



South Asia Economic Focus Fall 2015

Getting Prices Right

The recent disinflation and its implications



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This report is a joint product of the Office of the Chief Economist for the South Asia Region and the Macro and Fiscal Management Global Practice. Its preparation was led by Markus Kitzmuller (Economist) under the oversight of Martin Rama (Chief Economist, South Asia Region) in close collaboration with Shubham Chaudhuri (Practice Manager, Macro and Fiscal Management). Substantive contributions to the focus section were made by Faisal Baig and Vincent A. Floreani. The report greatly benefitted from inputs by Tehmina Khan and colleagues in the Development Economics Prospects Group (DECPG) under the supervision of Ayhan Kose (Director DECPG). Colleagues providing information for country briefs include Kishan Abeygunawardana, Mehwish Ashraf, Enrique Blanco Armas, Genevieve Boyreau, Damir Cosic, Sudyumna Dahal, Roshan Darshan, Zahid Hussain, Omar Joya, Faruk Khan, Jaba Misra, Claudia Nassif, Saurav Shamsheer Rana, Saadia Refaqqat, Nadeem Rizwan, Frederico Gil Sander, Smriti Seth, Saurabh Shome, Muhammad Waheed, Ralph Van Doorn and Salman Zaidi under the supervision of Shubham Chaudhuri (Practice Manager MFM Global Practice). Alejandro Espinosa at Sonideas signed responsible for the layout, design and typesetting, Alexander Ferguson (Senior Manager SAREC) and Joe Qian coordinated the dissemination, and Neelam Chowdhry provided valuable administrative support.

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

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South Asia Chief Economist Office
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Recent economic developments

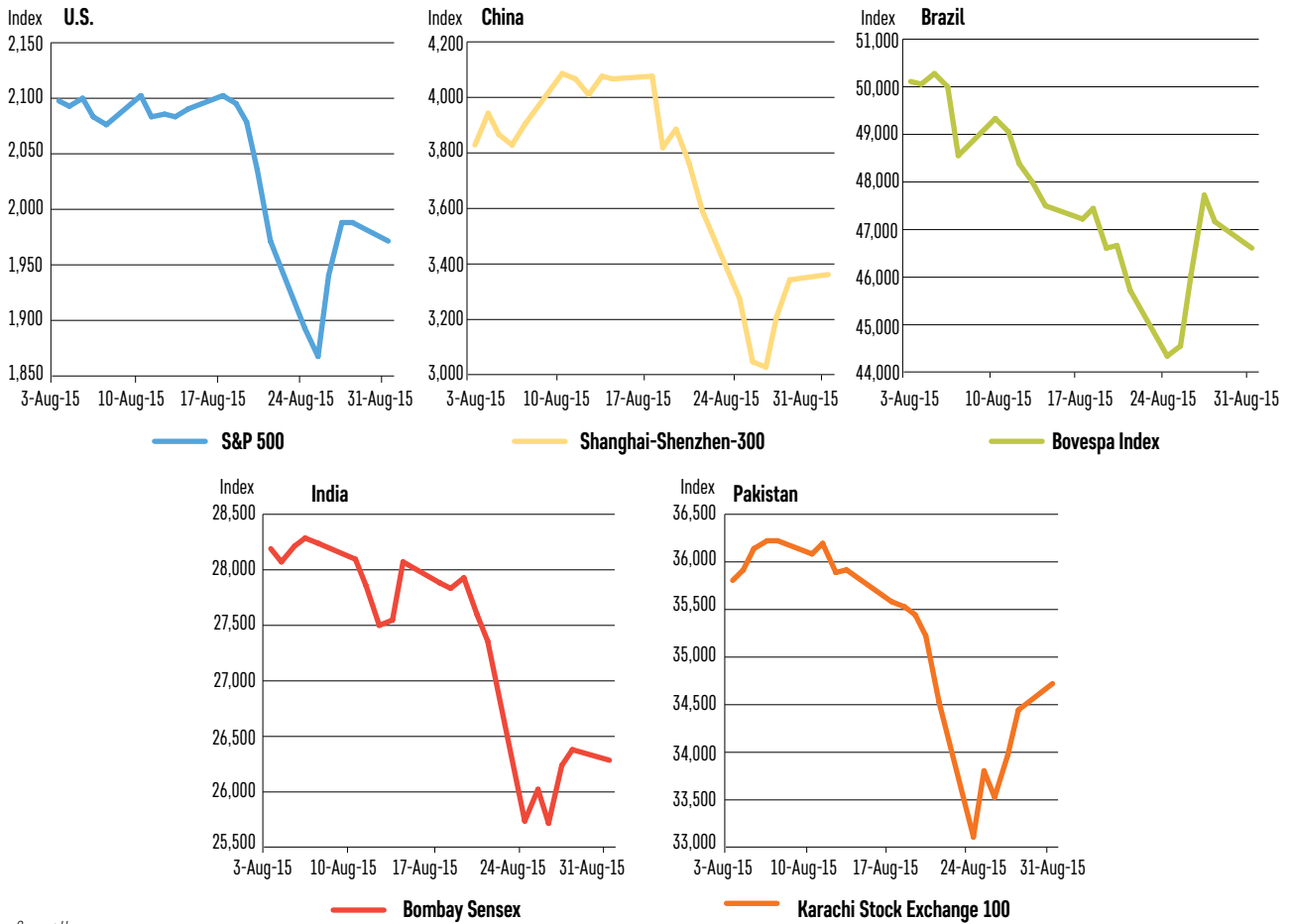
South Asia has benefitted from low oil prices and has proved resilient to the recent turmoil in international markets. The region's growth prospects are strong and India confirms its position as the fastest-growing large economy in the world. Aided by lower commodity and food prices, inflation has sharply decelerated across most of the region. Inflation rates used to be twice as high as in other regions, but not anymore. Monetary policy space is now generally available to cushion future external shocks, if needed. But fiscal space remains highly constrained, slowing down the development of much-needed infrastructure. And financial sector vulnerabilities remain one of the main challenges faced by several South Asian countries.

The recent turmoil exposed substantial differences in country performance

Volatility across international stock and currency markets has recently rocked the global economy. China's growth deceleration, the sharp fall in value of its stock market, and the "shock depreciation" of the Renminbi in August 2015, sent chitters throughout the world. Tumbling share prices in advanced and emerging countries alike revealed investors' increasing uncertainty regarding the speed of China's slowdown, US monetary policy and the repercussions of lower oil prices. Furthermore, the ripple effects exposed macroeconomic vulnerabilities across many emerging markets. Yet, the apparently similar volatility across countries masks important differences in their economic fundamentals, exposure and ultimately vulnerability.

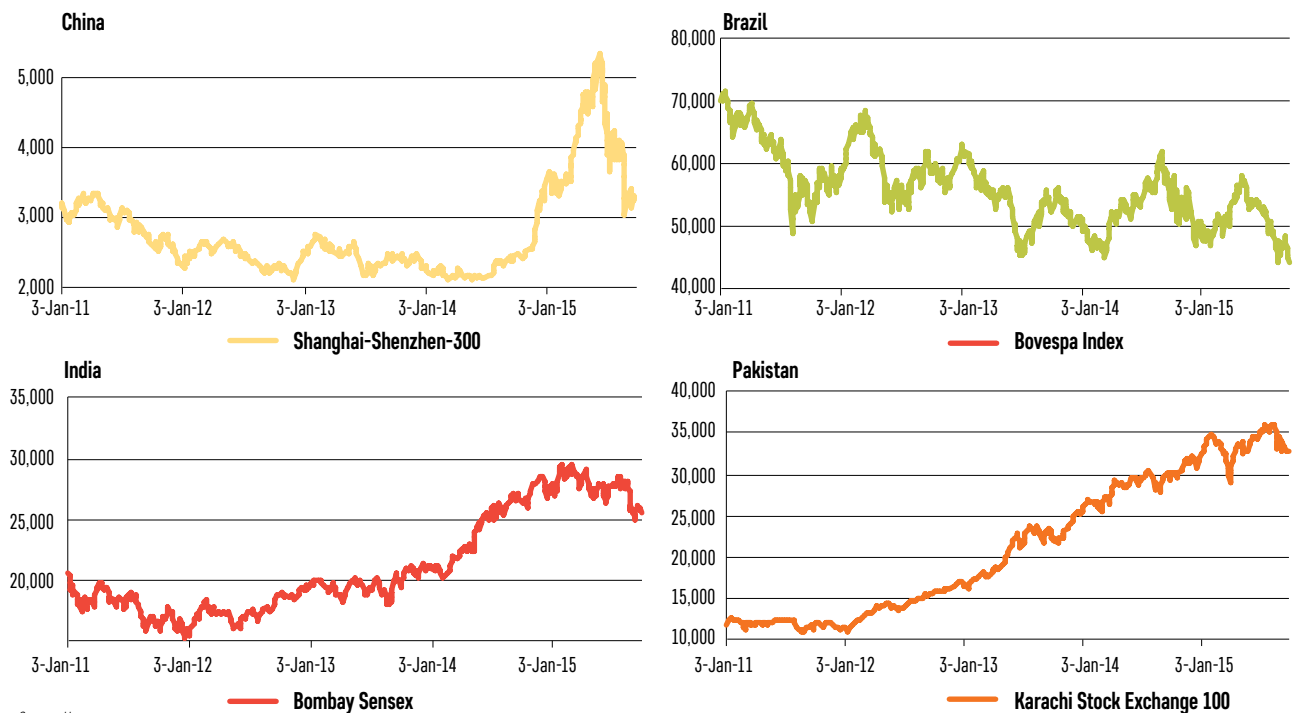
A longer-term perspective reveals quite distinct trends across emerging markets. While China may have been faced with the bursting of a bubble,

FIGURE 1: Short-term stock market developments may give a false sense of uniformity across countries



Source: Haver

FIGURE 2: Deeper stock market trends reveal significant differences across emerging markets



Source: Haver

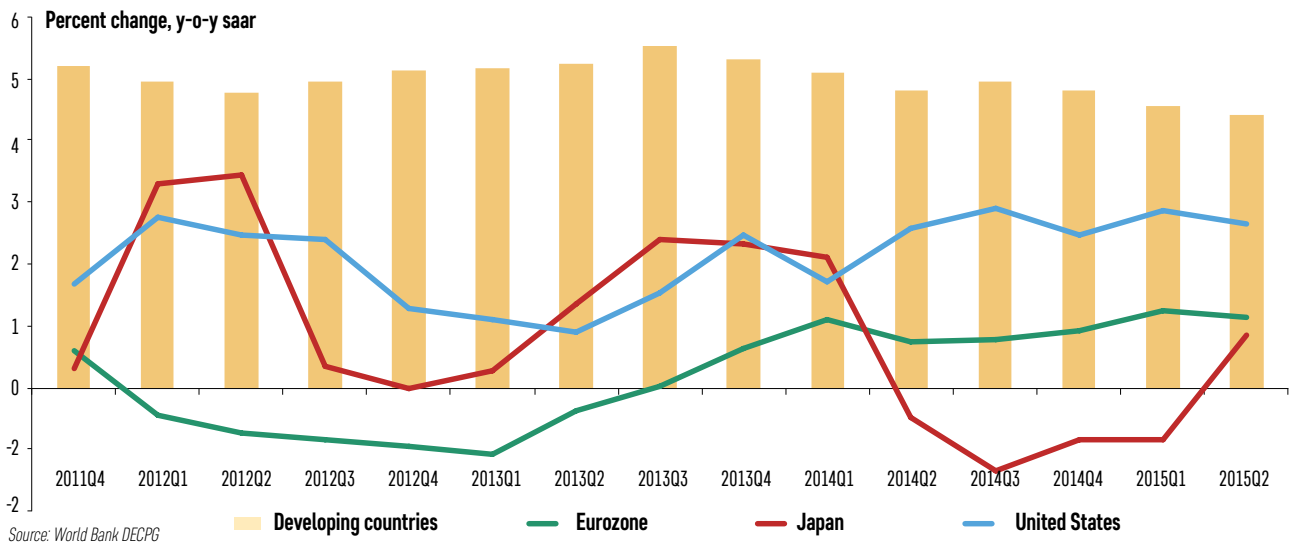


Brazil's stock market has already been fluctuating around a declining trend for several years. Indian and Pakistani stocks, on the other hand, had been on a relatively steady upward trend for three years, with recent developments looking more like a bump in the road.

Across major advanced economies, diverging real economic performance nurtures the expectation of asymmetric monetary policies. Eurozone growth remains weak and fragile, encouraging the ECB to continue Quantitative Easing (QE) to fend off deflation. Europe is facing another Greek program, various crucial elections, and a major refugee crisis, all of which reinforces morose expectations. Japan's monetary policy is also expected to remain loose in light of subdued growth and deflationary

pressures from global commodity prices. On the other hand, the US economy sends healthy signals with quarterly real GDP growth (y-o-y) consistently above 2 percent since 2014Q2. Labor markets also show solid improvement over 2015H1 with unemployment down to 5.1 percent in August (according to Bureau of Labor Statistics' September 4, 2015 Employment Situation Summary). This leaves the Federal Reserve Bank with the difficult task of timing its monetary tightening. After the Fed's September meeting a lift off may be in the cards for early 2016. Although long-expected and partially priced-in since summer 2013, this tightening raises questions on the implications for international capital flows, exchange rates, and external stability in emerging markets.

FIGURE 3: Growth in major advanced economies remains a tale of two speeds...



...and two sets of market expectations regarding monetary policy.

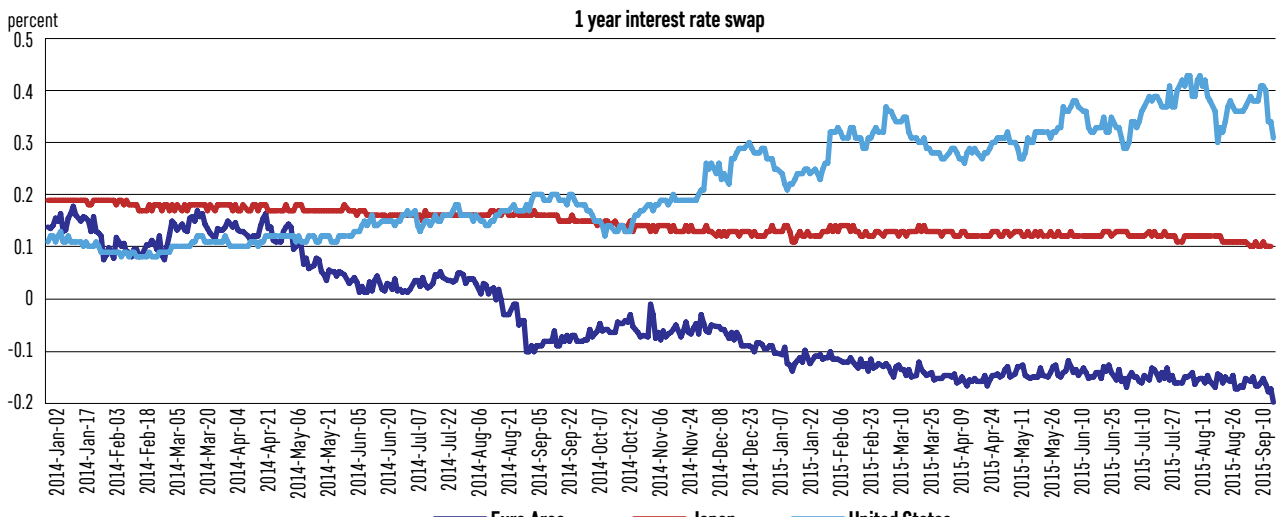
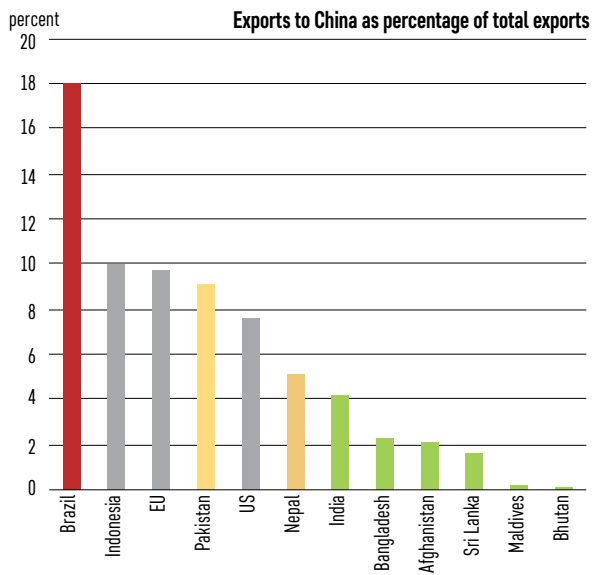
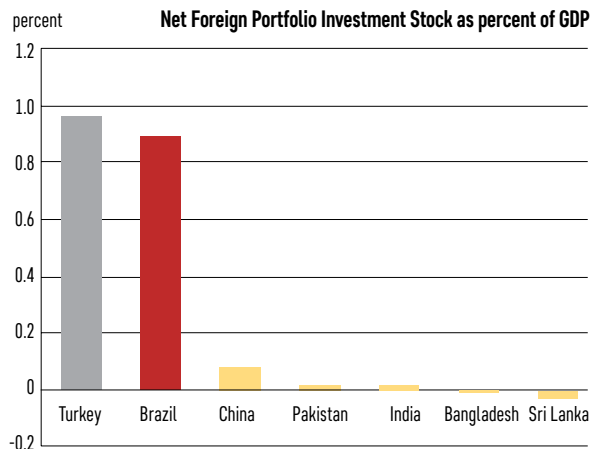


FIGURE 4: The Chinese slowdown does not pose a direct threat to South Asia's trade balances



Source: World Bank WITS

FIGURE 5: The region is little exposed to capital flow volatility from portfolio rebalancing.

