreign exchange reserves. These pressures were stemmed by a combination of monetary policy tightening, capital controls, import restrictions, and agreements on IMF-supported policy programs. In the second half of 2023 and beginning of 2024, current account balances improved in most South Asian countries, helped by rising remittance inflows, recovering tourism, and continued import compression due to previous import restrictions (figure 1.5).

However, capital inflows remain subdued. Foreign direct investment (FDI) inflows are persistently below pre-pandemic levels and, in some cases, declining. Net portfolio flows rebounded in India but remained low in Bangladesh and Pakistan. In Pakistan, the easing of exchange rate restrictions has helped reduce the premium between informal-market and official exchange rates, but in
Bangladesh the premium remains sizable. Despite some accumulation, foreign currency reserves in several South Asian countries remain barely at, or below, 3 months of imports.

Restrictive central bank policy has contributed to tight financial conditions and sharp slowdowns in private sector credit growth, particularly in Bangladesh, Nepal, and Pakistan. That being said, the latest domestic monetary policy tightening episodes in the region tended to be considerably shorter than previous ones.

In Bangladesh, there are signs of growing risks in the financial system: 9 percent of outstanding loans were nonperforming in late 2023, with a particular concentration in state-owned banks. Interest rate spreads have risen, even as they have declined elsewhere in the region, with the interbank borrowing rate recently above 9 percent, an 11-year high. The stock market has also been underperforming relative to global and regional stock markets. Private sector credit growth has slowed considerably, while public sector credit growth remained strong at 20 percent in January, primarily from domestic banks. Rising remittance inflows channeled through the banking system and import compression contributed to a narrowing in the current account balance in the second half of 2023. However, in part as a result of foreign exchange restrictions, a spread of more than 10 percent has persisted between the official interbank exchange rate and the kerb rate. Net commercial bank assets and short-term lending have declined. As a result, gross foreign reserves stood at about 3 months of import cover in January 2024.

In Bhutan, private sector credit grew by 19 percent in FY23, the highest growth rate in the past three years. Nonperforming loans in the banking sector decreased to about 4 percent of total loans in September 2023, and other financial soundness indicators, such as regulatory capital and liquidity, also improved. However, official statistics may overstate financial sector soundness because of ongoing forbearance measures.

In India, financial conditions have remained accommodative. Domestic credit issuance to the commercial sector (including public and private borrowers) grew by 14 percent (year-on-year) in December 2023, the fastest pace since 2013. Financial soundness indicators continued to improve. The nonperforming-loan ratio fell to 3.2 percent.
percent last year, well below its recent peak, in March 2018, of about 11 percent. Regulatory capital totaled 17 percent of bank assets in the second quarter of 2023, surpassing both regulatory requirements and peer averages. FDI as a share of GDP fell in 2023, but a rebound in foreign portfolio investment inflows in FY2023/24 contributed to foreign reserves rising 8 percent in the year to January 2024, reaching a level sufficient to cover about 11 months of imports.

In Nepal, credit to the private sector slowed in FY23, reflecting weak demand and monetary policy tightening. Nonperforming loans held by commercial banks tripled from 1.2 percent of all loans in June 2022 to 3.7 percent as of December 2023, reflecting higher lending rates and the unwinding of forbearance measures (IMF 2023a). The central bank put a counter-cyclical capital buffer in place in mid-2023, is tightening its regulatory practices, and introduced new liquidity lending facilities to effectively peg the interbank borrowing rate to the policy rate. Starting in mid-February 2024, the central bank began implementing a standing deposit facility to absorb excess liquidity.

In Pakistan, after a sharp tightening between late-2021 and mid-2023, the State Bank of Pakistan has held its policy rate steady at 22 percent. Monetary policy transmission continues to be impeded by the central bank’s use of multiple financing facilities with substantially different interest rates, and the gap between the policy interest rate and the rates charged by two concessional financing facilities—the Export Finance Scheme and Long-Term Financing Facility—has been reduced from 500 to 300 basis points. The gap between the open-market exchange rate and the administered exchange rate has meanwhile been narrowed. These measures have helped stabilize financial markets, improved stock market performance, and encouraged a modest appreciation of the currency following the substantial depreciation in 2023. Foreign reserves increased slightly, but are still not sufficient to cover 2 months of imports. Borrowing spreads remain high and private sector credit contracted by 2 percent in the year to January 2024, down sharply from growth of 22 percent around the middle of 2022.

In Sri Lanka, as remittances and tourism recovered and imports remained compressed, the current account turned into surplus in 2023. Foreign reserves began to be rebuilt as a result of continued external debt service suspension, inflows from development partners, large purchases of foreign exchange, and delayed repayments on credit lines. Nevertheless, reserves were sufficient to cover less than 3 months of imports by January 2024. Almost all import restrictions imposed at the height of the currency crisis in 2022 and 2023 have been lifted, foreign exchange restrictions are gradually being phased out, and the country is negotiating with it external creditors to alleviate its debt burden, with agreements in principle already having been reached with official creditors (IMF 2023b).

**Outlook**

The growth outlook has improved in several South Asian countries, with domestic demand more resilient than expected. Growth remains unusually dependent on government spending.

**Regional outlook**

South Asia is expected to remain the fastest-growing EMDE region in 2024–25 (figure 1.6). After the upward surprise in growth in 2023, growth in South Asia is projected to moderate to near-potential growth rates. Growth in 2024 is expected to be 6.0 percent as growth in India remains robust, and Pakistan and Sri Lanka continue to recover from balance-of-payments challenges (table 1.1).

The public sector is expected to remain a larger driver of growth than in other EMDEs. During 2023–25, government spending in South Asia—excluding both consumption and investment—is expected to contribute more than twice as much to growth as in other EMDEs.