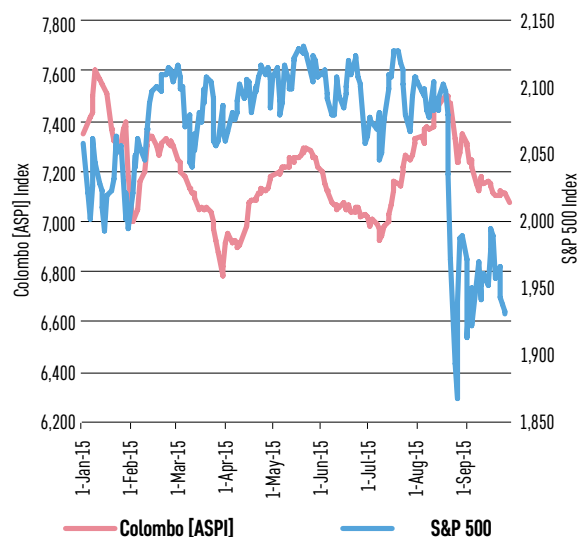
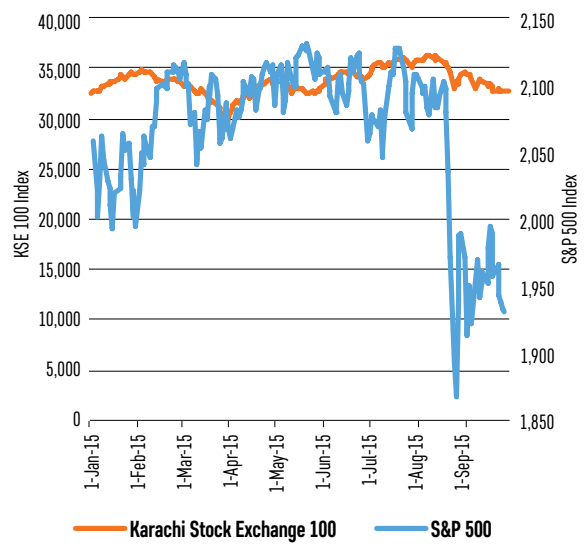
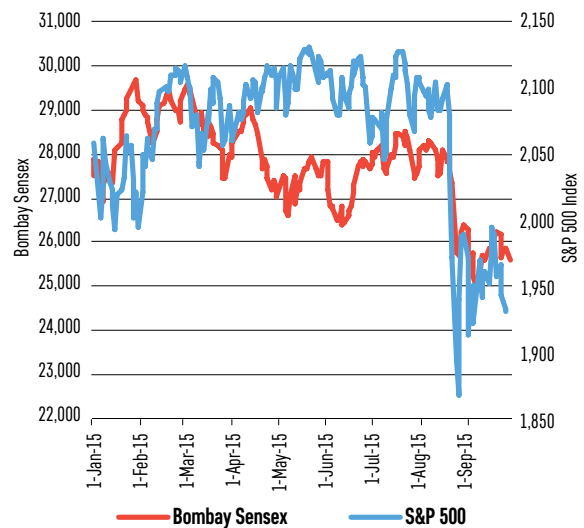


Source: World Bank DECPG, Haver

South Asia stands out as a region with moderate exposure and limited external vulnerability

South Asia appears only moderately exposed to international turmoil. The region is more inward-oriented than others, and its growth is less dependent on global markets. With the exception of Pakistan, the share of exports to China is low, meaning that the region is not directly vulnerable to the Chinese economic slowdown. Relatively volatile portfolio flows are also less significant than in other advanced

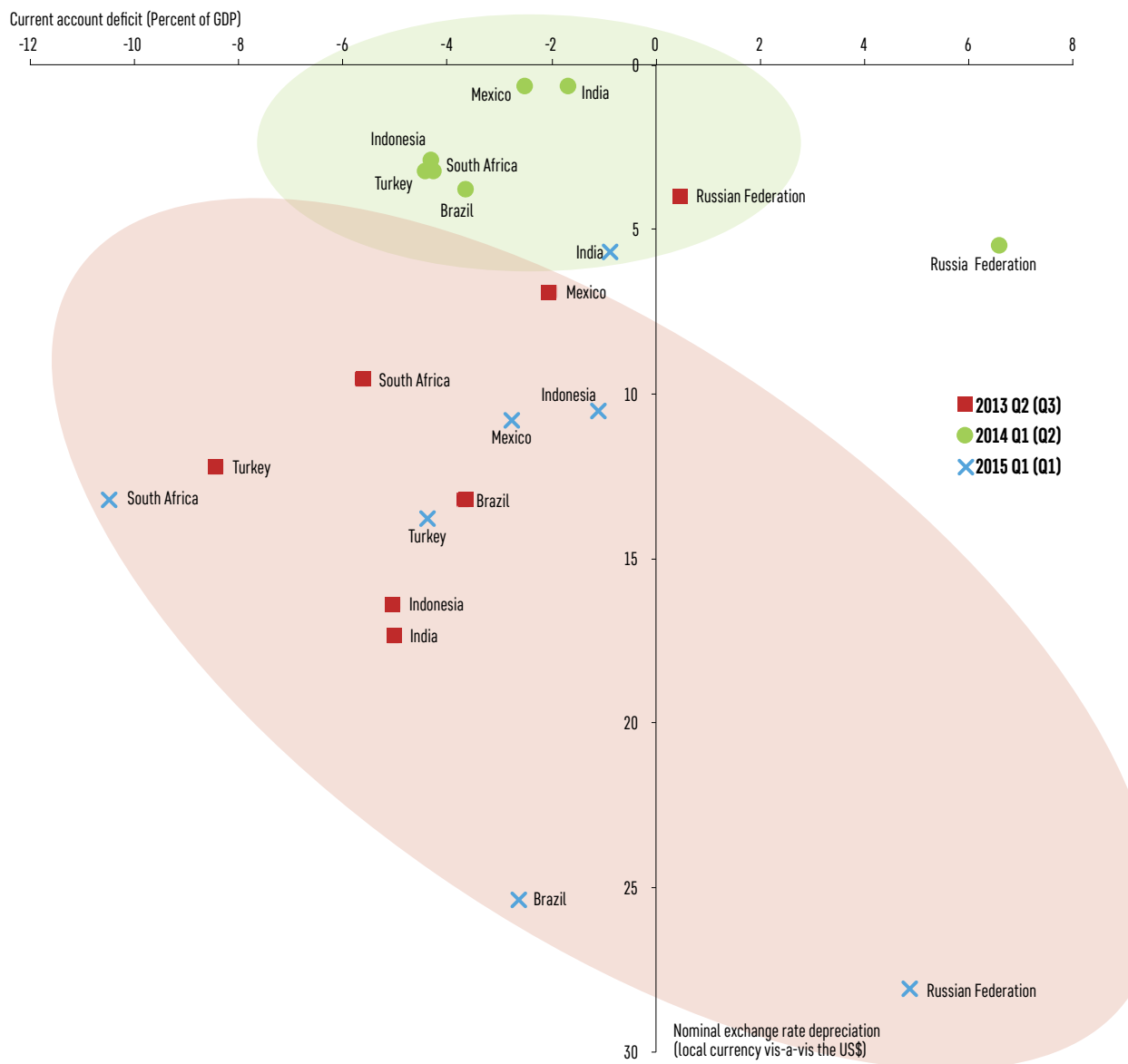
FIGURE 6: Weak correlation between regional and international stock indices suggests limited contagion risk



Source: World Bank staff calculations, Haver



FIGURE 7: India regained a strong external position after the 2013 taper tantrum and has maintained it subsequently



Source: World Bank DECPG, Haver, national central banks, World Bank staff calculations

economies and emerging markets, partially insulating South Asia from the consequences of international portfolio rebalancing. Contagion via stock markets thus appears to be limited. Further reinforcing this assessment, the correlation between stock market fluctuations in South Asia and the US are weak, suggesting relatively low contagion risks and limited indirect pass through.

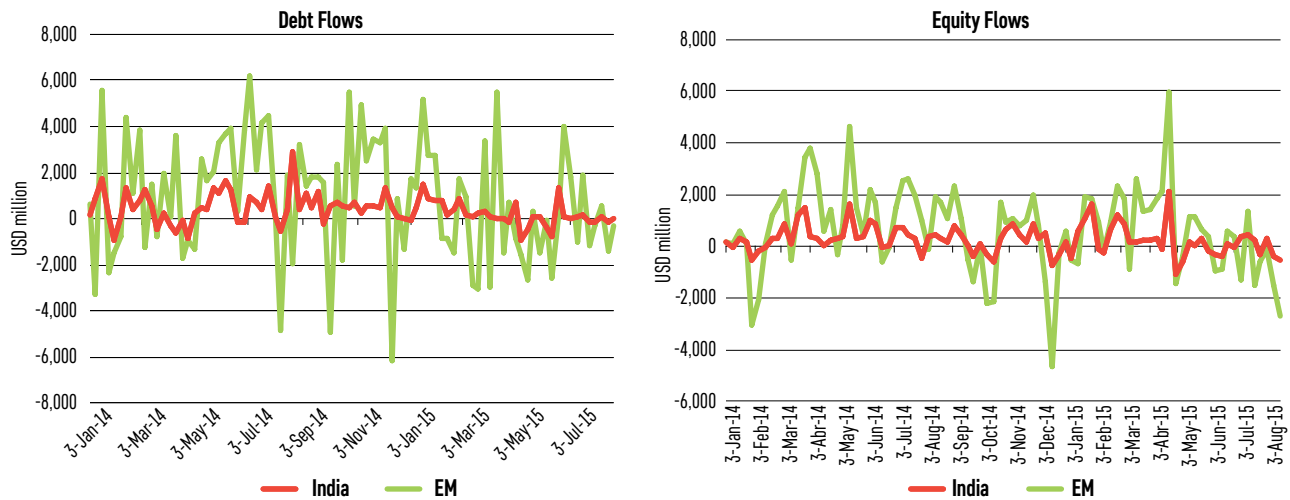
Not only is the region less exposed than others, its vulnerability in the event of a shock is limited too. South Asia's largest economy, India, features a rather stable external position and a relatively low volatility of equity and debt flows. These characteristics stand as exceptional among large emerging markets.

While many of them had improved their external position after the 2013 taper tantrum, they saw it deteriorating again in 2015. But India's current account deficit and nominal exchange rate were barely impacted. Most countries in the region also have strong policy buffers in place, thanks to the gradual strengthening of their foreign exchange reserves. If anything, key risks remain mostly on the domestic side.

The region is running a low and manageable current account deficit, slightly above 1 percent of GDP. With the exception of Bhutan and Sri Lanka, current accounts across South Asia are either in surplus or with deficits confined below 2 percent of GDP. India's remarkable stabilization after the 2013 taper



FIGURE 8: India also features more stable equity and debt flows than its emerging market peers



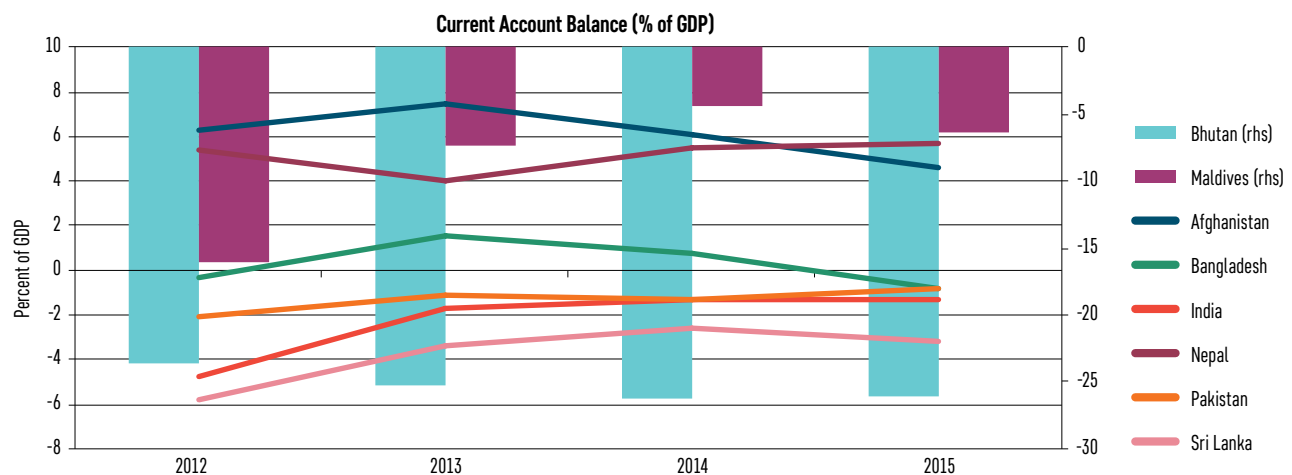
Source: IIF

tantrum found a continuation during FY2014-15 and FY2015-16, with a current account deficit of 1.3 and 1.4 percent of GDP respectively. Bangladesh's current account is expected to slip from a slight surplus of 0.8 percent in 2014 into a slight deficit of 0.8 percent in 2015. In Sri Lanka, strong tourism and remittance flows helped narrow the current account deficit to 2.6 percent of GDP in 2014; however, a looser fiscal stance and credit-driven imports may widen it to 3.2 percent or more in 2015. In Maldives the current account deficit is estimated at around 6 percent of GDP in 2014, but remains well financed on account of tourism sector FDI flows. Meanwhile Nepal's current account surplus remains very large, at 5.7 percent of GDP during 2015.

Strong remittances offset weak exports

Several countries in South Asia owe their relatively stable external position to strong growth in remittances. In a way, the region has done better at exporting its people than at exporting its products, and these two developments are closely connected. Remittances accounting for a whopping 29 percent of GDP in FY2014-15 have allowed Nepal to maintain a sizable current account surplus in 2015. They grew by 12 percent in FY2014-15 in spite of a slowdown in outmigration, reflecting a post-disaster surge in flows. In Pakistan remittances are at a record high, offsetting a substantial trade deficit to yield a highly manageable current account deficit of 0.8 percent of GDP

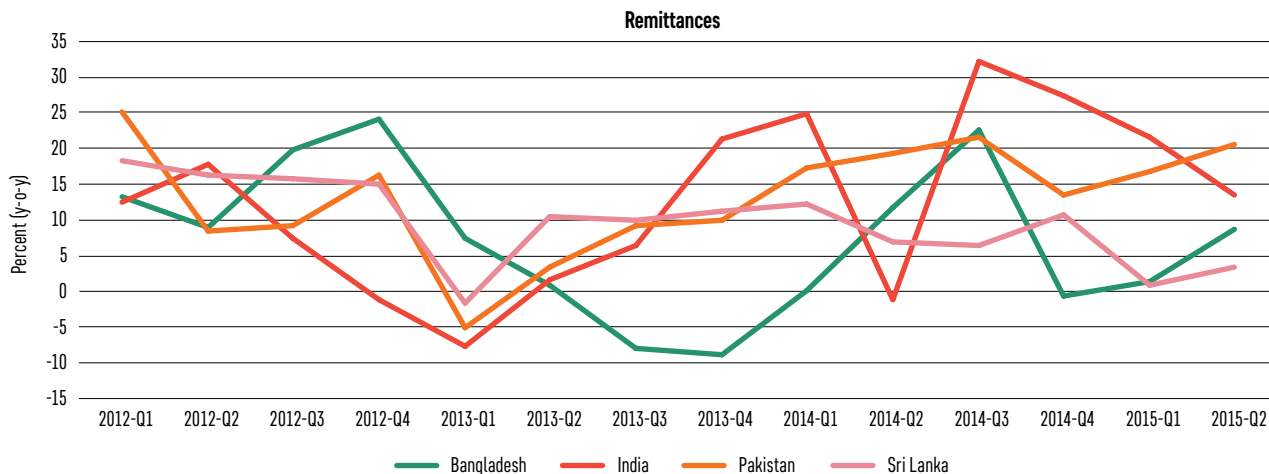
FIGURE 9: Current accounts remain broadly balanced in 2015 across South Asia



Source: World Bank and national authorities

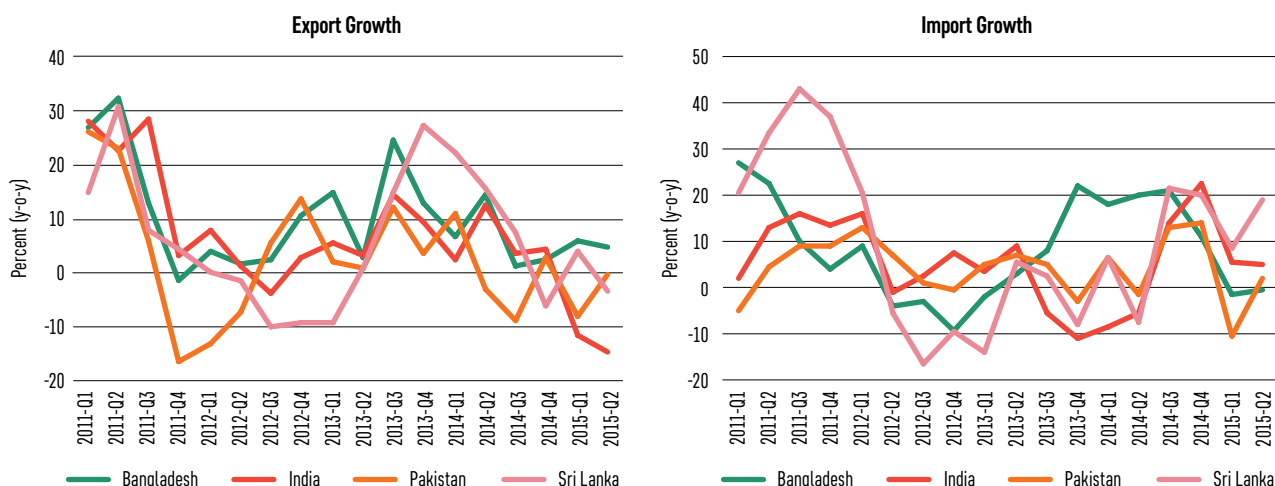


FIGURE 10: Remittances have grown quite steadily over the last three years



Source: National central banks

FIGURE 11: Export growth continues to be lackluster across South Asia



Source: World Bank DECPG

in FY2015. In almost all other countries, remittances strongly support current account balances. However, there are also serious downside risks, as a large share of South Asian migrants live and work in Gulf countries that are highly dependent on oil prices.

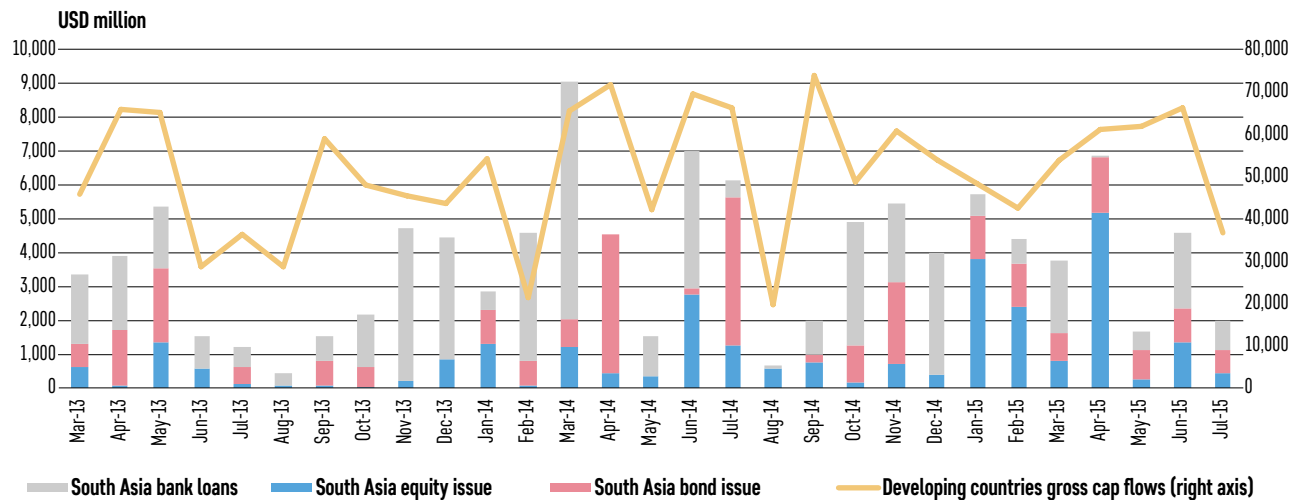
Trade balances continue to disappoint in spite of low commodity prices. Continued weakness in demand in advanced economies affects all South Asian economies. India's export performance has been disappointing, partly because refined oil products represent a substantial part of its sales abroad. The result of lower oil prices was a slight contraction of -0.8 percent for FY2014-15, with only gradual pick up (to 3 percent) expected for FY2015-16. In Pakistan, weak manufacturing performance – together with sluggish demand in destination countries - translated

into modestly negative export growth, only expected to reach positive territory in 2017.

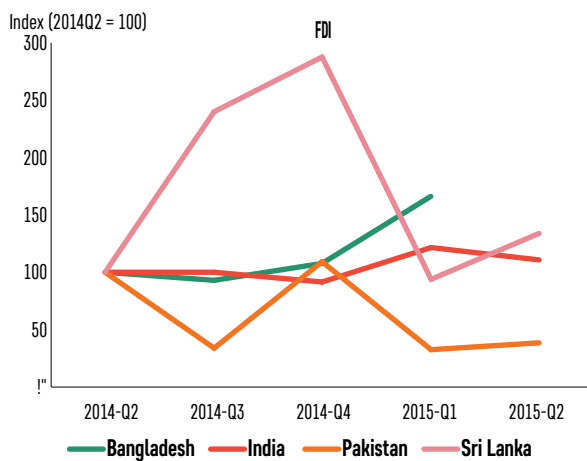
Capital flows to the region remain sufficient to finance modest current account deficits. In CY2015, the region saw stronger-than-usual equity inflows relative to debt (bond) inflows and bank loans. At the same time, the region – led by India - has become more attractive to investors. Valuable Foreign Direct Investment (FDI) flows have been robust since 2014Q2. Sri Lanka recently saw a relative improvement in FDI and private sector loans. FDI inflows remain below past levels in Pakistan. Yet, increased capital and financial inflows contributed to an external surplus for the second year in a row.



FIGURE 12: Gross capital flows have recently seen a stronger equity component while FDI inflows are mostly robust



Source: World Bank DECPG, Haver

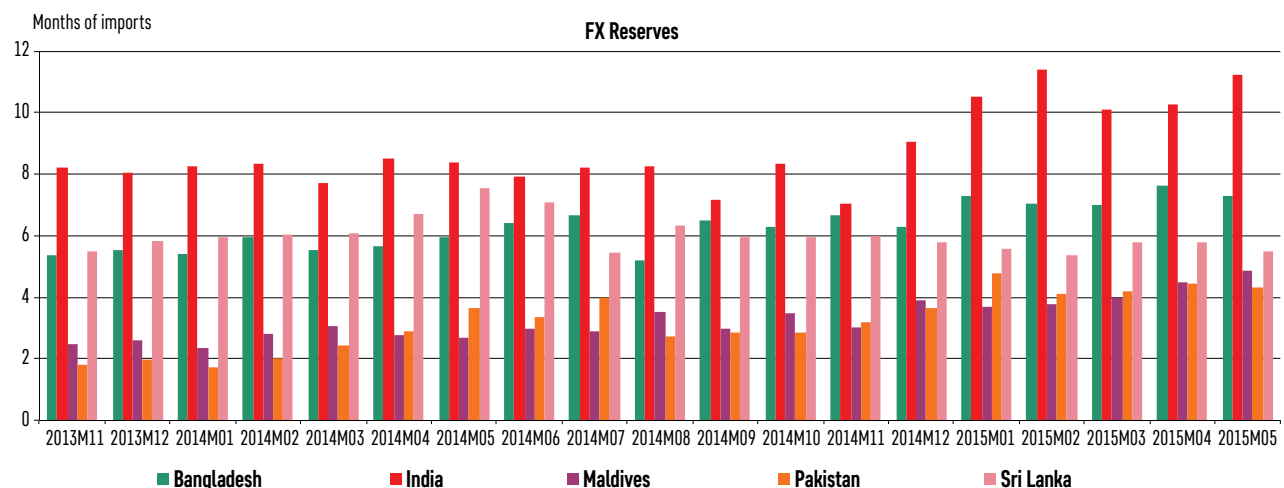


Source: Haver and national authorities

Foreign exchange buffers have been replenished across most of the region.

Strong remittance flows complemented by solid capital inflows allowed most South Asian economies to start refilling their foreign exchange coffers. Notably, Pakistan has managed to bring its reserve coverage from critical levels (below two months of import coverage) to more solid territory, with more than four months of import coverage in 2015H1. Reserves are at relatively high levels in India and Bangladesh. In Maldives they increased from USD 368 million at end 2013 to USD 693 million by end July 2015. However, usable reserves (net of short-term foreign liabilities) remain low at USD 214 million or only 1.3 months of import coverage. And in Sri Lanka the combination of a loose fiscal stance and an attempt to defend the currency led its gross official

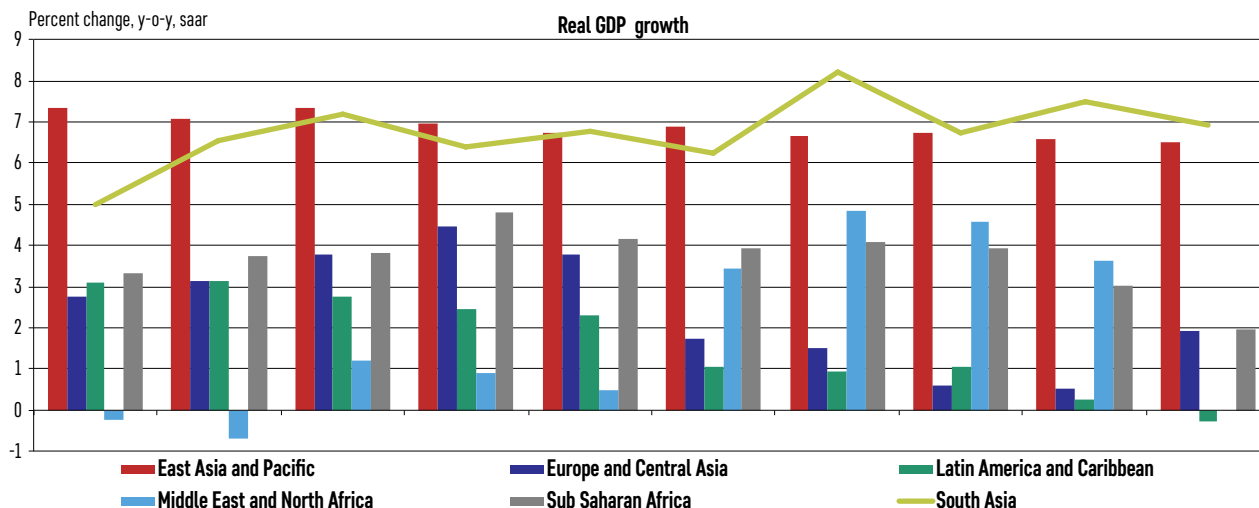
FIGURE 13: International reserves have been gradually built up across most of South Asia



Source: World Bank and national authorities

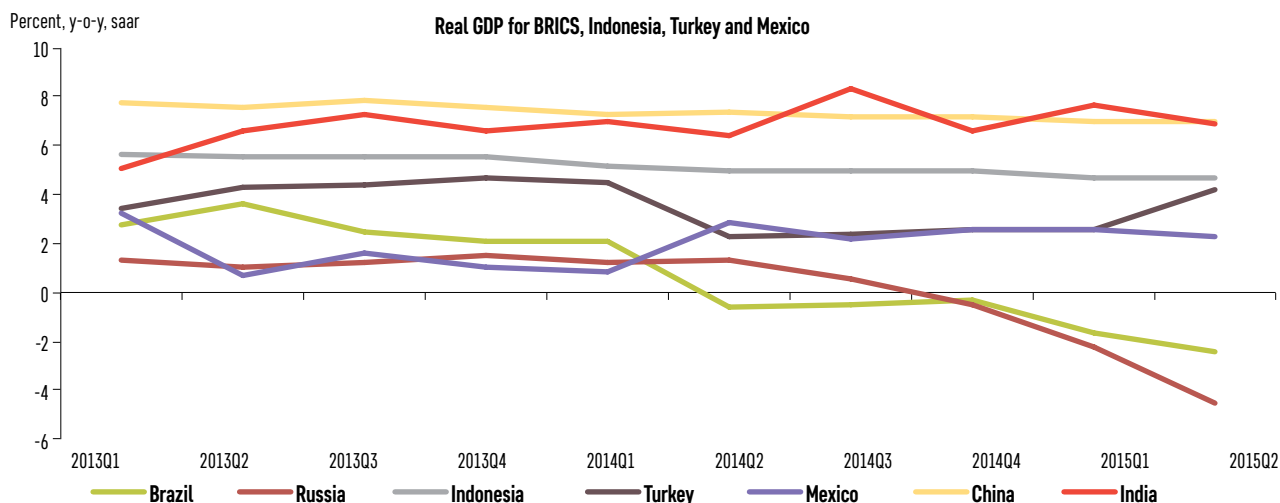


FIGURE 14: South Asia has been the fastest growing developing region for more than one year (since 2014Q3)



Source: World Bank DECPG

FIGURE 15: India's growth at par with China but set to accelerate gradually



Source: World Bank DECPG

reserves to decline from USD 7.5 billion in December 2014 to USD 6.5 billion by August 2015.

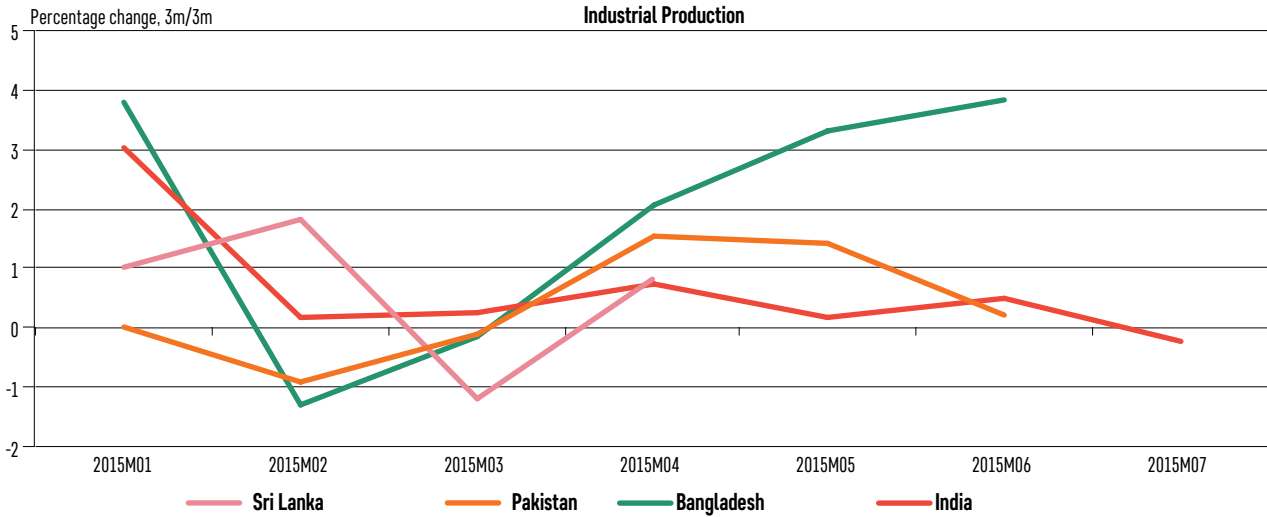
South Asia's growth performance remains solid compared to other regions

Against the backdrop of relative stability and resilience, South Asia sustains strong economic growth. In an environment of global market volatility, India stands out as the least vulnerable among emerging market economies. Given its size relative to the region, short-term expectations remain high for South Asia. The region registered real GDP growth of 7 percent y-o-y for 2015Q2, maintaining its top spot among developing regions.

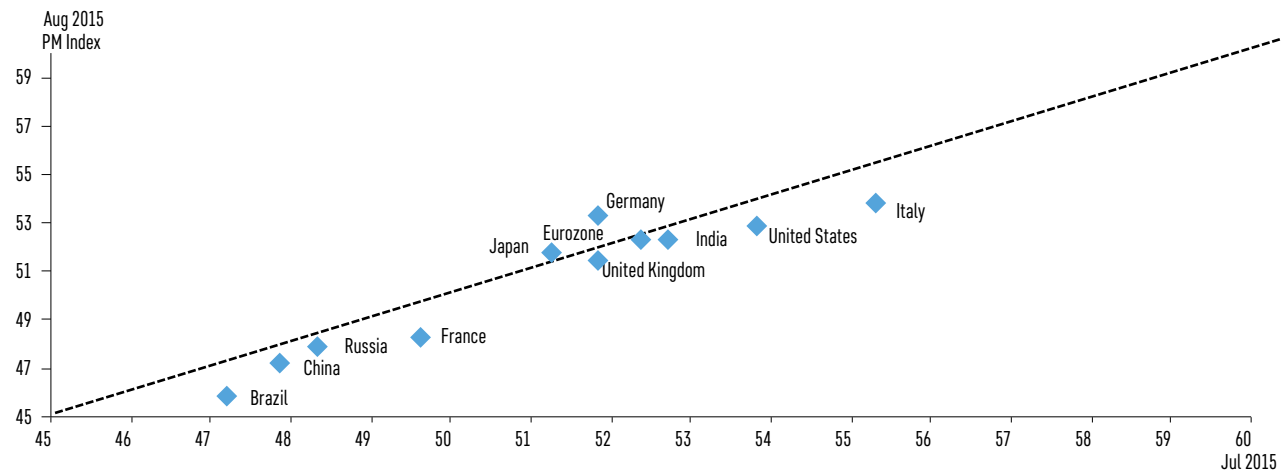
India, the region's growth motor, is set to be the fastest growing major economy in 2015. With China gradually transitioning into an environment of lower growth, India could durably occupy the top growth spot among large emerging markets. Its real GDP growth is set to exceed 7 percent for CY2015. Tail winds from lower oil prices contribute to this strong performance, given that the country is a net oil importer. And limited vulnerability to the international turmoil will continue to support India's economy in the short term. Annual growth is set to increase from 7.3 percent in FY2014-15 to 7.5 percent in FY2015-16. While private consumption appears as an important factor throughout, gross fixed investment is increasingly playing a more prominent role. From a sectorial perspective, it is all about services. Trade and transport services are large contributors



FIGURE 16: Industrial production remains volatile and shows little momentum, except in Bangladesh.

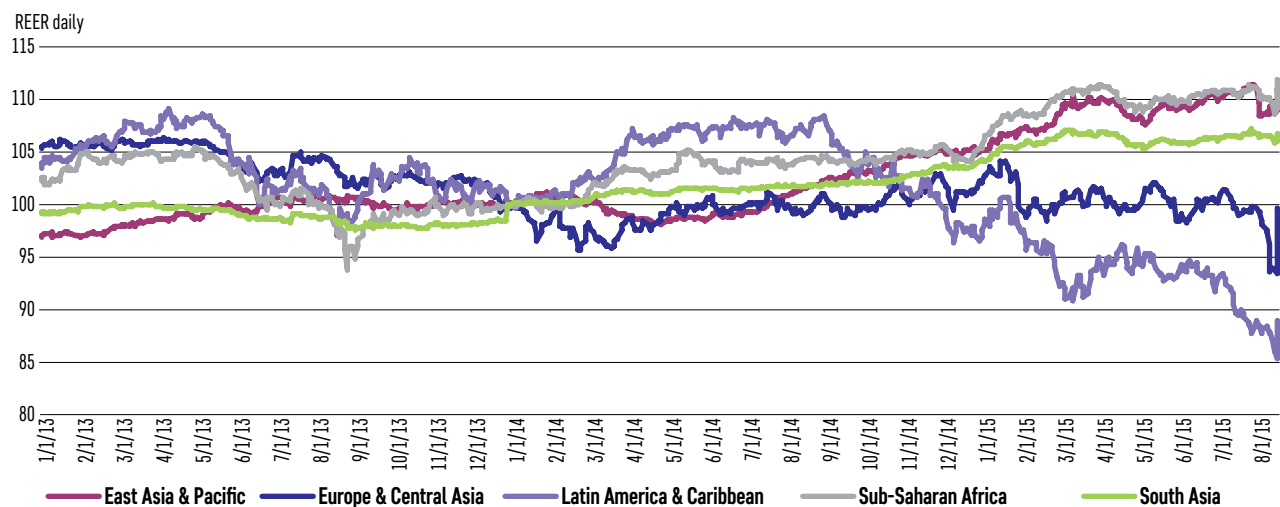


Source: World Bank DECPG



Source: Markit

FIGURE 17: With a relatively stable REER, no major competitiveness dividends are to be expected in South Asia.



Source: Haver, World Bank DECPG



to India's economic growth. However, the combined share of manufacturing, construction and real estate services in overall growth reached nearly 55 percent in FY2014-15.

Growth is also solid across most other South Asian economies, mainly driven by robust domestic consumption and the gradual rise of investments. The exception is Afghanistan, a country navigating a challenging security and economic transition as a result of the withdrawal of foreign troops. From a sectorial point of view, regional growth has been driven by a strong performance in services and –to a lower extent- in agriculture. On the expenditure side, consumption – both private and government – has done the heavy lifting in the recent past.

Nepal has begun its path of recovery from the recent Gorkha earthquakes. In April and May 2015, Nepal incurred two massive earthquakes, with respective magnitudes of 7.5 and 7.4. This caused dramatic losses of life and assets, putting a heavy toll on economic activity. From an expected 5 percent, GDP growth dropped to 3.4 percent. Although macroeconomic fundamentals were strong prior to the earthquake, the slowdown is expected to continue for at least one additional fiscal year.

As in the recent past, growth in industrial production is more hesitant. Market sentiment as measured by the Purchasing Managers' Index (PMI) continuously signals optimism in India, where it remains above the 50 mark. However, in July 2015 Indian industrial production printed at 4.2 percent (y-o-y), below overall GDP growth. The expansion in industrial production is mainly driven by capital goods and fueled by government investment expenditure. More precisely, growing public spending on infrastructure has led to a pickup of gross fixed capital formation and to faster growth in the construction industry in FY2015-16Q1. On the other hand, the production of consumer goods (both durables and non-durables) contracted in June and July 2015, in spite of strong auto production.

Export competitiveness is unlikely to benefit from significant exchange rate depreciation in the near term. Pakistan's improvement in its external position is clearly reflected in the appreciation of its Real Effective Exchange Rate (REER) since late 2013. In Bangladesh, the REER has appreciated by 14.4 percent in the last 12 months ending August 2015, on account of domestic inflation above rates of trading partners

and a 15.9 percent appreciation of the taka vis-a-vis the euro. After declining over a large part of FY2014-15, India's REER has only seen some slight depreciation in recent months. Sri Lanka's central bank introduced more flexibility for its nominal exchange rate in September 2015, allowing the rupee to gradually depreciate in response to the country's weaker external position. But overall exchange rates are rather stable in the region. As other emerging market economies see their currencies depreciate, South Asia will not benefit from competitiveness effects from exchange rates in the near term.

Inflation down to historic lows

Inflation has been decelerating rapidly, reaching historic lows over the past year. South Asia has found its way from the top spot worldwide to being one of the regions with lowest consumer price inflation. This transition was fast and steady. Thanks to low commodity and food prices as well as a slowdown in the growth of administered prices (in India and Sri Lanka), inflationary pressures lowered markedly across the region. In India, they subsided during FY2014-15, with headline inflation stable at 4.5 percent for the first five months of FY2015-16. Pakistan's consumer price inflation is also projected to be 4.5 percent in FY2015. In Bangladesh, headline inflation reached 6.5 percent in FY2015, down from 7.4 percent in FY2014, while Sri Lankan inflation decelerated to 1 percent in August 2015. While risks remain in the short and middle term in the form of a strong expected El Nino and eventually increasing oil prices, so far pressures on prices have been easing across the board.

The benign inflation environment has encouraged monetary policy easing across the region. While the debate in the US centers on monetary policy tightening, South Asia's slowing consumer price inflation has led central banks across most of the region to loosen monetary policy in 2015 to date. In this favorable environment, central banks in major regional economies such as India, Pakistan, Bangladesh or Sri Lanka are on their way to successfully meet policy targets.

Yet, across the region big questions remain regarding the measurement of prices and its implications for the interpretation of key economic developments. The way prices are measured has a profound impact on the understanding



FIGURE 18: South Asian consumer price inflation has come a long way down, but has it come to stay?

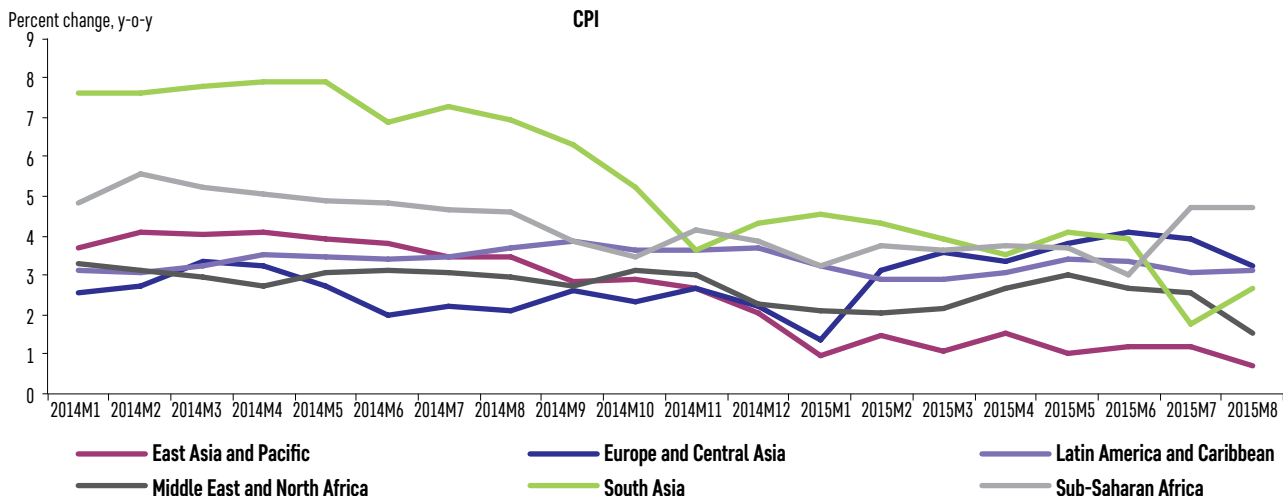


FIGURE 19: Inflation is increasingly below target, supporting reductions in interest rates