South Asia’s growth outlook is somewhat stronger than in the previous edition of this report, by 0.4 percentage points for 2024 and 0.3 percentage points for 2025. This primarily reflects upward revisions to investment growth in India and somewhat faster-than-anticipated rebounds from last year’s recessions in Pakistan and Sri Lanka.
Much of the strength of output growth in the region is attributable to India, where projected growth is 7.5 percent in FY2023/24 and 6.6 percent in FY2024/25. In the rest of the region, growth this year is expected to be weaker than in other EMDEs, and is not fast enough for significant progress in convergence toward advanced-economy per capita incomes.

Four countries in South Asia are among the one-quarter of EMDEs that have recently been financially stressed, being rated as near or in debt default either by ratings agencies or by the IMF-World Bank Low-Income Country Debt Sustainability Analysis. Growth prospects in three of these South Asian countries with available data are somewhat weaker than in similarly financially stressed EMDEs elsewhere.

Fiscal policies in the region are expected to tighten over the forecast horizon as several countries implement fiscal consolidation as part of IMF-supported programs. Average fiscal deficits are expected to narrow only slowly, however. The median fiscal deficit is expected to reach 6.5 percent of GDP in 2024, down from the peak deficit of 7.4 percent in 2022, but still some distance from the 2015–19 average of 4.5 percent. In India, government revenues are expected to increase on the back of continued efforts to broaden the tax base and improve tax administration, and current expenditures are likely to decrease as pandemic-related measures are wound down.

Current account balances in the region are generally in small or moderate deficit. These are expected to remain essentially unchanged for most countries over the projection horizon. Both imports and exports are rebounding as most South Asian countries have lifted trade restrictions. Domestic demand is expected to remain more resilient in South Asia than in the rest of the world, but persistent weakness in financial inflows will restrain import demand.

**Country outlooks**

In Bangladesh, output is expected to grow 5.6 percent in FY2023/24 and 5.7 percent in FY2024/25, a marginal downgrade from the

| FIGURE 1.6 Outlook for output growth |
| Output growth in the region is expected to continue outperforming other emerging market and developing economies, but this is mainly attributable to India. Government spending contributes more to growth in South Asia than elsewhere. The region is not making rapid progress in converging toward per capita incomes of advanced economies. Fiscal deficits are expected to narrow but remain wider than pre-pandemic levels. Current account deficits are expected to narrow as financial inflows remain weak. |

| A. Output growth Percent of GDP |
| Source: WEO (database); World Bank MPO (database); World Bank. |

| B. Contributions to growth Percentage points |

| C. Per capita income relative to advanced-economy average Percent of GDP |

| D. Output growth in financially stressed EMDEs Percentage points |

| E. South Asia: Fiscal balance Percent of GDP |

| F. South Asia: Current account balance Percent of GDP |

---

**Note**

- e = estimate; f = forecast; EMDE = emerging market and developing economies; IND = India;
- SAR = South Asia.
- A The regional aggregate is weighted using annual U.S. dollar GDP (at average 2010–19 prices and market exchange rate).
- B Contributions in SAR assume that half of India’s forecasted discrepancy in FY2023/24 is due to the public sector. SAR excludes Maldives and Sri Lanka due to lack of data.
- C Lines represent the GDP per capita at current prices in U.S. dollars relative to advanced economies average GDP per capita. Sample excludes Maldives. Unweighted averages.
- D Financially stressed EMDEs include 58 EMDEs that are rated by Moody’s ratings agency C or below or are considered in, or at high risk of, debt default by the IMF-World Bank Low-Income Country Debt Sustainability Analysis (November 2023). In South Asia, it includes Maldives, Pakistan, and Sri Lanka.
- E. F. Bars represent median fiscal balance (E) or median current account balance (F), in percent of GDP. Sample includes six countries for overall fiscal balance and seven countries for current account balance.
previous forecast. In the short term, persistently high inflation and import compression associated with trade and foreign exchange restrictions are expected to weaken demand and constrain economic activity. Financial markets’ anticipation of a future devaluation may continue to limit capital inflows and downward pressures on foreign reserves are expected to persist. Efforts by the central bank to stabilize the exchange rate may continue to drain liquidity from local banks and contribute to tighter credit conditions.

Bhutan’s economy is expected to grow 4.9 percent in FY2023/24, 0.9 percentage points more than previously projected, boosted by higher electricity production, increasing mining and manufacturing output, and stronger tourism-related service activities after the reduction of the tourism levy. Growth is expected to pick up further to 5.7 percent in FY2024/25 amid recoveries in industrial activity outside the hydropower sector and in services. The ending in December 2023 of the moratorium on housing loans is expected to increase imports and contribute to current account pressures. The main risks to the growth forecast are further delays in hydropower projects, delayed fiscal consolidation, and rising and volatile commodity prices due to geopolitical tensions.

In India, output growth is projected to reach 7.5 percent in FY2023/24 on the back of robust growth in Q3 of FY2023/24. Growth is expected to moderate to 6.6 percent in FY2024/25 before picking up in subsequent years as a decade of robust public investment yields growth dividends. The expected slowdown in growth between FY2023/24 and FY2024/25 mainly reflects a deceleration in investment from its elevated pace in the previous year. Growth in services and industry is expected to remain robust, the latter aided by strong construction and real estate activity. Inflationary pressures are expected to subside, creating more policy space for easing financial conditions. Over the medium term, the fiscal deficit and government debt are projected to decline, supported by robust output growth and consolidation efforts by the central government.