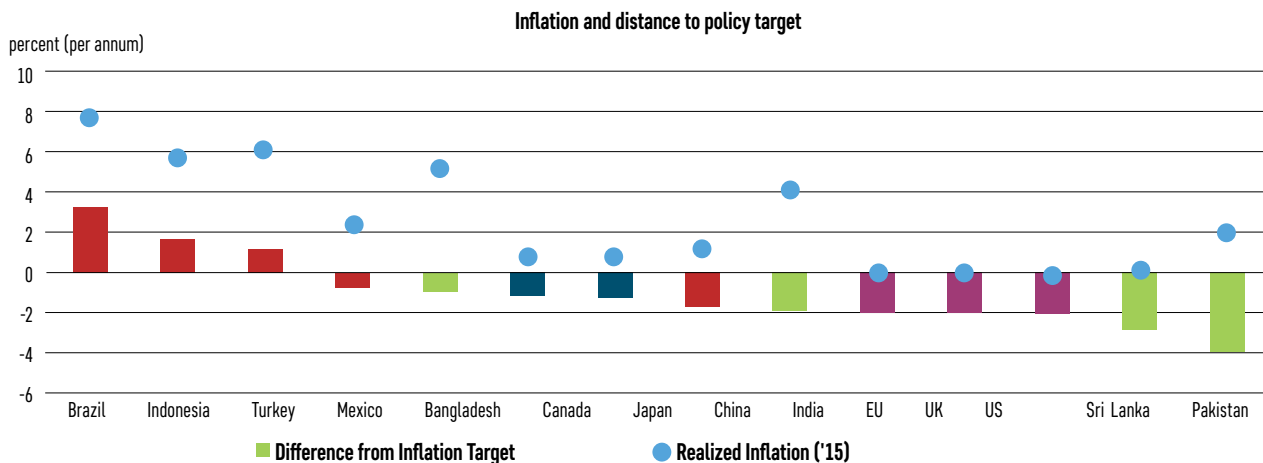
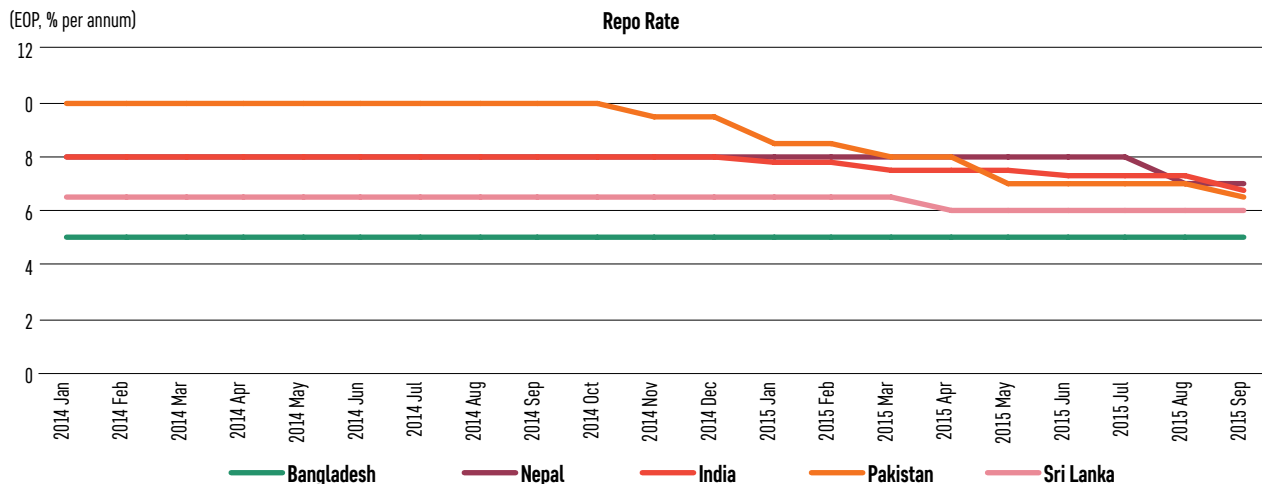
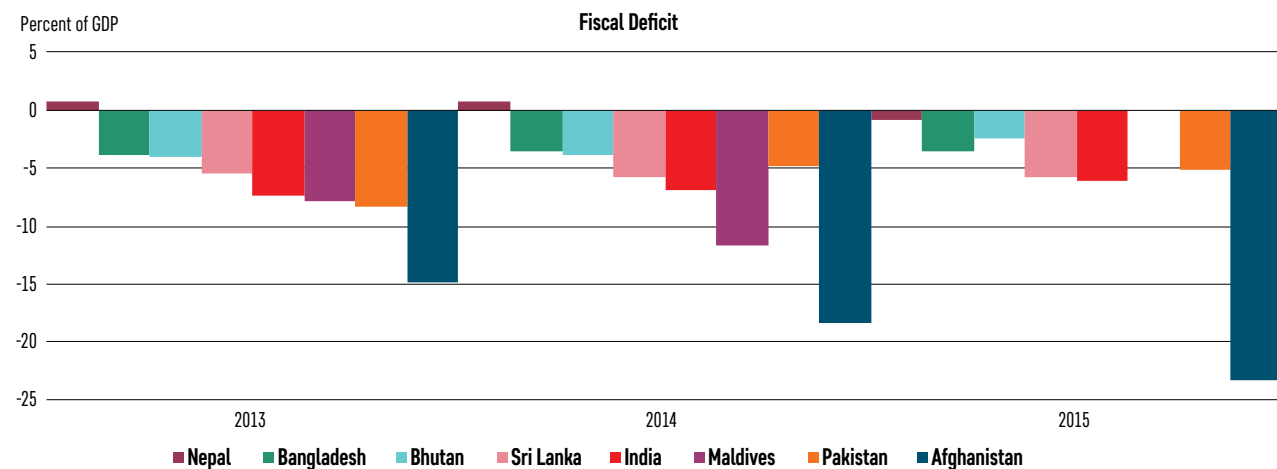
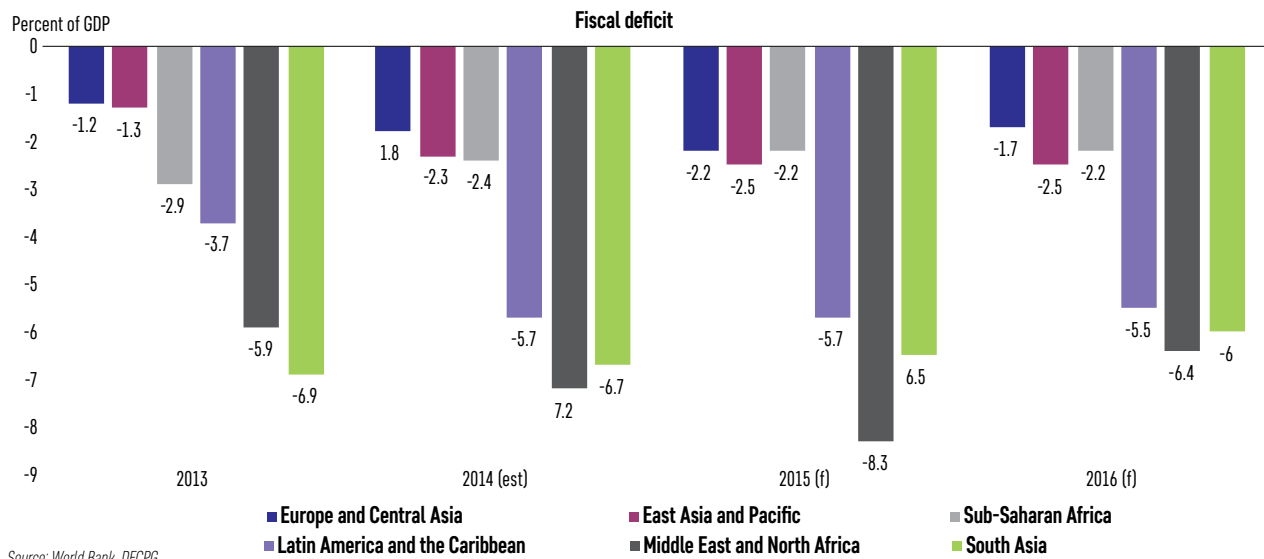


FIGURE 20: South Asia's fiscal deficits are decreasing only gradually



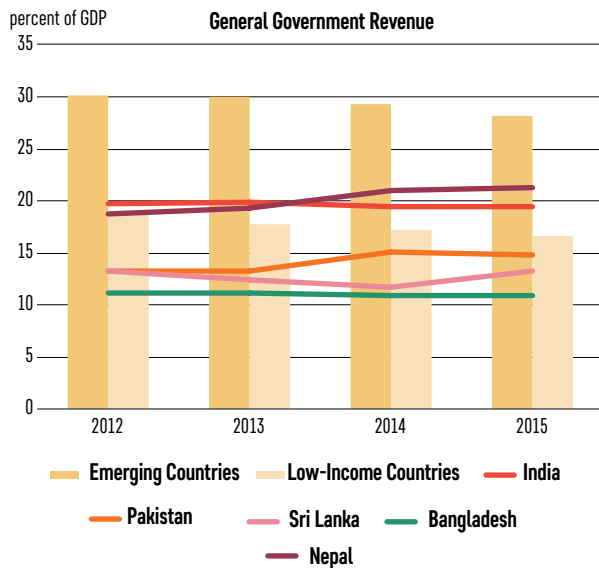
of trends in the real economy and their implications for policy decisions. The recent deceleration of inflation is taking place at a time when statistical efforts are also yielding new insights on price levels and dynamics across the region. The recently issued figures from the International Comparison Project (ICP) for 2011 suggest that the region is “cheaper” than previously thought. And revisions to national accounts in India and Sri Lanka also point to lower price levels than was previously assumed. When put together, these inflation trends and statistical changes raise questions about the accuracy of price measures in South Asia, and its potential implications for the assessment of key economic and welfare indicators. This report’s focus section (Chapter 3) delves into these questions with greater detail.

But South Asia is by no means immune to future turmoil and strong growth is not a foregone conclusion

The region’s fiscal performance continues to be a major risk on the downside. Across South Asia, fiscal consolidation is proceeding gradually at best. Afghanistan stands out. Its government was confronted with an unfinanced fiscal deficit of USD 352 million in 2014, managed only by drawing down cash reserves, accumulating arrears, and tapping exceptional donor assistance. In India, the government continues on a path of slow fiscal consolidation and is likely to meet its fiscal target in light of lower oil prices and a reduced subsidy bill. But the fiscal deficit is still estimated at 6.4 percent of GDP for FY2015-16, and a strong pickup in recent government (capital investment) expenditure could put pressure on fiscal



FIGURE 21: Revenue generation across South Asia is below comparator levels and is among the lowest globally

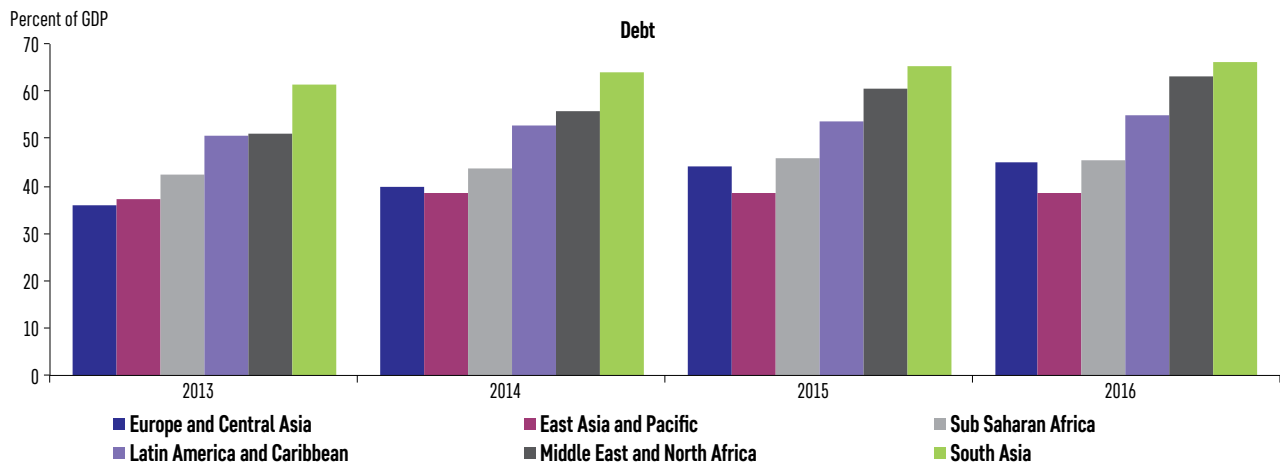


Source: IMF, GFS

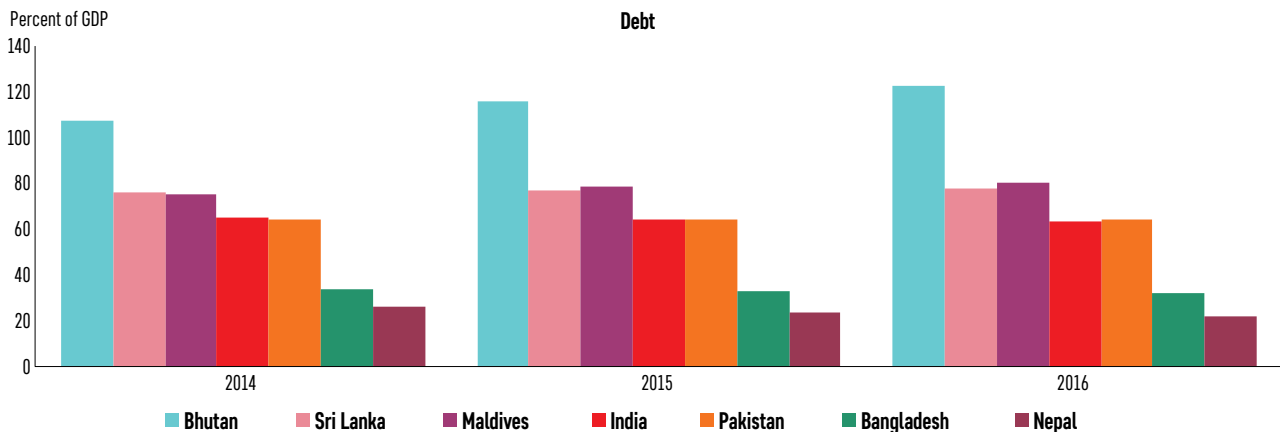
consolidation in FY2016-17. Pakistan's consolidation efforts are also on track thanks to healthy non-tax revenues and some rationalization of power subsidies. But the fiscal deficit could still be at 5.1 percent of GDP in FY2015. Sri Lanka's deficit for 2014 was 5.7 percent of GDP, up from 5.4 percent in 2013, marking a reversal of the post conflict consolidation period. Bangladesh's deficit was contained at 3.6 percent of GDP in FY2015. However, the FY2016 budget target suggests some loosening, with the deficit projected at 4.6 percent of GDP.

Nepal remains an outlier on fiscal performance, but this is mainly the result of inefficient execution of investment expenditure. Fiscal surplus before the earthquake had constantly been on account of persistent under-implementation of public investment projects. More recently and as a direct result of the earthquakes, Nepal missed its revenue target for FY2014-15 for the first time in several years. In spite of weak and even worsening budget execution, this has resulted in a fiscal deficit equivalent to 1.2 percent

FIGURE 22: South Asia's debt-to-GDP ratio is the highest among developing regions



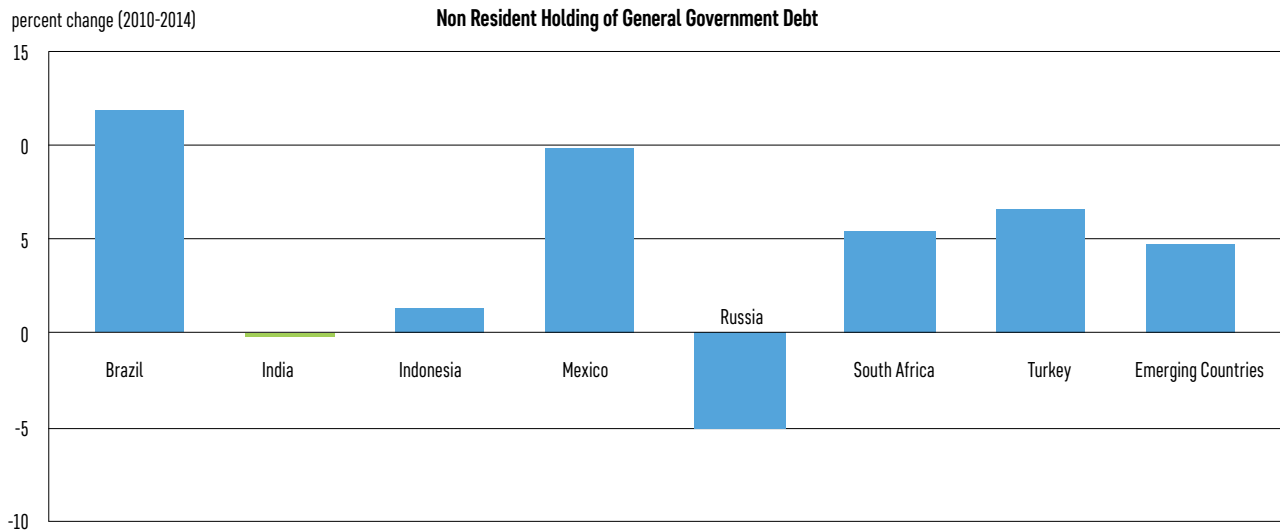
Source: IMF World Economic Outlook & World Bank staff calculations



Source: The World Bank, IMF & national authorities



FIGURE 23: Unlike most of its emerging market peers, India has been reducing its external debt ratio



Source: IMF, Fiscal Monitor

of GDP. As a response to the earthquake, the government has budgeted an ambitious 9 percentage point of GDP increase in total spending for FY2015-16, while capital expenditure is to be doubled to 15 percent of GDP. The realization of this budget strongly hinges upon the implementation of proposed measures to streamline capital expenditure procedures and avoid the underutilization of public resources.

Weak revenue generation and collection continuously constrain fiscal space. Government consumption and investment (partly financed through government capital expenditure) have been driving growth in South Asia. However, government revenue did not increase in parallel. Tax collection remains well below estimates or targets and even deteriorates across major South Asian economies. Tax collection is proving particularly challenging in Afghanistan, Bangladesh, Pakistan and Sri Lanka. For example, revenues across all sources in Afghanistan fell from a peak of 11.6 percent of GDP in 2011 to a mere 8.7 percent in 2014. While the economic slowdown has certainly contributed to this outcome, the uncertainty associated with the transition and weak enforcement have also played a role. Also Sri Lanka saw tax revenues collection declining to 10.2 percent of GDP. And Pakistan’s fiscal consolidation hinges on non-tax revenues while collection by the Federal Board of Revenues continues to fall short of targets.

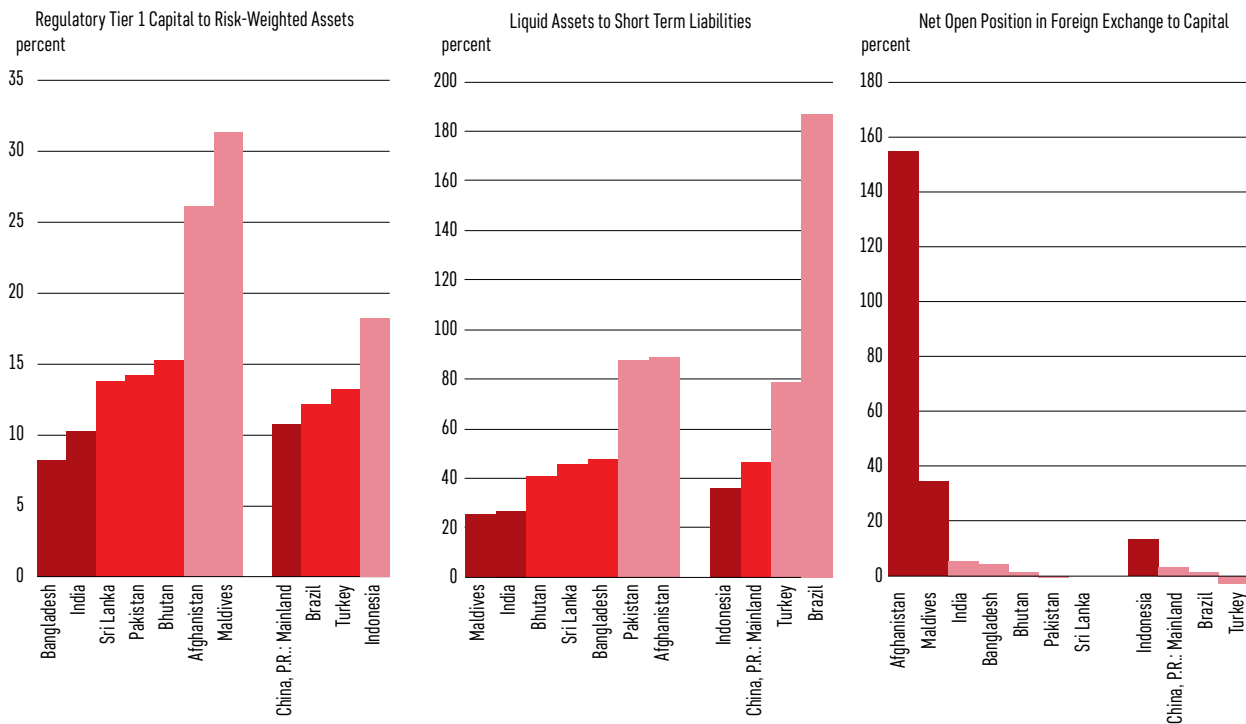
Public debt remains stubbornly high in several countries, with fiscal consolidation only slowly feeding into debt reduction. On aggregate, South Asia’s regional debt-to-GDP ratio is

estimated to slightly increase from around 64 percent in 2014 to around 65 percent in 2015. While not immediately threatening and at generally low risk of debt distress, it shows the difficulty of countries to balance fiscal accounts and turn the wheel around on debt.

Maldives and Bhutan remain the odd “debt twins”. Both exhibit important public debt ratios, which in principle makes them vulnerable to external shocks. Yet, they are facing very different fiscal situations. In Bhutan, public debt is the result of adequately financed capital investments in the hydro power sector, and fiscal deficits have been contained over the last years. Furthermore, most of Bhutan’s external debt is denominated in Indian rupee, mitigating currency risks. On the other hand, quickly rising public debt in the Maldives is the result of accumulated fiscal deficits driven by large and rising public spending. Even though the risk of external debt distress went from high to moderate, the country is still facing vulnerabilities due to its high dependence on potentially volatile tourism revenues.



FIGURE 24: Financial Soundness Indicators point to varying financial sector risks across South Asia



Source: IMF FSI

With external vulnerabilities low, financial systems are the weak spots to watch

South Asia’s financial systems could be tested in the event of further turmoil. The nature of the weaknesses varies across countries, however. Solvency risks are higher in Bangladesh and India, liquidity risks in Maldives and India, and currency risks in Afghanistan and Maldives. These vulnerabilities are not a major concern as long as the region maintains its solid growth performance, but they do warrant close oversight and prudential measures to contain the downside risks if the economic situation were to deteriorate.

Structural bottlenecks and financial risks need to be addressed for India to accommodate demand for increasing investment financing. Future growth performance in India will strongly depend upon investment growth. While public investment can set the stage, private investment will need to be crowded in and eventually take over. With gross fixed capital formation estimated at around 32 percent of GDP over the next five years, investment finance will be critically important. Both domestic sources and foreign capital can contribute but are likely to fall short of overall needs. Banks as well as India’s major

corporations (“India Inc.”) are quite leveraged. Outstanding debt of firms is estimated at around 35 percent of GDP in FY2013-14, and has solidly increased over the last decade. This puts a heavy weight on equity financing, which is a relatively small and risky market. Small and medium sized enterprises (SMEs) in any case will have to rely on bank lending due to limited access to capital markets. All of the above outlines increased vulnerabilities in the private and banking sectors. Cleaning up banks’ and corporate balance sheets is a priority to assure resilience in light of global market volatility and efficiency in financing investments for growth.

Political risk is a permanent factor in the region

Policy (political) risk remains an important factor in the region’s structural reform equation, and may boost or dampen progress. Nepal’s constitutional process appears very close to final fruition, yet political agreement among major parties in the aftermath of the earthquakes is fragile. With spontaneous unrest and violence erupting in parts of the country in response to the proposed demarcation of future provinces, the transition to the new federal



structure remains challenging. Maldives – a country dependent on tourism - has seen domestic protests and international criticism emerge after the arrest and trial of former president Nasheed and other politicians. Afghanistan's security transition is still in full swing and the increase of violence seen during 2014-15 is far from resolved. Sri Lanka, has gone through parliamentary elections in August 2015, following the spot presidential elections in January that brought about a new government. But the ability of the national unity government holds to promote a competitive, export-led economy is yet to be tested. India's policy reform agenda is progressing, yet major reforms such as the adoption of GST remain to be implemented. And development outcomes are increasingly tied to states' priorities and capacities. While politically stable at the moment, both Pakistan and Bangladesh will need to tackle large power sector and competitiveness challenges. In sum, the ability of South Asia to realize its economic potential strongly depends on continued stability and security.







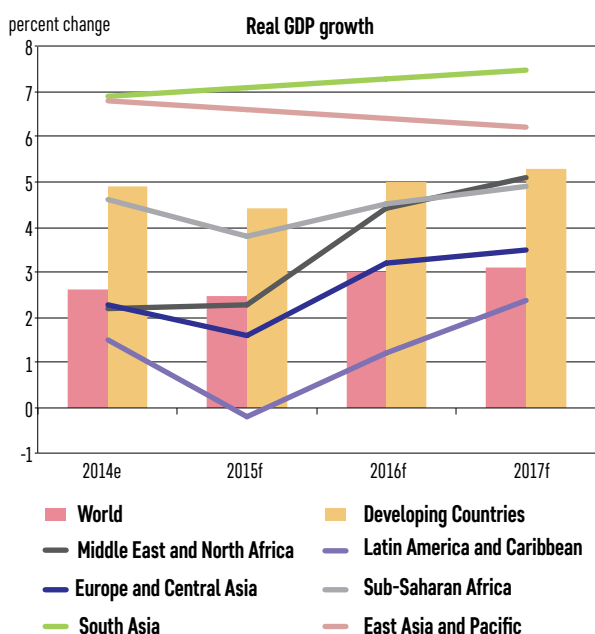
Outlook

South Asia's relative macroeconomic stability and increasing monetary policy space bode well for strong and sustained economic growth. Led by a resilient India, the region is set on a slightly upward trajectory for the middle term. The positive growth outlook strongly hinges on increasing contributions of investment and a bounce back of exports. While external stability is the norm across most of the region, structural, financial and fiscal bottlenecks continue to pose risks for South Asia, and limit its international competitiveness.

South Asia is set apart by its relative strength

South Asia's growth performance will stay above that of other developing regions. Projections for its economic trajectory during 2015-17 remain basically unchanged since spring. The region is still set to take the lead from East Asia and the Pacific in terms of GDP growth. This is partly the result of growth deceleration in China, but is also helped by India's resilient stance vis-à-vis other major emerging markets in face of turmoil. All that makes South Asia a bright spot in the global economy.

FIGURE 25: South Asian growth, the top spot and advancing



Source: World Bank DECPG

Real GDP growth continues to gain momentum in the region, while current account deficits stay at manageable levels. This calendar year 2015, South Asia is expected to grow at 7.1 percent in real terms and at market prices. From a demand side perspective, the biggest push for growth will come from investment and government consumption, while exports only gradually start picking up. Looking forward, growth at 7.5 percent in 2017 seems feasible, yet downside risks for investment and exports remain substantial. South Asia's current account is expected to stay in deficit at below 2 percent of GDP over the next two years, strongly supported by remittance flows.

Across the region, the outlook is broadly stable and positive. Given its relative size, India sets the South Asian stage. In spite of global volatility, the regional economic heavy weight is set to grow at 7.5 percent in FY2015-16. On the back of accelerating public investment – eventually crowding in private investment –, gradual export recovery and private

TABLE 1: Gradual acceleration of growth will need strong investment and export recovery

South Asia				
	2014	2015e	2016f	2017f
Real GDP Growth (market prices)	6.9	7.1	7.4	7.5
Private Consumption	6.3	6.5	6.3	6.2
Government Consumption	9	8.4	7.2	6.5
Gross Fixed Investment	4.7	5.5	10.9	10
Exports, GNFS	2.3	2.6	4.6	6.9
Imports, GNFS	-0.2	2	6.1	5.8
Statistical Discrepancy	-0.4	0	0.1	0
Change in inventories	0.1	0	0	0
CA Deficit (% GDP)	-1.1	-1.2	-1.5	-1.8

Source: World Bank DECPG

consumption boosted by imminent civil service pay revisions, the economy could gradually reach 7.9 percent in FY2017-18. Helped by an improving external position and supported by stronger industrial and services performance, Pakistan is projected to continue its gradual recovery to achieve real GDP growth of 4.2 percent in FY2015 and 4.5 percent in FY2016 (at factor costs). Notably, on the demand side, Pakistan expects a boost for investment coming from the operationalization of the China Pakistan Economic Corridor (CPEC). In light of near term political stability and little exposure to

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

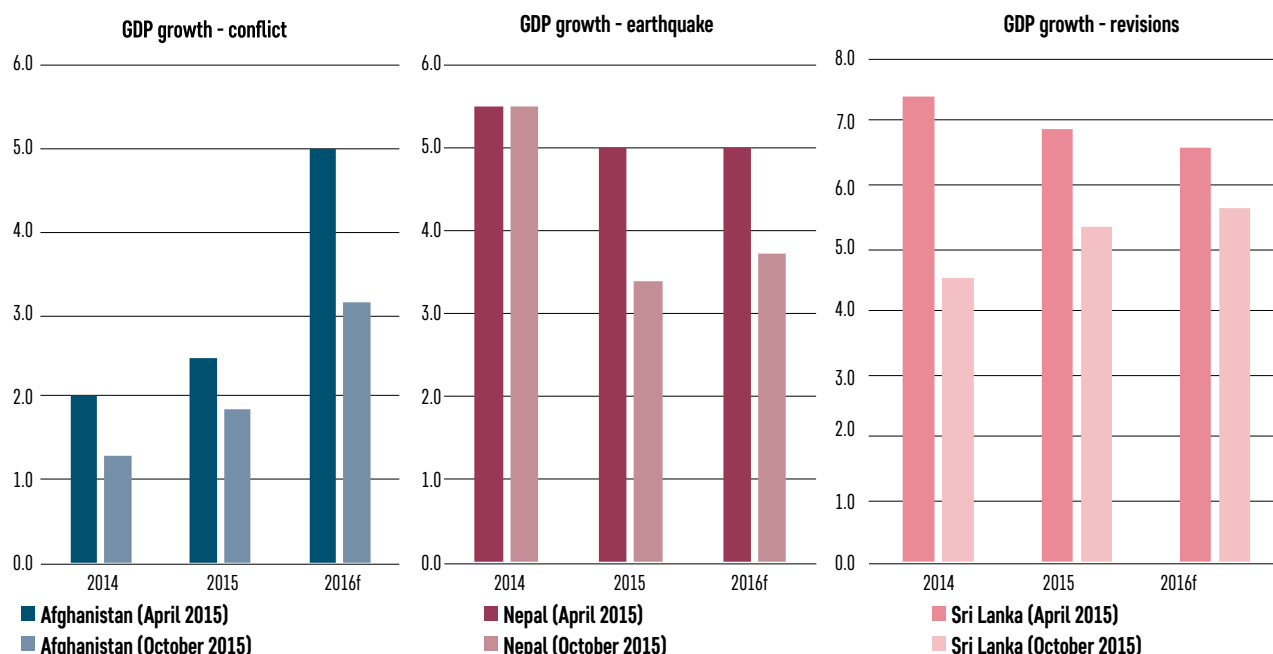
Real GDP growth	2014	2015	2016f
Afghanistan	1.3	1.9	3.1
Bangladesh	6.1	6.5	6.5
Bhutan	5.2	6.7	5.9
India	7.3	7.5	7.8
Maldives	5.0	5.0	3.9
Nepal	5.5	3.4	3.7
Pakistan*	4.0	4.2	4.5
Sri Lanka	4.5	5.3	5.6

Note: real GDP growth rates (percent) pertain to respective countries' fiscal years; at market prices' *Pakistan real GDP growth reported at factor cost
Source: World Bank MFM

Chinese demand shocks, consumption and exports drive Bangladesh's growth outlook at 6.5 percent for FY2015-16.

Bhutan and Maldives are small economies with highly concentrated drivers of growth. Both countries feature very specific economic structures that determine growth performance. Maldives is an island economy depending on tourism and fisheries, while for Bhutan the main driver is (hydro related) investment. Hence, uncertainty and volatility inherent in these dominant growth factors is strongly

FIGURE 26: Three countries have experienced significant changes in their growth performance.



Source: World Bank

reflecting on projections. Hence, growth in Maldives is estimated at 5 percent for 2014 driven by a gradual tourism pick up, with key tourism indicators for 2015 to date below 2014 levels suggesting some slowing ahead.

Recent events of distinct nature have substantially altered trajectories in Afghanistan, Nepal and Sri Lanka. First and foremost, the devastating earthquakes that hit Nepal in 2015H1 have led to an expected break in of growth for 2015 to 3.4 percent, with a potential construction led rebound to materialize in 2017 at the earliest. Second, revisions to GDP in Sri Lanka have changed the projected path of growth from a gradual decline (spring 2015 perspective with “old” GDP) to a gradual increase at lower levels (fall 2015 with “new” GDP). Ultimately, transition in Afghanistan has surprised on the downside as reflected by a significant downward revision of growth projections. As a result, revised GDP growth for 2015 is expected at 1.9 percent (versus 2.5 percent in spring 2015) with some pick up for 2016 to 3.1 percent (versus 5 percent expected in spring 2015).

Domestic challenges pose risks to realizing the region’s potential

While easing inflationary pressures are an asset for South Asian policy makers in the short term, low revenue generation and weak financial sectors remain a potentially costly liability. Investment will be a key growth driver for the region, yet it requires effective mobilization of fiscal and financial resources as well as structural reform to unfold its potential. Fiscal vulnerabilities remain a major challenge in Afghanistan, where a significant financing gap needs to be filled by increasing revenues and aid flows and against increasing recurrent security expenditure. Also Maldives will need to tackle fiscal imbalances arising from high and rising public expenditure against a tourism dependent revenue stream, mainly to bring its debt to GDP ratio on a declining path. In Bangladesh and Nepal, to a lesser extent, fiscal risks stem from ineffective public expenditure (and revenue) administration, while Sri Lanka will need to raise revenues to reduce the increasing 2015 fiscal deficit. As discussed above, financial sector risks across the region vary in type and degree, and while not pressing at this point in time, will need to be addressed in the middle term. Furthermore, although the region is not significantly affected by recent international developments, it is not immune to those. Especially the region’s relative dependency on international transfers – remittances (Bangladesh, Nepal, Sri Lanka and Pakistan) or tourism flows (Maldives and Sri Lanka) could become a liability if such flows become weaker.







Getting prices right: recent disinflation and its implications

Recent news about prices and inflation in South Asia raise doubts about the accuracy of key macroeconomic indicators, and have potentially important implications for economic policy. After being for long the highest among all regions, South Asia's consumer price inflation has slowed significantly. But the magnitude and speed of the slowdown varies considerably depending on the inflation indicator considered. Meanwhile, revisions to national accounts in India and Sri Lanka have yielded lower GDP deflators – or average price indicators for all economic activity. These news come after the release of data from the third round of the International Comparison Project (ICP). The conversion factors estimated by the ICP for selected South Asian economies imply that prices measured in Purchasing Power Parity (PPP) terms barely changed between 2005 and 2011, despite significant consumer price inflation. Taken together, these new pieces of information suggest that inflation and prices in South Asia are lower than previously thought.

Lower inflation than before ... and lower prices than assumed?

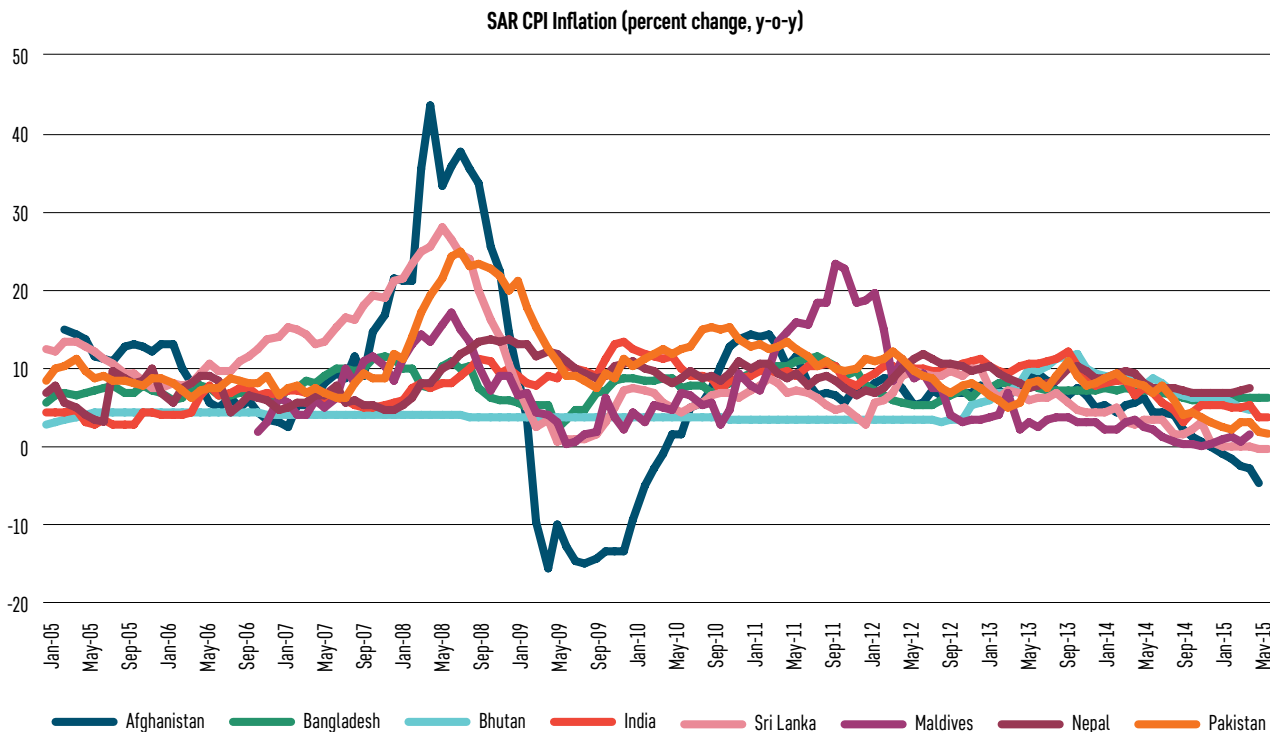
South Asian headline inflation has significantly lost momentum. Historically the region had the highest inflation rates among all major developing areas, registering a ten-year peak of 14 percent Consumer Price Index (CPI) inflation y-o-y in July 2008. By August 2015, this figure had dropped to 2.7 percent y-o-y, in the mid-range of all developing areas. Two recent developments – falling food and commodity

prices – have helped this rapid deceleration. These developments originate to a large extent in international markets. Four consecutive years of robust harvests, an oversupply of shale and OPEC oil, and the deceleration of economic growth in China, are exerting downward pressure on many commodity prices. Still, the inflationary impact was greater in South Asia than in other developing regions, partly aided by more restrained domestic support for agricultural prices in India.

Disinflation is taking place across all countries in the region. A similarity with India's price trends can be expected in Bhutan and Nepal, two countries whose currency is pegged to the Indian rupee. But parallel trends are also visible, or even stronger, in Afghanistan and Sri Lanka, two countries where prices are currently falling in absolute terms. Afghanistan had experienced deflation in the past, for fourteen consecutive months from April 2009 to May 2010. The current relapse may be indicative of declining aggregate demand as international troops withdraw and foreign aid is gradually adjusted downwards. Sri Lanka broke through a twenty year minimum of 0.4 percent recorded in January 2000 and into negative territory in July and August, 2015. Overall, volatility in price movements over time as well as variance across countries seem to have decreased.

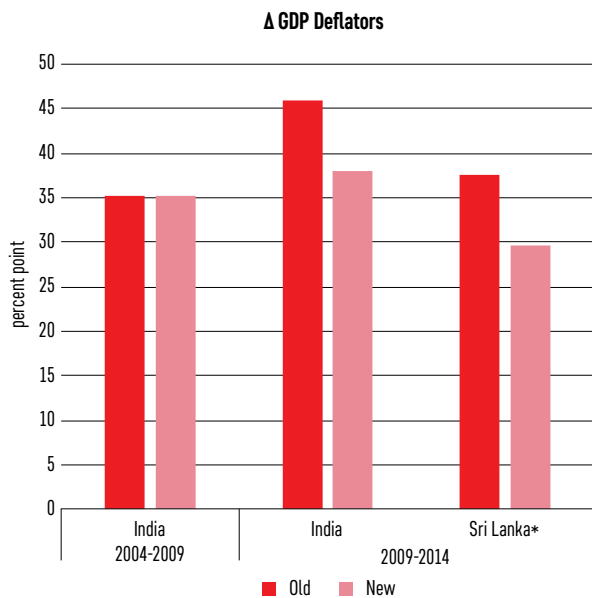
Revisions to national accounts in India and Sri Lanka suggest lower inflation than previously thought. (Real) GDP for India has been revised in terms of accounting as well as base year, with the latter moving up from 2004 to 2011 thereby expressing GDP in 2011 prices. Sri Lanka adjusted its base year backwards to 2010 from 2012, with real GDP increasing

FIGURE 28: The South Asian average mirrors trends across all countries with Sri Lanka and Afghanistan experiencing deflation



Source: World Bank DECPG

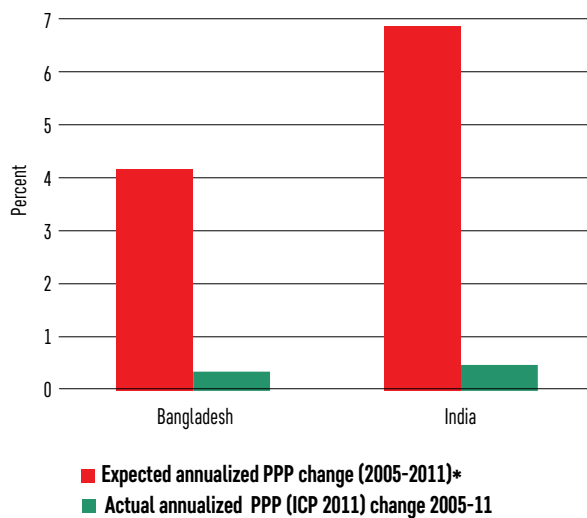
FIGURE 29: Statistical revisions in India and Sri Lanka yield lower increases of GDP deflators.