Output growth in Maldives is expected to rise to 4.7 percent in 2024, a 0.5 percentage point downgrade from previous forecasts that partly reflects a shift in tourism activity from high-end

<table>
<thead>
<tr>
<th>Country</th>
<th>Fiscal Year</th>
<th>Real GDP Growth at Constant Market Prices (percent)</th>
<th>Revision to Forecast from October 2023 (percentage point)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Asia region (excluding Afghanistan)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maldives</td>
<td>January to December</td>
<td>13.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>January to December</td>
<td>-7.3</td>
<td>-2.3</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>July to June</td>
<td>7.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Bhutan</td>
<td>July to June</td>
<td>4.8</td>
<td>4.6</td>
</tr>
<tr>
<td>India</td>
<td>April to March</td>
<td>9.7</td>
<td>7.0</td>
</tr>
<tr>
<td>Nepal</td>
<td>mid-July to mid-July</td>
<td>5.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Pakistan</td>
<td>July to June</td>
<td>6.2</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

Sources: World Bank Macro Poverty Outlook and World Bank staff calculations.
Note: (e) = estimate; (f) = forecast. GDP measured in average 2010-19 prices and market exchange rates. Pakistan is reported at factor cost. National accounts statistics for Afghanistan are not available. To estimate forecasts for regional aggregates in the calendar year, fiscal year forecasts are converted to the calendar year by taking the average of two consecutive fiscal years for Bangladesh, Bhutan, Nepal, and Pakistan because quarterly GDP forecasts are not available.
resorts toward lower-cost guesthouses. Growth is expected to strengthen further to 5.2 percent in 2025, on the assumption that the extension of the Velana International Airport will be completed. The extension is expected to also result in continued wide current account deficits, at around 20 percent of GDP, and a double-digit fiscal deficit in 2024. Government debt well in excess of GDP and a significant external debt service burden continue to raise concerns about debt sustainability.

In Nepal, growth is expected to pick up to 3.3 percent in FY2023/24, 0.6 percentage points lower than previously forecast, as economic activity outside the hydropower sector recovers slowly after the lifting of trade and foreign currency restrictions in 2023. Growth is expected to strengthen further, to 4.6 percent, in FY2024/25. Hydropower exports are expected to pick up on the back of robust growth of the Indian economy. Services sector activity is expected to strengthen amid a recovery in goods imports, an expanding hotel sector, and increased tourism arrivals.

Following the contraction in FY2022/23, Pakistan’s economy is expected to grow by 1.8 percent in FY2023/24, as foreign reserves rise and business confidence improves. Growth is expected to pick up further to 2.3 percent in FY2024/25. Inflation is expected to remain high, however, as reforms to lower energy subsidies drive up domestic energy prices and transportation costs. The projected recovery assumes that the IMF-supported reform program and planned fiscal consolidation remain on track, boosting investor confidence and ensuring capital inflows are sufficient to finance fiscal and current account deficits.

In Sri Lanka, growth is expected to turn positive, to 2.2 percent in 2024, a 0.5 percentage point upgrade from the previous forecast, with modest recoveries in reserves, remittances, and tourism. Inflation is expected to remain within the central bank’s target range and the exchange rate is expected to stabilize. Growth is anticipated to strengthen to 2.5 percent in 2025. The forecast assumes that debt restructuring negotiations are concluded successfully, vulnerabilities in the financial sector ease, and structural reforms continue to be implemented.

No forecast has been produced for Afghanistan, as official statistics are unavailable. The country’s economy remains fragile, with widespread food insecurity and high unemployment (World Bank 2024b). Depleted household savings, reduced public spending, weather- and policy-related shocks to farmers’ income, and the aftermath of the earthquake in October 2023 are expected to continue depressing economic activity.

Risks and vulnerabilities

Risks to the growth forecasts are tilted to the downside. Several South Asian countries have limited buffers to respond to financial market disruptions. In the short term, there is a danger that a longer-than-anticipated period of restrictive monetary policy in major advanced economies triggers currency depreciation and currency crises in the region. Increased trade fragmentation could depress global trade, particularly in services, which is sensitive to geopolitical considerations and on which South Asia relies more than other regions. Climate change and the increased frequency of weather extremes present growing risks.

Renewed currency crises

More than any other EMDE region, South Asia has been buffeted by sharp currency depreciations in the aftermath of the pandemic (figure 1.7). In 2022–23, Bangladesh, Pakistan, and Sri Lanka all experienced severe economic disruptions as a result of balance-of-payments problems.

The economic conditions that contributed to previous turbulence largely remain. Foreign currency reserves, which provide a buffer against sudden capital outflows, remain below 3 months of imports in two countries. South Asia’s current account deficits have narrowed since 2022, but remain above the EMDE average. The double-digit current account deficits of the region’s two small states (Bhutan and Maldives) are expected to rank among the decile of EMDEs with the widest deficits relative to GDP.
More than any other region, South Asia was buffeted by sharp currency depreciations in the aftermath of the pandemic. In several South Asian countries, reserves remain low or financial system buffers are limited. Markets have repeatedly underestimated the future path of the U.S. Federal Reserve’s policy rate.

Buffers in the financial system are also thin across the region, again with the notable exception of India. South Asia has the lowest average ratio of regulatory capital to risk assets of any region. This in part reflects low rates of return and elevated shares of nonperforming loans in the region.

In these circumstances, even a moderate negative shock to the region could trigger substantial capital outflows, renewed currency depreciation, and an acceleration of inflation. The three South Asian countries with weak credit ratings are particularly at risk. Sudden stops in capital flows to EMDEs typically start broad-based across countries but investors soon begin to differentiate by country characteristics. As a result, capital flight from EMDEs with weaker institutions or macroeconomic fundamentals tends to be significantly more persistent (Fratzscher 2012; Wang and Yan 2022).