* New Δ = 2010 - 2015
Source: World Bank DECPG, IMF WEO

calculation, involving their CPIs, their exchange rates, and the CPI of the United States would have yielded a completely different conclusion, with the implicit increase in PPP conversion factors reaching 28 and 40

FIGURE 30: Bangladesh and India are much less expensive relative to the United States than previously thought



* Expected PPP change approximated as $\Delta P(LCU) - \Delta ER - \Delta CPI(US)$
Source: World Bank DECPG, 2005 & 2011 ICP and World Bank staff calculations

percent respectively. Measurement error is minimal for exchange rates and the CPI of the United States. Therefore, if the ICP data is correct, inflation in Bangladesh and India has been substantially overestimated.



How are prices measured and why it matters

Prices are at the core of most macroeconomic indicators, including GDP growth and the inflation rate.

Macroeconomic policy aims to strike the right balance between supporting economic activity and containing inflation. Mismeasurement of any of these two aggregates, or both, may result in an excessively contractionary or an excessively expansionary policy stance. Price mismeasurement also affects the calculation of key indicators expressed in levels, including the size of the economy and the poverty rate. In both cases, a nominal aggregate is deflated by a price level to produce an estimate in real terms. Nominal value added is divided by the GDP deflator to compute real GDP, while nominal household expenditures are divided by the price of a consumption basket to estimate consumption in real terms. Price mismeasurement could therefore result in a distorted picture of how rich (or poor) South Asia is. The question, when confronted with a multiplicity of price estimates, is which one to trust most.

Across South Asia, a variety of price measures are relevant for economic analysis and policy.

There are at least three explicit ways to look at prices: CPI, WPI, and GDP deflator. There is also an implicit price measure in PPP conversion factors. These measures differ along various dimensions, from the mix of goods and services they cover to the weight attached to each of the goods and services to the particular point where the prices of those goods and services are measured. They are also reported with varying levels of disaggregation and at diverse frequencies.

Different measures tell different stories. These price measures serve each their own purpose, and given their methodological diversity they can be expected to also reveal different trends. But a relatively high correlation could be expected, especially in the case of the CPI and WPI. Instead, these measures yield very different – sometimes even seemingly contradicting – views of price developments in South Asia. All of them show a recent downward trend in price levels across South Asian economies. But the correlation between their movements is not as high as could be anticipated, while the lags and leads between them can be counter-intuitive. For instance, conventional wisdom would suggest that WPI movements precede parallel CPI movements, as wholesale price changes are passed through to the retail level. Yet, in Sri Lanka CPI deflation led WPI deflation by roughly a month, while the GDP deflator recorded an increase in inflation. Furthermore, while India and Pakistan still have decelerating, yet positive, consumer price inflation, their wholesale price indices have been recording negative growth since November and December 2014 respectively.

The correlation between the various inflation rates is lower than could have been anticipated.

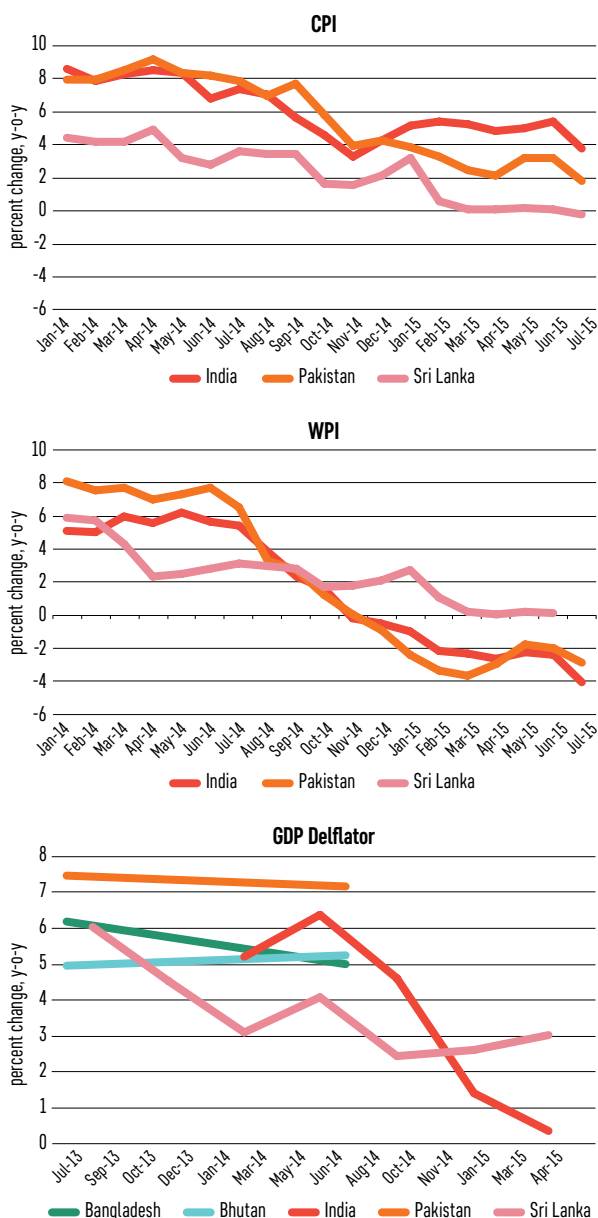
The correlation between CPI and WPI movements is statistically significant in Pakistan and Sri Lanka, but only weakly significant in India. Taken at face value, the correlation coefficient between the two indices is high in Sri Lanka, but relatively low in India and Pakistan. The high correlation observed in Sri Lanka's case is all the more surprising given the very different methodologies of the two measures. The CPI is based on a sample for urban Colombo only; the WPI, on the other hand, has nationwide coverage but weights based on a fairly outdated 1974 sample.

TABLE 3: Multiple Indices, multiple baskets, multiple weights, multiple sources

Index	Consumer Price Index	Wholesale Price Index	GDP Deflator	Purchasing Power Parity
Basket	Goods and services consumed by households	Goods sold to retailers	Value added in goods and services produced domestically	A common set of goods and services across countries
Weights	From households expenditure surveys	From firm-level surveys and national accounts	From value added shares in aggregate GDP	From consumption and output bundles across countries
Source	Nationwide or urban, at retail level	Nationwide or urban, at wholesale level	Nationwide, at cost of production	Nationwide, at retail level
Sub-indices	Yes	Yes	No	Yes
Frequency	Monthly	Monthly	Quarterly or yearly	Discontinuous



FIGURE 31: Three perspectives on South Asia's recent disinflation



Source: National Authorities, IMF, WB and WB staff calculations

Weights and the sectoral decomposition of inflation

Different price measures capture diverse numbers of products. In some cases, these price measures are even constructed and developed by different government agencies. For instance, in India the CPI is disseminated by the Ministry of Statistics and Program Implementation whereas the WPI is the responsibility of the Office of the Economic Adviser. Price measures also differ in the number of products

TABLE 4: Correlations between CPI and WPI movements are relatively low

	Obs = 10	CPI	WPI
India	CPI	1	
	WPI	0.5879*	1
Pakistan	CPI	1	
	WPI	0.6778**	1
Sri Lanka	CPI	1	
	WPI	0.8313**	1

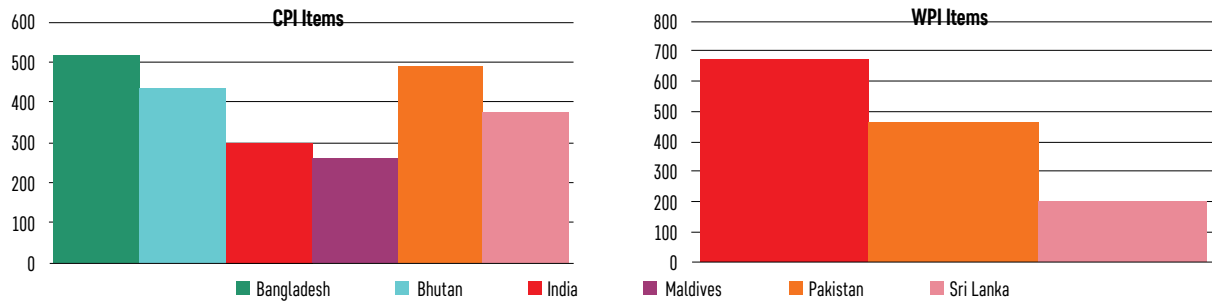
* Statistical significance at 10% level
 ** statistical significance at 1% level
 Sources: National authorities, IMF, WB and WB staff calculations

covered. Bangladesh and Pakistan include 517 and 487 items respectively in the construction of their CPI. At the other end, India and Maldives consider only 299 and 261 items respectively. In principle the difference in the number of products could result from diverse consumption and production patterns. But most likely the choice is guided by non-statistical considerations, including constrained resources to conduct the work. For instance, in India the WPI includes many more items than the CPI (676 against 299), but in an open economy there should be more diversity in consumption than in production. The Sri Lanka WPI, on the other hand, only includes 200 products. In India, the CPI includes fewer items than the WPI (299 against 676), but prices are collected in a higher number of outlets (2,295 versus 156). The CPI and WPI are computed as weighted averages of individual prices across products. The latter are regrouped in broad categories, covering anything between five major groups - as is the case for Pakistan's WPI - and 22 two groups - as is the case for Nepal's CPI.

Price measures also attach different weights to their key components. The CPI and WPI are computed as weighted averages of individual prices across products. The latter are regrouped in broad categories, covering anything between five major groups - as is the case for Pakistan's WPI - and 22 two groups - as is the case for Nepal's CPI. In order to compare indices across countries in a meaningful way, these groups can be subsumed into three main categories: food (primary articles in the case of WPI), energy (fuel and power in the case of WPI) and the rest (manufactured products in the case of WPI). Looking at the relative weights of these categories, it becomes clear that differences are significant across countries

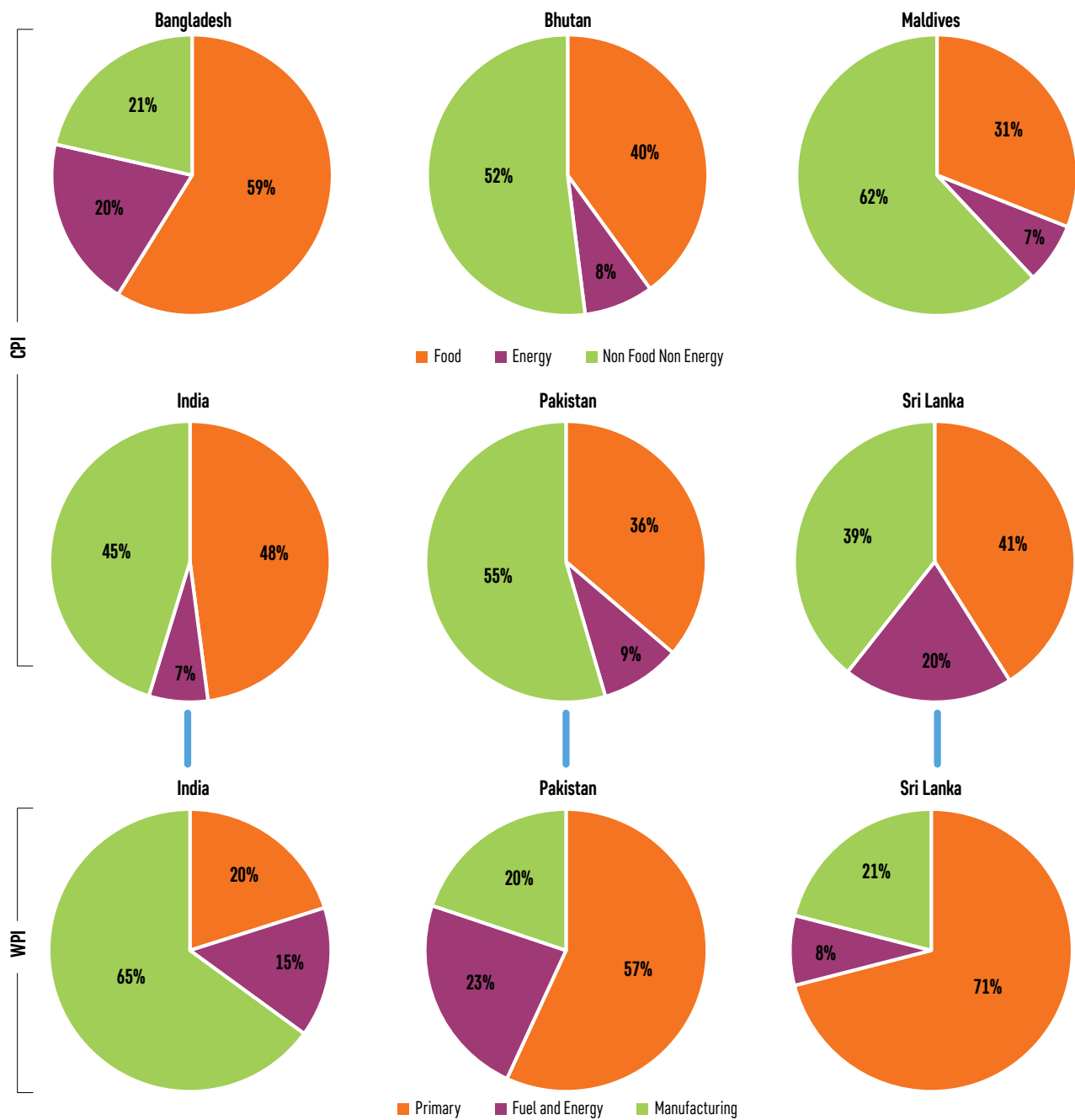


FIGURE 32: Price indices differ vastly in the number of products included in their basket



Source: National authorities, IMF

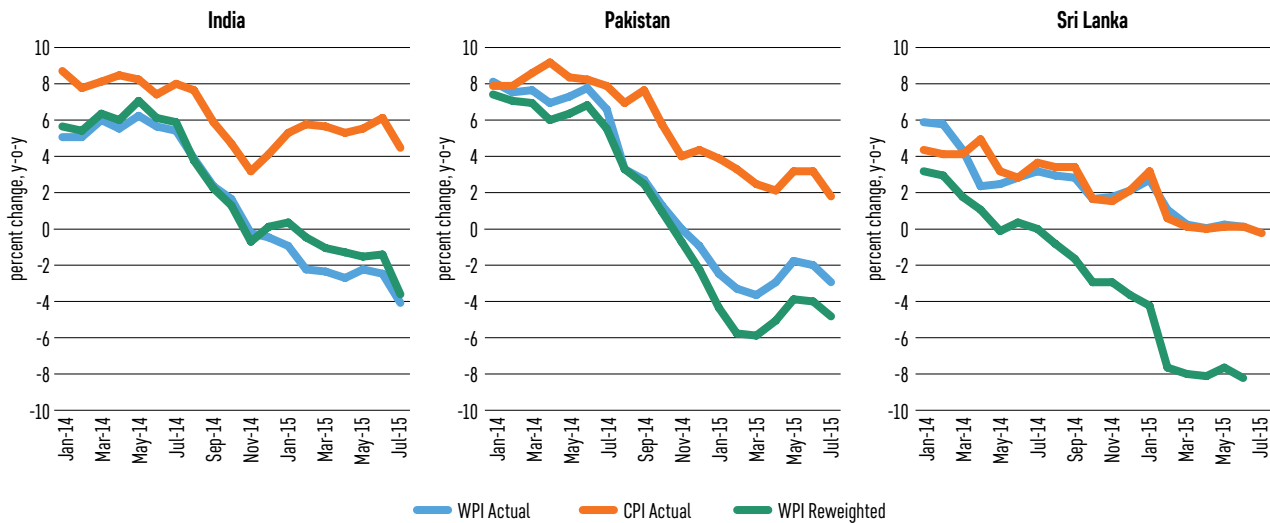
FIGURE 33: Weights differ significantly across indices and countries



Sources: National authorities and WB staff calculations



FIGURE 34: The gap between CPI disinflation and WPI deflation is not driven by differences in weights.



Source: National authorities and WB staff calculations

and measures. For example, while food items amount to 59 percent of Bangladesh’s CPI basket, they represent only 31 percent of Maldives’ CPI basket. Similarly, primary articles comprise 20 percent of India’s WPI basket but the figure increases to 57 percent in the case of Pakistan, and to 71 percent in that of Sri Lanka.

Diverging dynamics between CPI and WPI are generally not driven by different sectoral weights.

In India and Pakistan the decline in WPI inflation was much sharper than the decline in CPI inflation, and a relevant question is whether this is due to the different weight these two measures attached to their various components. One way to answer this question is to reweight each country’s WPI using the weights attached to the same country’s food, fuel and rest CPI components. The exercise shows little change in the WPI dynamics, which still continues to show much faster disinflation than the CPI after the reweighting. On the other hand, reweighting Sri Lanka’s WPI makes its dynamic resemble that observed in India and Pakistan. Sri Lanka is a country where CPI and the WPI were telling the same disinflation story. But after reweighting, much the same as in India and in Pakistan the WPI drifts into deflation, and not just disinflation.

The gap between WPI deflation and CPI disinflation may reflect a greater pass-through of cheaper oil to producers than to consumers.

For each price measure, overall inflation is a weighted average of the inflation experienced by each of its components (food, fuel and rest). Therefore, the contribution of each of these components to overall

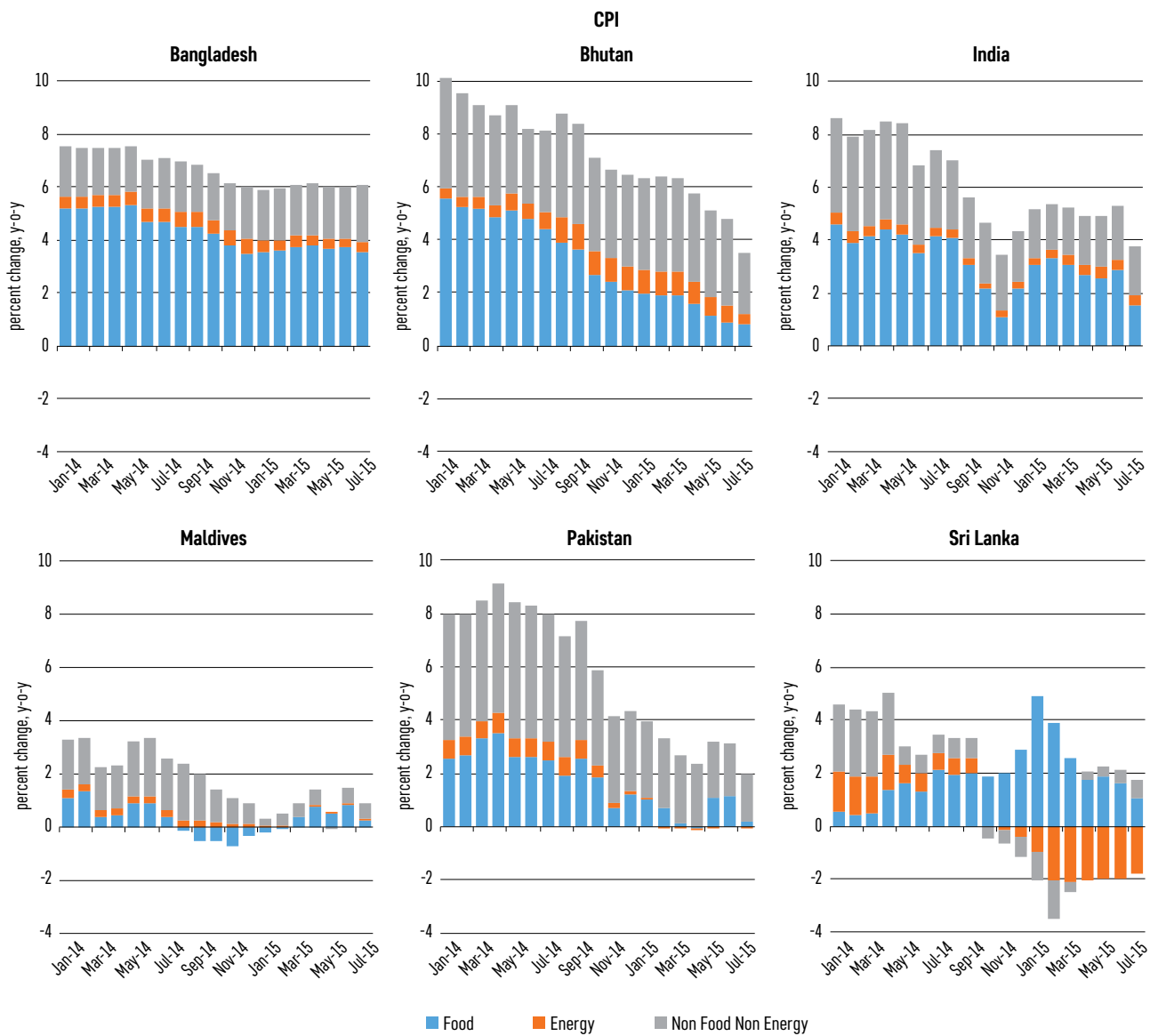
inflation can be assessed by decomposing the change in the price measures into the sum of changes in the prices of individual components, each multiplied by its own weight. This exercise allows quantifying the role of lower food and fuel prices to CPI disinflation and WPI deflation. When the CPI is used as the relevant price measure, the role played by lower food prices is strongest in Bhutan and Pakistan, but it is also noticeable in Bangladesh and India. Only in Sri Lanka, and to some extent in Maldives, does food price inflation remain an important contributor to overall CPI inflation. The critically important role of food prices in Pakistan is confirmed by the WPI decomposition, as is the relative unimportance of food prices in Sri Lanka’s case. Fuel prices, on the other hand, are a minor contributor to the decline in CPI inflation across most of the region, with the exception of Sri Lanka. But the contribution of fuel prices to WPI inflation is significant, switching from large and positive to large and negative, and accounting for most of the deflation observed in India and Pakistan. The different role played by fuel inflation depending on whether the CPI or the WPI is considered suggests that there was a substantial pass-through of cheaper oil to producers, but not to consumers.

From a longer-term perspective, structural transformation is a potentially important source of bias in the measurement of prices.

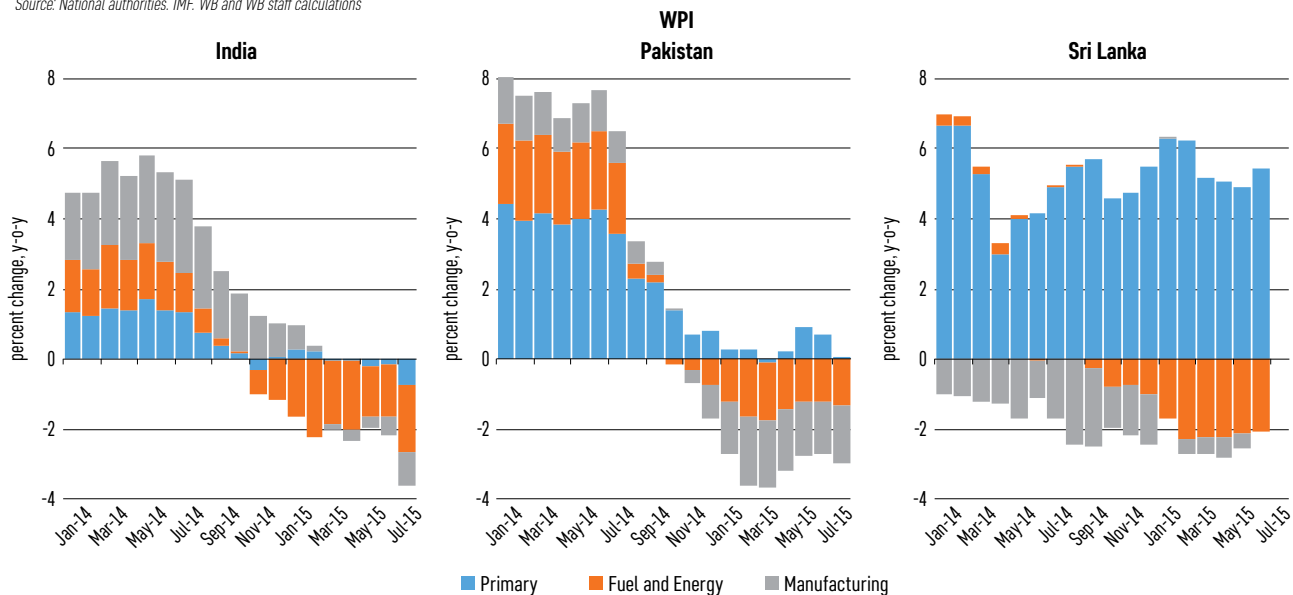
Along the development process, the share of agriculture in total economic activity declines, whereas the share of manufacturing and especially that of services increases. Agriculture and manufacturing typically produce tradable goods, which can be sold or purchased



FIGURE 35: Food prices account for much of the decline in CPI inflation, fuel prices for much of the decline in WPI inflation



Source: National authorities, IMF, WB and WB staff calculations



Source: National authorities, IMF, WB and WB staff calculations



in international markets. Services, on the other hand, are more difficult to export or import. As labor costs increase with development, services tend to become more expensive. House cleaning and private lessons are more affordable in developing countries than in advanced economies. But international competition keeps a lid on the price of tradable goods. From this perspective, a price index adequately covering the services sector will yield a more accurate description of inflation than one focused on goods only. In principle, the CPI, the GDP deflator and PPP conversion factors should be more reliable than the WPI. The latter may underestimate inflation in an economy undergoing rapid structural transformation.

Sources and the urbanization bias in inflation

Price measures also differ in the source of information for the price of individual products. In India, the CPI includes much fewer items than the WPI, but prices are collected in a higher number of outlets (2,295 versus 156). In Pakistan, where both the CPI and the WPI are managed by the Pakistan Bureau of Census and Statistics, information on individual prices comes only from urban areas. But the number of cities covered by the CPI is almost twice as large as the one covered by the WPI (40 against 21). Sri Lanka's WPI also covers 40 markets. Using the CPI as a reference, some countries do balance urban and rural, others such as Bhutan align their information sources to the reality of limited urbanization, and others like Sri Lanka omit rural coverage altogether.

Inflation rates vary not only across components of price indices, but also across sources and outlets, and in particular between urban and rural areas. However, during the recent disinflation episode there was no consistent pattern across the region. Both Bangladesh and India calculate sub-national CPIs for rural and urban households. But while in Bangladesh disinflation was faster in rural areas, in India the reverse was true.

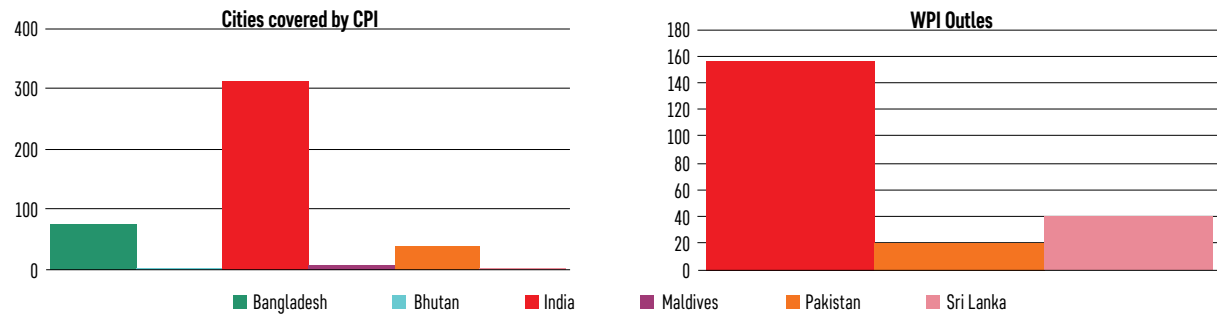
While urban inflation can be faster or slower than rural inflation, urban prices are generally higher than rural prices. Cities are characterized by higher productivity and labor earning than rural areas. Some of the gap in productivity is offset by congestion costs, but some of it translates into

higher prices for land. Higher labor earnings and higher land costs translate into higher prices in urban areas. This is true even for seemingly comparable products originating in rural areas given that the retail price includes storage and commercialization costs, and these are higher in urban areas. Focusing on a specific, relatively homogeneous good – here onions – gives credence to this hypothesis. India is the world's second producer of onions. Information on their retail price is available for the biggest urban centers of every Indian State and Union Territory. The retail price varied considerably across space in August 2015, from 18 rupees per kilogram in some urban centers to 80 in others. The share of the labor force of each Indian State and Union Territory working out of agriculture can be used as an indicator of its degree of urbanization. When average retail prices are plotted against this non-agricultural share of the labor force, it appears that more urbanized states are more expensive. On the surface, a positive relationship also emerges when considering the increase in the price of onions between August 2014 and August 2015, implying that onion inflation is higher in more urbanized Indian States and Union Territories. But this relationship is less robust and hinges mainly on one observation (Delhi). If such observation is removed the relationship changes sign. This lack of significance is consistent with the opposite ranking of urban and rural inflation in Bangladesh and in India.

The spatial coverage of price sources can introduce important biases in the measurement of inflation. Some frequently-used price measures often suffer from an urban bias, in the sense that the source of price information is disproportionately urban compared to the spatial distribution of population or economic activity. Extreme examples include the CPI of Pakistan and Sri Lanka. The ICP conversion factor might have also suffered from some degree of urban bias in 2005; much less so in 2011. As countries develop the urban share of their population (or the urban share of their economic activity) increases. This may happen in an explicit manner, or through formally administrative rural areas increasingly acquiring urban characteristics. A nationwide price index would capture this composition effect, whereby prices in formerly rural areas gradually catch up with urban prices. From this perspective price measures based on urban sources only would underestimate inflation. The PPP conversion factors may do the same, because their share of rural (hence cheaper) price sources increased between 2005 and 2011.



FIGURE 36: Price indices differ vastly in the nature and number of their price information sources



Source: National authorities, IMF

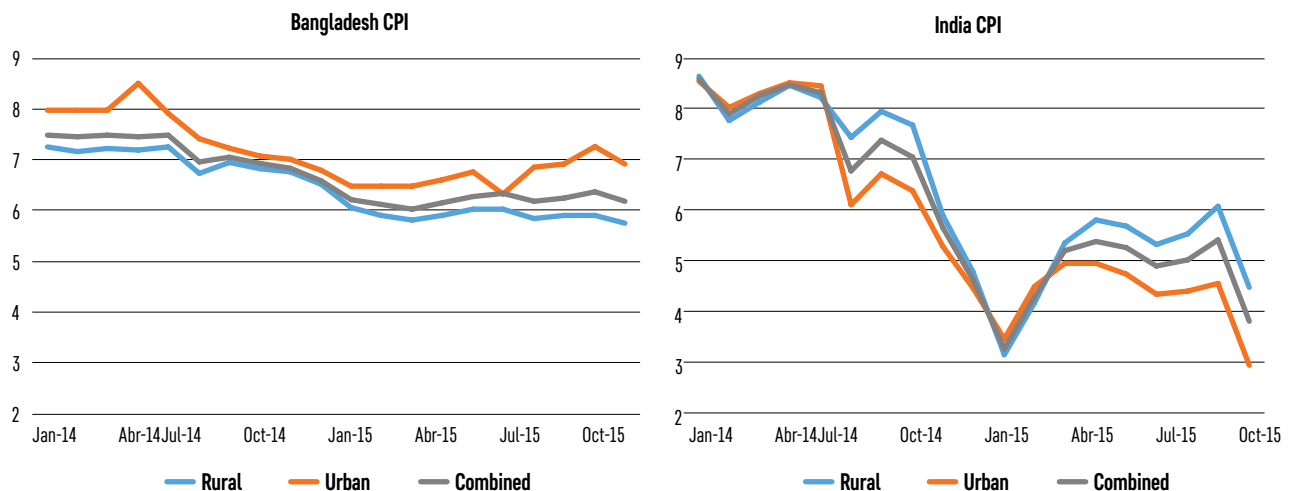
The implications of lower inflation and lower prices

The review of the available evidence confirms that inflation decelerated; it also suggests that it was lower than previously thought and that price levels are lower than assumed. These three statements need to be considered with varying degrees of confidence. The fact that the region has gone through substantial disinflation seems relatively uncontroversial. Evidence on lower inflation than previously thought comes from the revisions to national accounts in India and Sri Lanka. It also comes from the new PPP conversion factors for 2011, although the latter may underestimate inflation because of the larger weight of rural sources relative to 2005. Inflation may also be underestimated when relying on the WPI (because it doesn't cover services) and even on the CPI in countries where sources of

price information are biased towards urban areas. As for lower prices than assumed, this is a straightforward implication of inflation being lower than previously thought. Importantly, the PPP conversion factors may underestimate inflation between 2005 and 2011 if the sources of price information in 2005 were disproportionately urban. But the implicit price levels for 2011 would not be biased if the mix of sources for 2011 was defensible, as it allegedly was. If so, the PPP conversion factor for 2011 can be taken at face value, and price levels are indeed lower than previously assumed.

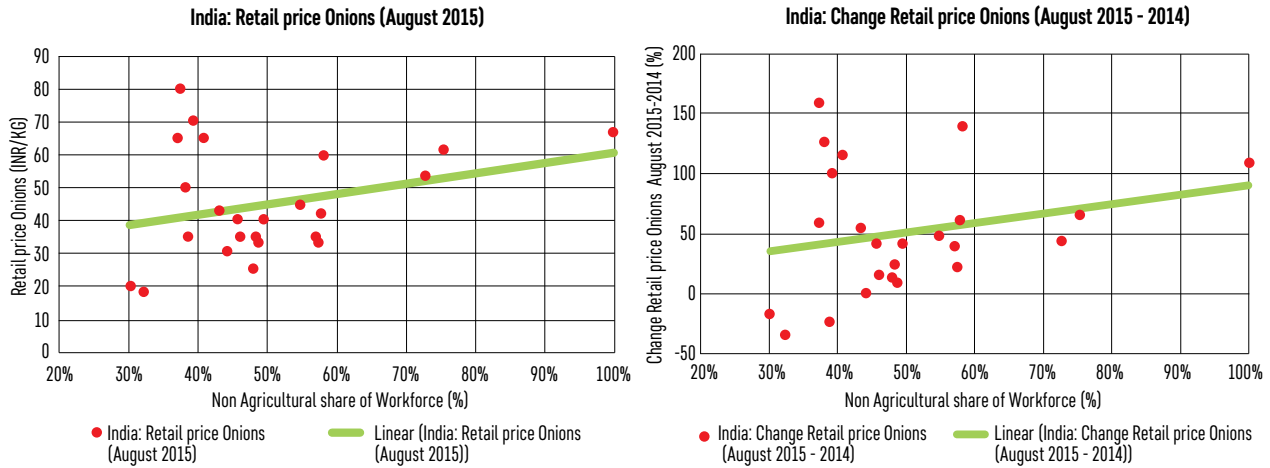
A first implication of lower inflation and lower prices than previously thought is that South Asia's GDP is bigger than assumed. Both India and Sri Lanka changed the base year for expressing GDP at constant prices (i.e. in real terms), while India also switched to a calculation in market prices (away from factor costs). In addition, India features a more comprehensive coverage of corporate activity

FIGURE 37: Sub-national indices highlight diverse price dynamics in rural and urban areas



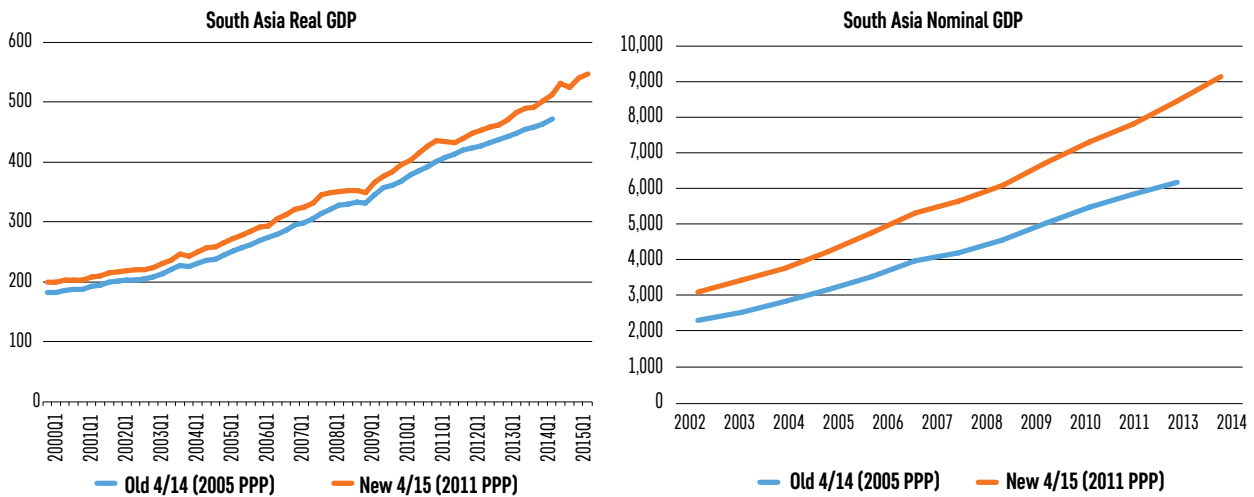
Source: National authorities

FIGURE 38: Products are more expensive in more urbanized areas but price inflation is not necessarily higher



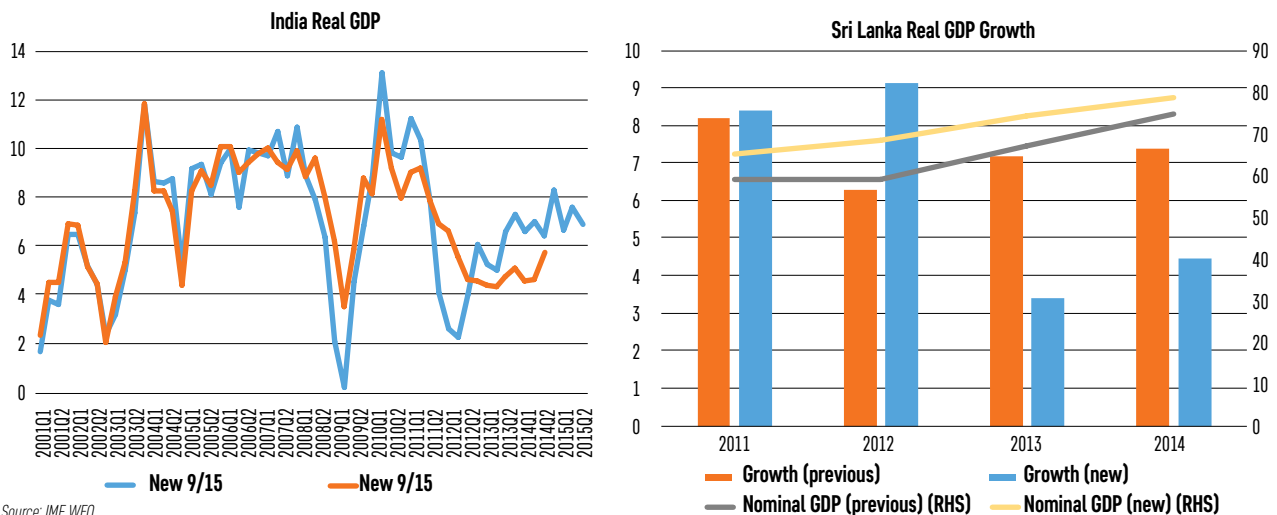
Source: NSS 2009-2010, Haver, Department of Consumer Affairs and Department of Company Affairs

FIGURE 39: More comprehensive accounting and rebasing have increase nominal and real GDPs



Source: World Bank DECPG

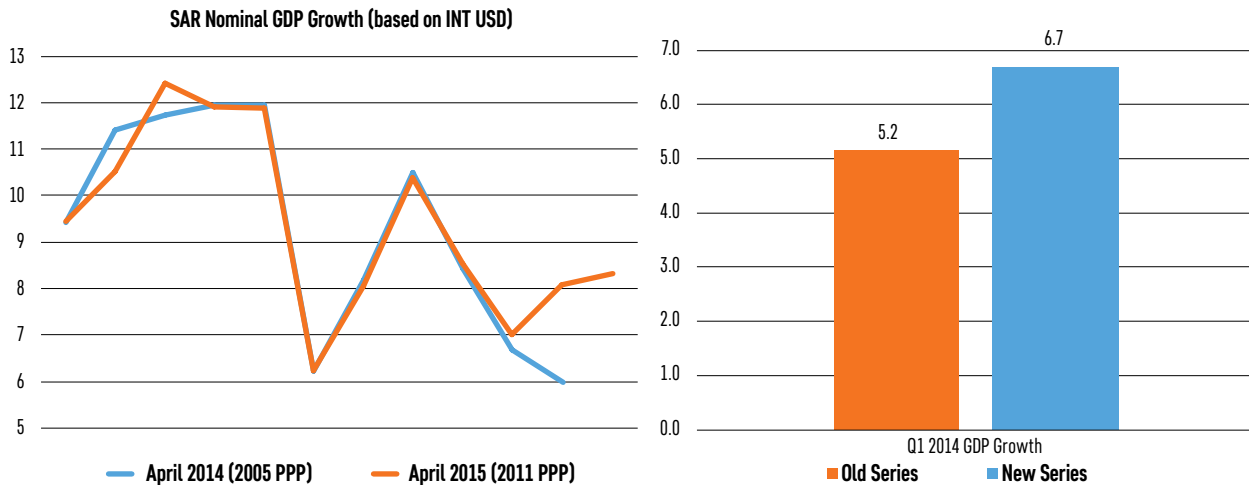
FIGURE 40: GDP growth rates in India and Sri Lanka before and after the revisions to national accounts



Source: IMF WEO

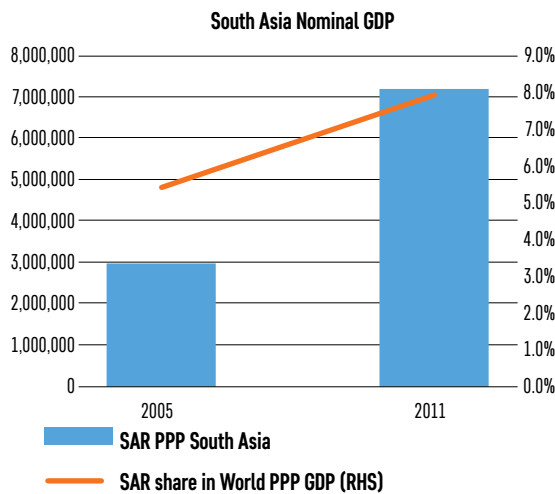


FIGURE 41: Revised GDP growth rates for South Asia before and after the revisions to national accounts



Source: World Bank DECPG

FIGURE 42: South Asia got bigger vis-à-vis the rest of the world, at least in PPP terms.