Shocks to financial and currency markets could arise from either domestic or global developments. One possible risk scenario would be characterized by higher U.S. interest rates than currently assumed in the baseline scenario. Financial markets currently expect the U.S. Federal Reserve to begin lowering its policy rate in June 2024 to reach 3.5 percent by the end of 2025. But markets have repeatedly underestimated the future path of the federal funds rate. If this pattern holds and the Federal Reserve keeps monetary policy tighter for longer than anticipated, South Asia could face severe spillovers.

In such a scenario, greater inflation persistence in the United States would force the Federal Reserve...
to maintain its policy rate above 5 percent through 2025, 175 basis points above current market expectations. A shift in market expectations could happen suddenly (by assumption in the second quarter of 2024) and cause a spike in global uncertainty, risk aversion, and capital outflows from vulnerable countries.

In several South Asian countries, the spillovers from such a shock would be magnified by limited buffers and financial sector weaknesses, possibly resulting in currency crises. Historically, currency crises have been more frequent during periods of tight U.S. monetary policy and tended to result in modest output losses and substantial increases in inflation (figure 1.8).

The growth impact of such a shock on South Asia overall would likely be limited because of the resilience of India. However, in the rest of the region, financial disruptions could substantially lower output growth. Cumulatively by 2025, in the assumed scenario, output in South Asian countries other than India could be 1.6 percentage points below the baseline as a result of import disruptions and monetary tightening, compared with twice as much as the average for other EMDEs (0.8 percentage points below baseline).

Depreciations have also tended to be associated with persistent increases in domestic inflation, except in countries with inflation targeting frameworks which, in South Asia, include only India (as of 2015) and Sri Lanka (as of 2020; Ha, Kose, and Ohnsorge 2019).

Trade fragmentation

Many businesses appear to be adjusting inventory practices and diversifying suppliers on the basis of geopolitical considerations (ICC 2023). At the same time, some trade liberalization measures are still taking place: India signed a trade agreement with the European Free Trade Area (EFTA) in March 2024 and, globally, more goods trade benefited from new trade-facilitating measures than suffered from new restrictions in the year ending October 2023 (WTO 2023). In all, global trade growth is expected to remain subdued at 2.3 percent in 2024 and 3.1 percent in 2025.

South Asia’s export basket contains a larger share of services than that of the average EMDE (figure 1.9; World Bank 2021a). Even as manufacturing trade has stagnated in recent decades, global services exports (such as telecommunications and tourism) have risen steadily—interrupted by a brief downturn during the pandemic—and increased from 4 percent of global GDP in 2000 to 7 percent in 2022. For example, between June 2017 and October 2020, the number of online workers in software development services who work on projects in the five largest English-language labor platforms increased from 10

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**FIGURE 1.8 Effects of currency crises**

Currency crises have been more frequent when U.S. monetary policy rates have been higher. Depreciations after currency crises have tended to persist. Currency pass-through into inflation has generally been smaller in countries with inflation-targeting frameworks. A delay in U.S. monetary policy loosening could lower growth in South Asian countries, where currency crises are more likely, especially outside India.

A. Currency crisis in EMDEs

B. Exchange rate depreciation after currency crises

C. Inflation after a currency crisis

D. Growth impact of higher interest rates

Sources: AREAER (database); Haver Analytics; Laeven and Valencia (2020); Oxford Economics; World Bank.

Note: EMDE = emerging market and developing economies; SAR = South Asia.

A. Bars show the number of currency crises defined as a nominal depreciation of 30 percent or more against the U.S. dollar. For more details, see Laeven and Valencia (2020).

B. Solid line shows the median year-on-year depreciation for a sample of up to 97 EMDEs. Dashed lines represent the interquartile range. Shaded area shows the starting month of a currency crisis.

C. Lines show the simple average of CPI inflation for countries that have experienced a currency crisis during the period 1999–2017. Sample includes five countries with an inflation targeting framework in place, and up to 25 countries using other types of monetary frameworks. Shaded area represents the start of a currency crisis episode.

D. Bars show growth revisions (deviation from baseline) between the monetary tightening scenario and the baseline scenario, as derived in the Oxford Economics Model. South Asia includes 4 countries.
South Asia’s exports and output are more tilted toward services than those of other emerging market and developing economies. Exports of global services have risen steadily even as manufacturing trade has plateaued.

Sources: Subramanian, Kessler, and Properzi (2023); WDI (database).
Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.
A. Bars show exports of goods and services as percent of GDP. Regional aggregates computed using GDP-weighted averages (at current U.S. dollars).

Services are particularly vulnerable to geopolitical tensions because trade in services is more closely linked to transactional costs, such as buyers’ trust in the seller, and less dependent on transportation or fixed costs than goods trade (Bhattacharya, Patnaik, and Shah 2012; Wagner 2014). An increase in risk perception or a decrease in trust as a result of geopolitical tensions could have a disproportionate effect on the long-standing commercial relationships often required for services trade.

A lasting rollback in services trade would slow an engine of growth for South Asia. In addition, efforts to attract foreign direct investment as supply chains diversify away from China may fail. This would set back the region’s exports further behind other EMDEs.

Climate change

Without a massive change in policies, the world is on track to warm by an average of 3°C above pre-industrial levels this century (UNEP 2023). Climate change is taking a rising toll on human health and wellbeing through increasingly frequent weather extremes such as heatwaves, floods, and droughts, as well as a greater incidence of infectious diseases (Romanello et al. 2023; World Bank 2021b).

Climate change will have particularly severe consequences for South Asia. Average summer temperatures in the region have already increased by 0.7°C relative to the 1986–2005 baseline, with particularly large increases in Afghanistan (1.3°C) and Bangladesh (0.9°C; figure 1.10).

Heatwaves are particularly damaging for South Asia, because of its already relatively warm average temperature and its large agricultural sector, accounting for about 40 percent of employment. High temperatures already pose at least a moderate risk of heat stress for people engaged in light outdoor activity for more than five hours a day in much of the region, and periods of unhealthily high temperatures are expected to increase in both duration and intensity in coming decades. Higher temperatures will also make land less productive. The land area affected by extreme droughts has increased by one-third in Pakistan and more than doubled in Bangladesh and India since the 1950s.

Rising temperatures are also on track to cause the glaciers in the Hindu Kush Himalaya region to lose up to 80 percent of their volume by 2100. This would increase the probability of floods and landslides for adjacent communities, and threaten water scarcity for the 1.7 billion people residing downstream (Wester et al. 2023).

Highly populated coastal areas will also be affected by climate change. Rising sea levels will make much land uninhabitable, and are one reason why an estimated 40 million people in South Asia are expected to be forced to migrate because of climate change by 2050 (Clement et al. 2021).

Globally, climate change is expected to reduce GDP per capita by an average of about 7 percent by 2100 (Kahn et al. 2021). Climate change disproportionately harms poorer countries (Jafino et al. 2020). As a result, projected losses from climate change for South Asian countries are well above the global average (World Bank 2021b).

Climate change will likely push up poverty rates in South Asia. In high-climate-change scenarios, the
poverty rate in South Asia could be twice as high in 2030 as it would be in a world without climate change (Jafino et al. 2020). These losses are unlikely to accumulate smoothly or predictably, and instead may come as a series of humanitarian catastrophes.

**Policy challenges**

The growth slowdown expected in advanced economies in 2024 and the heightened risks to the outlook will make it harder for South Asian governments to implement policies needed to address risks and long-standing development challenges. Unless revenues can be raised substantially, government spending will be severely constrained, including on public goods that can provide the most effective ways of adapting to climate change. For the region to realize its demographic dividend, job creation must be accelerated. The needed measures, including the removal of distortions in the financial system, could also help lift private investment growth.

**Increasing and shifting government revenue collection**

The recent prolonged period of high interest rates is testing the ability of some South Asian governments to preserve fiscal sustainability while providing adequate government services. At the root of the problem lies the region’s low government revenue collection. The average South Asian government collects about 20 percent of GDP in revenues, substantially less than the 32 percent of GDP collected, on average, by other EMDEs. This severely constrains government spending and has contributed to a rapid increase in government debt over the past decade (figure 1.11). Low revenues are one reason that governments in the region spend less than peer countries on public goods such as health care, education, and research and development.

The composition of revenues also differs from other EMDEs; a greater share of revenues in South Asia comes from trade-related revenues. Taxes on trade account for 7 percent of total revenues in the average EMDE, but make up around 20 percent of total revenue in Maldives, Nepal, and Sri Lanka; and about 40 percent for Afghanistan.

**FIGURE 1.10 Climate risks**

Average summer temperatures have increased in South Asia, increasing the time when it is too hot to work outside and the land area affected by drought. Climate change will raise poverty.

A. Average annual rise in summer temperatures, 2018–2022 versus 1986–2005

B. Number of hours when it is too hot to work outside

C. Land area affected by extreme drought

D. Additional poverty headcount by 2030 in climate change scenarios

| Source: Jafino et al. (2020); Lancet countdown on health and climate change data sheet (2023) available at www.lancetcountdown.org; World Bank.

| Note: AFG = Afghanistan; BGD = Bangladesh; BTN = Bhutan; EAP = East Asia and Pacific; IND = India; LAC = Latin America and the Caribbean; LKA = Sri Lanka; MDV = Maldives; NPL = Nepal; PAK = Pakistan; RHS = right-hand side; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Change in temperatures that people were exposed to during their respective summer seasons.

B. Number of hours (average per person per day) during which high heat posed at least a moderate heat stress risk during light outdoor physical activity, based on the “moderate” heat stress risk classification, as outlined in the 2021 Sports Medicine Australia Extreme Heat Policy, which categorizes estimated heat stress risk according to ambient temperature and relative humidity. Projections for 2050 for 2°C scenarios.

C. Total land area affected by extreme drought at least once per year, on average, in 2013–2022. Horizontal lines show percent increase of at least one month of extreme drought per year from 1951–1980 to 2013–2022.

D. Poverty headcount by 2030 under scenarios in which all climate impact channels are simultaneously included. Numbers in climate change scenarios are additional headcount from the baseline scenario.

Collecting revenues on domestic activity can be difficult in South Asia. In 2022, 80 percent of employment was in informal businesses, compared with an average of 49 percent in other EMDEs. Taxing the earnings of these businesses, many of which are subsistence farms, can be challenging. Earnings often fluctuate, wages are paid in cash or in kind, and many of the businesses have only limited bookkeeping capacity (Joshi, Prichard, and Heady 2014). These factors contribute to the region’s lower reliance on income taxes and greater reliance on trade-related taxes. Tariffs and export duties tend to be less expensive to administer than, say, income or value-added taxes (Evans 2003).
Low government revenues in South Asian countries have contributed to larger government debt and lower government spending than in other emerging market and developing countries. South Asia’s government revenues heavily rely on taxing cross-border trade. Many countries in the region have digital systems in place for collecting and processing taxes and providing government services.

**A. Government debt**

- **Percent of GDP**
  - **2010**
  - **2022**

**B. Composition of public expenditure, latest available data**

- **Percent of GDP**
  - **Education**
  - **Social protection**
  - **Health**
  - **Expenditure (RHS)**

**C. Share of revenues from trade taxes, latest available data**

- **Percent of revenues**

**D. Share of revenues from trade taxes, latest available data**

- **Percent of revenues**

**E. Application of GovTech in tax**

- **Percent of countries**

**F. GovTech Maturity Index**

- **Index**

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**Sources:** GovTech Maturity Index (database); Government Financial Statistics (database); World Bank.

Note: BGD = Bangladesh; BTN = Bhutan; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; IND = India; LAC = Latin America and the Caribbean; LKA = Sri Lanka; MDV = Maldives; MNA = Middle East and North Africa; NPL = Nepal; PAK = Pakistan; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Bars show unweighted averages (at 2010–19 average prices and market exchange rates). Yellow whiskers indicate minimum-maximum range for seven South Asian economies, and interquartile range for EMDEs.

B. Regional aggregate uses the median for latest available data (during 2010–2022). Sample includes 105 countries for total spending, 83 countries for health and education, and 80 countries for social protection. Latest data are 2011 for Maldives; 2015 for Pakistan; 2016 for Bangladesh; 2017 for Afghanistan; 2018 for India; 2020 for Bhutan; 2021 for Nepal; and 2022 for Sri Lanka.

C.D. Sample includes 93 countries, including 21 countries in EAP, 18 in ECA, 25 in LAC, 14 in MNA, 8 in SAR and 41 in SSA. Regional aggregate is median. Last observed year is 2017 for Afghanistan; 2021 for Bangladesh, Maldives and Nepal; 2020 for Bhutan; 2018 for India; 2022 for Sri Lanka.

"Trade taxes" include both customs tariffs and other trade-related taxes, including taxes on exports, on profits of export or import monopolies, on exchange profits, exchange taxes, and other taxes on international trade and transactions, based on IMF financial statistics definitions.

E. Share of countries in the region implementing tax-related digital government services. A country receives full score if the system is fully in use and half score if the implementation is in progress. Sample includes 152 EMDEs in 2022.

F. Bars show unweighted averages of GovTech Maturity Index.

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Trade duties can create substantial economic distortions, however:

- **Pakistan’s** high import duties—particularly on consumer goods, intermediate goods, and capital equipment—deter import competition, reduce productivity, and increase domestic profits of incumbent firms at the expense of growth. A 1-percent increase in tariffs and other levies on imports in upstream sectors such as ferrous metals and dairy products has been associated with a 0.6-percent decline in productivity and wages in downstream sectors such as metal production and food processing (World Bank 2022b).

- **Bangladesh** also has high tariffs and a complex web of regulatory requirements and supplementary duties that weigh particularly heavily on final goods. These reduce competition, incentivize companies to focus on the domestic market, and reduce activity in the less protected intermediate goods sector. A result is the country’s highly undiversified export base, with about 85 percent of exports being ready-made garments (Kathuria and Arenas 2018; Kathuria and Malouche 2016).

- In **Nepal**, effective tariffs above 100 percent in a variety of sectors—including wood products, beverages, tobacco, and chemicals—limit competition and discourage participation in international value chains (World Bank 2021c).

South Asian countries would benefit from increasing their government revenues, while also shifting away from their reliance on trade-related taxes. Broad-based taxes on consumption or income, with few exemptions and simplified
processes, would tend to be less distortionary than trade duties and could also raise more revenue because they are levied on a far larger share of economic activity. For example, India’s goods and services tax (GST) was introduced in 2017. It replaced an existing system of fragmented and complex indirect taxes and aimed to bring about a common framework reducing inefficiencies and costs to the economy. It is estimated to have boosted formal sector output by 12 percent and formal household income by 20 percent (Zhou 2022).

However, sales and value-added tax systems can have limited revenue potential unless properly designed. The narrow base, multiple exemptions, and concessional rates in Pakistan’s current sales tax are estimated to cost the country 15 percent of the tax’s potential revenue (World Bank 2023f). In Nepal, value-added tax exemptions reduce revenues by nearly 40 percent without easing the burden on the poor (World Bank 2021c).

Other measures to raise revenues include strengthening tax administrations, for example through digital data collection systems that help facilitate compliance and detect noncompliance. In part by removing opportunities for corruption, digitization can lift revenues significantly, both on trade-related taxes as recently found in Colombia and from taxes more broadly as recently found in Tajikistan (Laajaj, Eslava, and Kinda 2023; Okunogbe and Pouliquen 2022).

Many countries in the region have digital systems in place for collecting and processing taxes—such as e-filing services, online tax service portals, and single window services for customs—but these are sometimes not widely used or well maintained. Increased revenue collection after the introduction of India’s goods and services tax in 2017 has in part been attributed to its integration with a digital platform (Joseph and Ramalingam 2022; Alonso et al. 2023). South Asia scores higher on several indicators of government use of technology (GovTech) than do other EMDEs, with India and Bangladesh outperforming the rest of the region. More generally, an increase in the use of digital technologies can help governments increase the effectiveness of public service delivery and bring more people and firms into the formal sector, improving incomes but also widening the tax base.

Building climate resilience and greening the economy

South Asia has thus far contributed little to the global emissions responsible for climate change, but is highly vulnerable to the consequences (figure 1.12). Unless South Asian economies can adapt to climate change, future growth may increasingly be derailed by related shocks. But South Asian governments’ limited fiscal resources constrain their ability to engage in effective climate adaptation.

A meta-analysis of studies on the steps taken by households, farmers, and firms finds that firms’ adaptations can offset nearly three-quarters of the damage from climate change, compared with less than half for households (spotlight 1). Adaptation mechanisms that leverage technologies such as cooling, improved seeds, and adaptive business management practices tend to be particularly effective. In contrast, households’ most common adjustments—migration and shifting toward non-farm activities—are less effective at offsetting climate damage.

Because of the scale of the challenge, adaptation is likely to require broad-based actions, with household and firm-level responses supported by public infrastructure and policy measures. Such measures include providing connective infrastructure, essential public services, access to water, and effective health systems. Such public goods can make sizable contributions to adaptation not only by shielding economic activities and human capital from climate damage but also by aiding private adaptation responses. Because of the region’s precarious fiscal positions—with high debt and low government revenues—government projects will have to be carefully selected to ensure that the most effective actions are taken.

The most effective solutions are likely to be those that yield multiple dividends: achieve climate adaptation, as well as climate mitigation or other development goals.

For example, energy-efficient urban cooling solutions such as “cool roofs” may reduce climate damage (Heyes and Sabarian 2022; Phelan et al.
South Asia has contributed very little to the global emissions responsible for climate change but is highly vulnerable to the consequences of climate change. Transitioning to cleaner growth would also help lower air pollution.

The power sector in some South Asian countries relies heavily on coal, and is responsible for a considerable share of South Asia’s greenhouse gas emissions and small particulate matter air pollution. Shifting away from coal and scaling up investment in renewables is an essential element of greening the economy.

Across the region, countries will benefit if policy makers focus on improving energy efficiency in key industries and transport, eliminate fossil fuel subsidies, strengthen power grids to facilitate the integration of renewable energy sources, introduce carbon taxes, and implement clean air programs (World Bank 2023a).

Creating jobs

South Asia is currently on a path that risks squandering its demographic dividend of growth. The region does not create jobs nearly fast enough to provide employment for its growing population (chapter 2). Despite rapid economic growth, employment in South Asia has grown by only 1.7 percent per year since 2000—less than the 1.9 percent per year growth of the working-age population. In absolute terms, the region created an average of 10 million jobs a year when the working-age population was growing by an average of 19 million a year. As a result, South Asia was the only EMDE region in which the ratio of employment to working-age population has declined over 2000–23 (figure 1.13).

South Asia’s employment weakness has affected both men and women. The women’s employment ratio in South Asia is about half the average among other EMDEs, and only about one-third of the employment ratio for men in the region.

Like other EMDE regions, South Asia is going through a structural transformation in which the agricultural sector sheds labor. Although agricultural sectors in the region have been shedding workers at rates similar to other EMDEs, its non-agricultural sectors have not been absorbing workers as fast—a key reason for South Asia’s below-average job creation.

To accelerate job creation, realize the dividend from still-favorable demographic trends, and

FIGURE 1.12 Building climate resilience

South Asia has contributed very little to the global emissions responsible for climate change but is highly vulnerable to the consequences of climate change. Transitioning to cleaner growth would also help lower air pollution.

A. Contribution to historical greenhouse gas emissions and climate vulnerability, 1850–2021

B. Air pollution exposure, 2015–19

Sources: Climate Watch (database); Jones et al. (2023) as reported in Our World in Data; World Bank.

Note: AEs = Advanced Economies; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = Emerging Market and Developing Economies; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.


B. Average air pollution is calculated based on the mean annual exposure to particulate matter (PM2.5) air pollution from 2015 to 2019 (measured in micrograms per cubic meter). Regional aggregates computed using 2010 population as weights.

2015; Somanathan et al. 2021). At the same time, they mitigate the increase in greenhouse gas emissions caused by rising demand for energy to power air conditioners (Harish, Singh, and Tongia 2020; Isaac and van Vuuren 2009). Similarly, increased forest cover sequesters carbon and improves the resilience of crop yields to weather shocks (Costa, Sant’Anna, and Young 2023) and the negative impact of heat on labor productivity (Masuda et al. 2021). Reliable water access is central to the adaptive capacity of farmers (Fishman 2018; Zaveri and Lobell 2019). Complementing centralized irrigation projects with community-scale systems, pricing reforms and efficient technologies can achieve this objective while also contributing to greenhouse gas mitigation (Gleick 2003).

The green transition is an opportunity for South Asia to lift productivity and cut air pollution and greenhouse gas emissions. High levels of air pollution in the region impose a substantial toll on human health—more than 815,000 deaths in India were attributed to small particulate matter from human activities in 2020, more than all of India’s COVID-19-related deaths (Romanello et al. 2023; World Bank 2021b).
facilitate productivity gains in agriculture, and thereby boost output growth. South Asia needs to address several policy weaknesses. One issue is small firm size. The average firm size in Bangladesh, India, and Sri Lanka is either in or close to the bottom quartile of EMDEs. Larger establishment sizes have been associated with greater job creation (Bento and Restuccia 2021; Hsieh and Klenow 2014).

Policies that support firm growth and encourage productive firms to hire workers can boost employment in South Asia. These include streamlining product market and labor market regulations to add flexibility to employment decisions and removing obstacles to firm operations including difficulties accessing land. Greater openness to international trade can also spur firm expansion and job creation. India’s trade agreement with EFTA in March 2024 presents an opportunity for faster output and employment growth.

Laws that protect women’s rights could encourage women’s employment. In EMDEs, stronger and more comprehensive protections of women’s equal rights in the workplace, on equal pay, assets, and mobility are associated with higher employment ratios for women in the long run (chapter 2). According to the Women, Business, and the Law database, South Asia scores poorly on legal protection of women’s rights. In particular, Bangladesh, India, Pakistan, and Sri Lanka fell into the bottom quartile of EMDEs in terms of laws that promote women’s equal pay; Bangladesh, Nepal, and Pakistan fell in the bottom quartile for equal asset ownership.

In addition to failing to create a sufficient number of jobs to employ its growing working-age population, South Asian jobs are also less productive than elsewhere. South Asia is characterized by the second-lowest labor productivity, after Sub-Saharan Africa, at only 6 percent of the advanced-economy average. In part, this reflects the prevalence of informal activity in the region, which is on a par with Sub-Saharan Africa and higher than any other EMDE region.

**Creating jobs**

Job creation in South Asia has fallen well behind working-age population growth and employment ratios have declined. The region’s non-agricultural sectors have not employed as much of the working-age population as in other regions. On average, South Asia has smaller firms and less productive jobs than other emerging market and developing economies.
Removing distortions in the financial system

Faster firm growth would stimulate job creation, as well as private investment. Private investment growth has slowed since the pandemic. Reforms to improve the investment climate and increase South Asia’s openness to international trade and finance could increase the likelihood that a sustained private investment acceleration gets underway (box 1.1).

Removing distortions in the financial system could help unlock the financial resources needed for faster firm growth and private investment. Financial systems in South Asia are subject to multiple administrative interventions that reduce borrowing costs for favored borrowers, including governments. These include interest rate controls, directed lending, restrictions on entry into the banking sector, and direct government intervention in the financial sector (Jafarov, Maino, and Pani 2019). Controls on interest rates in South Asia, for example, after falling sharply during the 1990s, have since been trending up, and by some measures are now greater than in any other EMDE region (figure 1.14).

Several policies are in place to tilt financial markets in South Asia.

- **Bangladesh** imposes a lending rate corridor and a cap on interest rate spreads in the banking sector.

- **Maldives**, limited competition, a large state-owned bank presence, and market segmentation allow banks to charge lending rates far higher than rates in neighboring countries.

- **Sri Lanka**, the central bank capped interest rates on selected lending products in August 2023.

In countries with low sovereign credit ratings or those otherwise facing very high costs of borrowing in international markets, such measures can help keep interest rates below growth rates and thus improve debt dynamics. By reducing financing cost and creating a captive investor base,
they can help governments avoid financial crises or default (Jeanne 2023).

However, such administrative interventions tend to act as a tax on savers and can hold back financial system development. They reduce available credit, diminish the efficiency of credit allocation, impede the transmission of monetary policy, and encourage firms to manipulate the system rather than engage in profit-seeking economic behavior (Jafarov, Maino, and Pani 2019). The region’s financial institutions, mainly banks, provide less credit to the private sector relative to GDP than those in other EMDEs (Ohnsorge and Pallan 2023). They also tend to be less used and less accessible than in other EMDEs according to metrics such as ATMs per person or the ability to bank online or by phone.

In addition to administrative interventions, state-owned banks are ubiquitous in South Asia and shape financial intermediation. They account for an average of 43 percent of banking system assets. Conversely, the share of foreign banks is low—for example, only about 5 percent of banking system assets in Bangladesh and India. State-owned banks tend to be less efficient than private banks at turning deposits into loans and allocating financial resources toward their most productive use. They have also been associated with higher credit to the public sector and weaker fiscal discipline (Cihák and Demirgüç-Kunt 2013).

Finally, capital controls and barriers to entry limit competitive pressures from foreign banks or financial markets (Claessens and Van Horen 2012). Restrictions on foreign capital are far higher in South Asia than in other regions, and stock markets and corporate debt markets are smaller, with the exception of India.

Removing distortions in the financial sector would encourage entrepreneurship and competition, help mobilize capital for high-return investments, and help channel capital to the most dynamic parts of the economy. Most South Asian countries are at a point of financial development where further financialization would be significantly correlated with stronger growth (Sahay et al. 2015).
### TABLE B1.1.1 Correlates of the likelihood of private investment accelerations starting

<table>
<thead>
<tr>
<th>Policy var:</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged per capita GDP</td>
<td>0.045</td>
<td>0.201**</td>
<td>0.042</td>
<td>0.220**</td>
</tr>
<tr>
<td>Lagged capital-to-output ratio</td>
<td>-0.446***</td>
<td>-0.383*</td>
<td>-0.430***</td>
<td>-0.272</td>
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<tr>
<td>Lagged overvaluation index</td>
<td>-0.729***</td>
<td>-0.897***</td>
<td>-0.849***</td>
<td>-1.190***</td>
</tr>
<tr>
<td>Lagged global GDP growth</td>
<td>-0.008</td>
<td>0.004</td>
<td>0.031</td>
<td>0.030</td>
</tr>
<tr>
<td>Lagged institutional quality (IQ, Law and Order from ICRG)</td>
<td>0.257***</td>
<td>0.224***</td>
<td>0.285***</td>
<td>0.257***</td>
</tr>
<tr>
<td>Change in trade restrictiveness (percent change in index)</td>
<td>0.009**</td>
<td>0.013***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interaction of lagged IQ and change in trade restrictiveness</td>
<td>0.011**</td>
<td>0.012***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in capital account openness (percent change in index)</td>
<td>0.007***</td>
<td>0.009***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interaction of lagged IQ and change in capital account openness</td>
<td>0.002</td>
<td>0.002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-2.387***</td>
<td>-2.880***</td>
<td>-1.516**</td>
<td>-3.302***</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
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<tbody>
<tr>
<td>Observations</td>
<td>2016</td>
<td>1434</td>
<td>1782</td>
<td>1284</td>
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<tr>
<td>Adjusted R-square</td>
<td>0.027</td>
<td>0.031</td>
<td>0.036</td>
<td>0.049</td>
</tr>
<tr>
<td>Number of episodes</td>
<td>114</td>
<td>83</td>
<td>100</td>
<td>74</td>
</tr>
<tr>
<td>Number of countries</td>
<td>97</td>
<td>75</td>
<td>94</td>
<td>72</td>
</tr>
<tr>
<td>Latest year in sample</td>
<td>2018</td>
<td>2014</td>
<td>2018</td>
<td>2014</td>
</tr>
</tbody>
</table>

*Source: World Bank.*  
*Note: Results from a logit regression of the likelihood of the start of a private acceleration episode. See World Bank (2024a) for variable descriptions. Sample includes 105 economies for 1960–2022. *t*-statistics in parentheses. * indicates significance at the 10 percent level, ** at the 5 percent level, and *** at the 1 percent level.*
References