Source: ICP 2005 and 2011

as well as more up-to-date information regarding household and informal business spending. These changes affect not only the level of real GDP, but also its composition. Under the new figures, India's manufacturing sector contributed 18 percent of GDP in FY2013-14 (instead of 15 percent), while services shrank from 60 to 51 percent. In Sri Lanka, nominal GDP ended up being slightly higher than before, also using expanded coverage of economic activity based on census data. The country also switched to the 2008 system of national accounts, which resulted again in a change in the sectoral composition of GDP. In Sri Lanka's case agriculture lost to industry, but overall GDP remained strongly based on services.

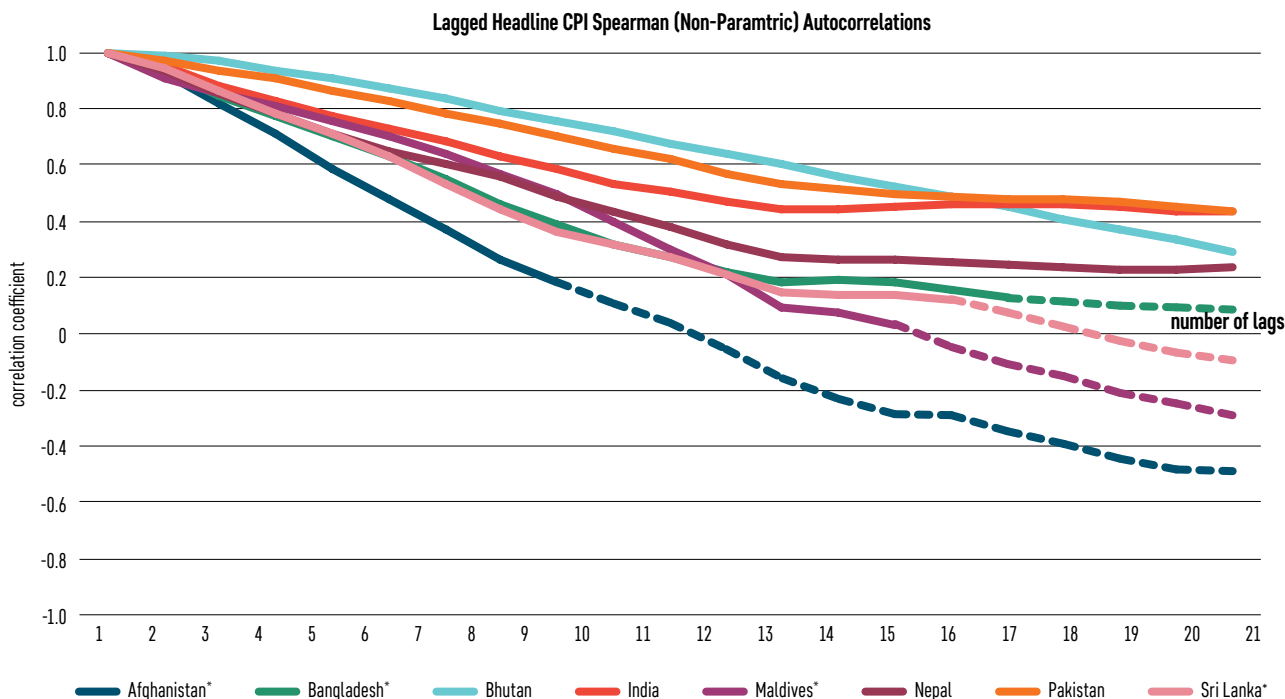
Another notable outcome of the revisions to national accounts is that growth and growth trajectories have changed significantly.

In both countries the lower increases in the GDP deflator implied by the revisions should lead to an increase in the growth rates of real GDP. But the effects of the change in the base year push in opposite directions in the two cases. As a result of the revisions, India's recent GDP growth rates received a boost. For instance, real GDP growth in 2013Q4 went from 4.6 percent to 6.6 percent. Conversely, Sri Lanka's last two years saw GDP growth rates fall – from 7.2 and 7.4 percent in 2013 and 2014 to 3.4 and 4.5 percent respectively. For the region as a whole, the upward revision of GDP growth rates in India trumps their downward revision in Sri Lanka. By 2014Q4, South Asia thus gains one percentage point of GDP growth from these revisions.

In parallel, the 2011 PPP conversion factors significantly boost South Asia's share of the world economy.

In 2005, using the old conversion factors, South Asia accounted for 6 percent of the world's GDP in PPP terms. In 2011, using the new conversion factors, the share had increased to 8 percent, and India had become the third largest economy, behind the US and China but ahead of Japan. Part of this increase can certainly be explained by the relatively higher growth rates of South Asia vis-à-vis other regions. Yet the gap between inflation as usually measured and the inflation implicit in the PPP conversion factors accounts for a large share of the adjustment. The implicit growth of South Asian economies between 2005 and 2011 may be overestimated, because of the urban bias in the sources of price information in 2005. This might have resulted

FIGURE 43: Monthly CPI inflation shows little persistence over time



* dashed lines represent no statistical significance
 Source: World Bank DECPG and WB Staff Calculations

in an underestimation of the size of South Asian economies in 2005. But in principle their substantial share of the world economy in 2011 may not be overestimated.

Will lower inflation persist?

Disinflation and lower inflation than previously thought also imply that there is greater policy space for the authorities. In fact, several South Asian countries have already loosened their monetary policy stance, lowering their lower policy rates. India, Pakistan and Sri Lanka are the countries that experienced the strongest disinflation in the region. Over the last year, India lowered its interest rate four times, Pakistan five times and Sri Lanka once. However, disinflation in South Asia owes much to international developments, including cheaper oil and especially to lower food prices, and these positive shocks may not be permanent. The “rest” component of the CPI and the WPI has displayed a much more deceleration, and this is arguably the component that depends more directly from the policy stance.

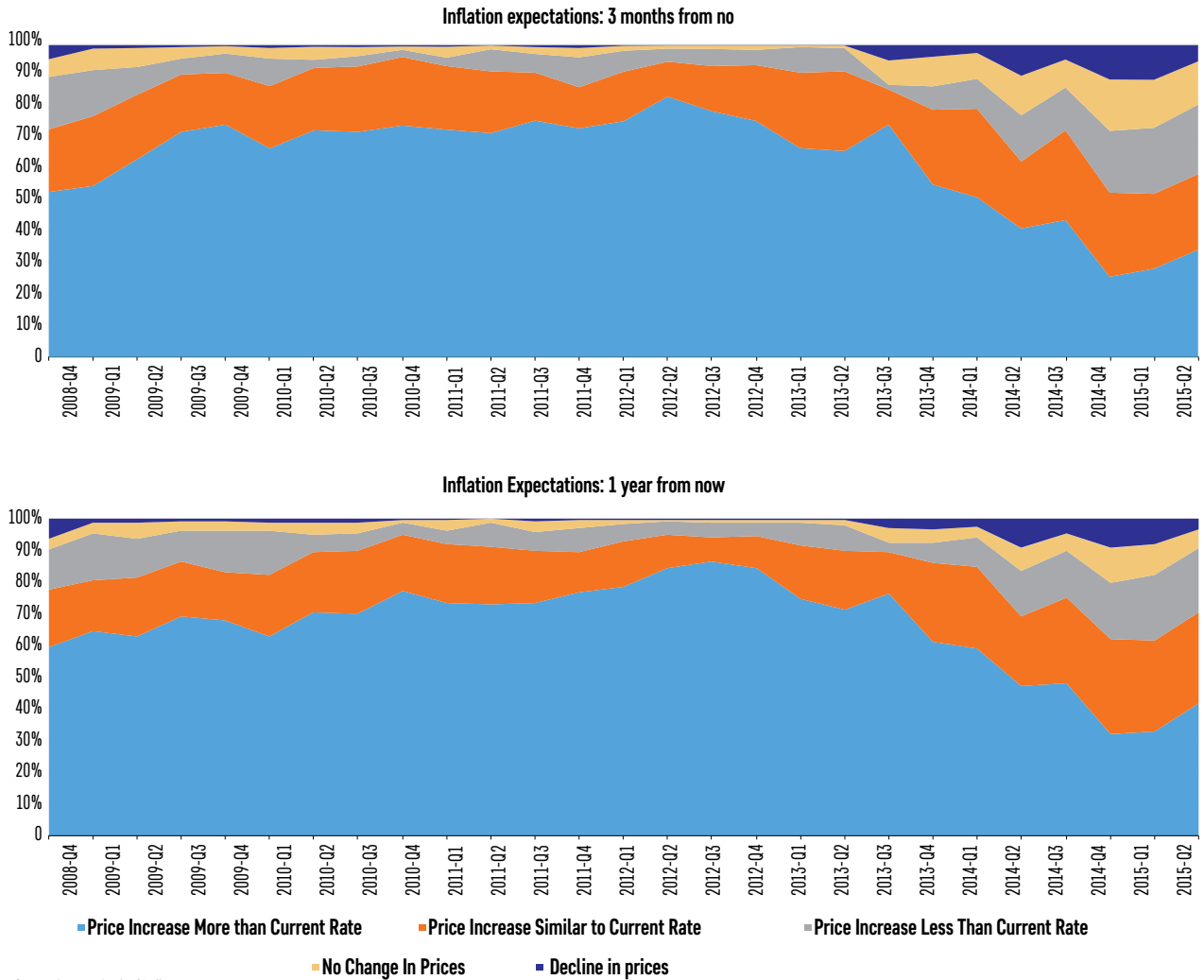
If past experience serves as an indication, price shocks in South Asia have shown limited

persistence over time. The persistence of changes in inflation rates can be measured by computing correlation coefficients of CPI year-on-year monthly changes with their own lagged values over an 18-year timespan. Across countries, the correlation between CPI inflation in a month and in previous months is strong and statistically significant in the short term. But correlation coefficients decrease rapidly over time and ultimately become weak and are often statistically insignificant. The decline is particularly rapid in Afghanistan, Maldives and Sri Lanka.

A complementary perspective on inflation prospects is provided by surveys of inflationary expectations conducted by the Reserve Bank of India. In 2015Q2 a majority of the respondents expected similar or lower inflation over a three-month horizon. But responses are different when asking for inflation expectations one year ahead. Indeed, the majority considers that one year from now prices will increase at a similar or faster rate than they do at present. As a result, there is a difference of one percentage point between the rate of inflation expected one year ahead and the rate of inflation expected three months ahead.



FIGURES 44: Few expect the end of low inflation in the short run but many expect it to be higher one year from now



Source: Reserve Bank of India

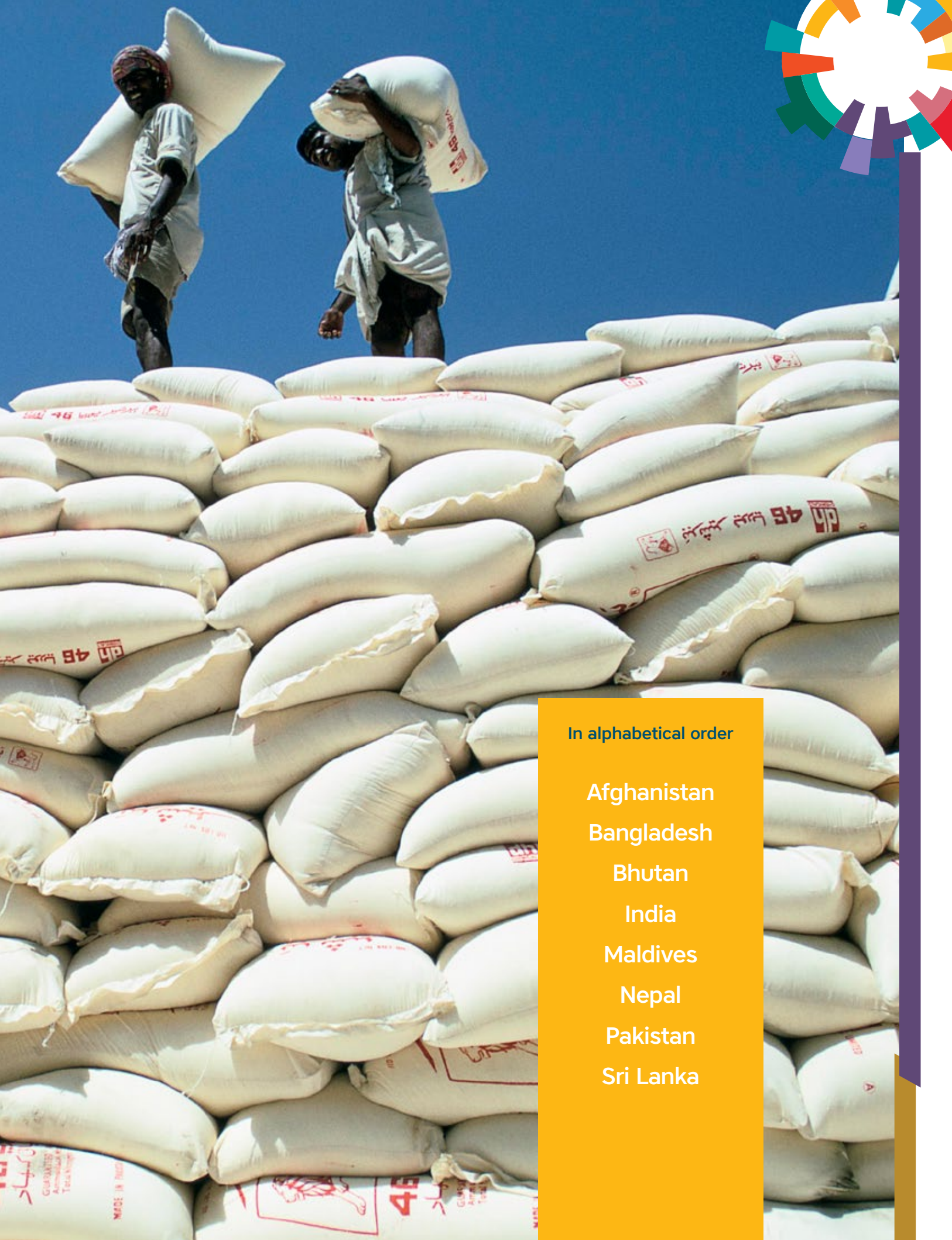




South Asia country briefs



CKR.COM / ZACHARY JEAN PARADIS



In alphabetical order

Afghanistan

Bangladesh

Bhutan

India

Maldives

Nepal

Pakistan

Sri Lanka

Afghanistan

	2014
Population, million	31.3
GDP, current US\$ billion	20.0
GDP per capita, current US\$	641

Sources: World Bank, WDI

The political and security transition has affected Afghanistan's economy much more deeply than anticipated. Economic growth slowed significantly in 2014-2015 as a result of continued political uncertainty and increase in violence. Fiscal vulnerabilities remain high and will require a large revenue effort and sustained levels of aid. The medium-term outlook projects a sluggish growth recovery. Future prospects hinge critically on improvements in security and forceful implementation of reforms.

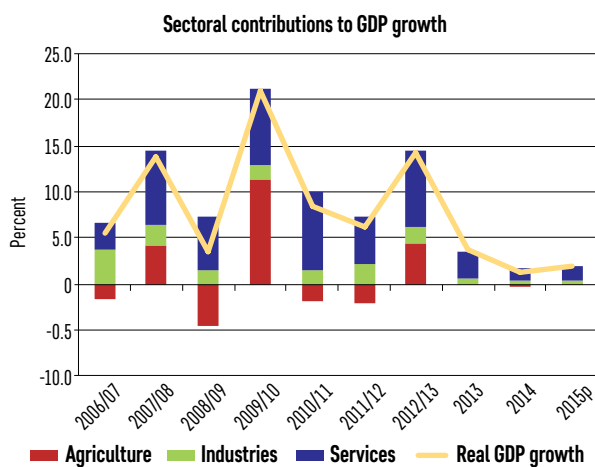
Recent Developments

Recovery from the impact of the security and political transition in Afghanistan is slower than anticipated. More frequent incidences of violence and delays in the elections process and cabinet formation continued to fuel uncertainty and affected investor confidence. Economic growth slowed to 1.3 percent in 2014, down from 3.7 percent a year earlier. Unlike in previous years, agriculture did not contribute to growth in 2014. Production levels were high for a

third year in a row but did not supersede the strong output in 2013. Growth was mainly driven by a slight expansion of industries (2.4 percent) where increase in construction activities outweighed lower production in manufacturing (-2.5 percent). Services grew by 2.2 percent in 2014 compared with 5.2 percent growth a year earlier, mainly on account of government and telecommunication services.

Private investment activities showed strong signs of slowdown in 2014, evidenced by a drop of nearly 50 percent in new firm registrations since 2012. On the other hand, illicit activities surged: opium production, estimated at 6,400 tons in 2014, reportedly increased by 17% from its 2013 level. Area under cultivation expanded by 7 percent to 224 thousand hectares. Opium prices declined significantly resulting in a decrease of total farm-gate value of opium production by 10 percent to US\$850 million. Nonetheless, gross value of opiates is estimated at around \$2.8 billion or 14 percent of GDP.

2014 also posed significant challenges on the fiscal front. Domestic revenues fell from a peak of 11.6 percent of GDP in 2011 to 8.7 percent in 2014, partially due to the economic slowdown. However, larger rent seeking activities evoked by the political uncertainty and the decline in aid (which lowered anticipation for future rents) and weaknesses in enforcement likely account for a part as well. Revenues declined across all sources, including tax revenues, customs duties, and non-tax revenues. Expenditures, on the other hand, increased in 2014 because of higher than anticipated security and social benefit spending. As a result, in spite of measures to restrain expenditures for discretionary development and operation and maintenance, the Government faced an unfinanced fiscal deficit of US\$351 million in 2014, managed by drawing down cash reserves, accumulating arrears, and exceptional donor assistance.



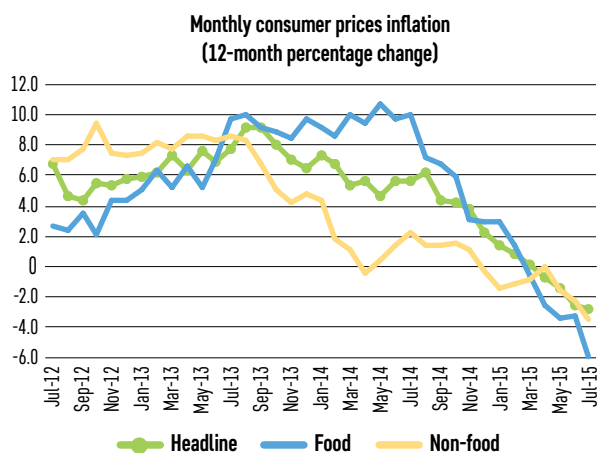
Source: Central Statistics Organization (CSO) and Bank staff estimates



Outlook

The medium-term outlook is unfavorable: Growth, projected at 1.9 percent, will likely remain sluggish in light of a further deterioration in security over the first three quarters in 2015. The number of new firm registrations in the first six months of the year, which is a proxy for investor confidence, remained at the same level as in the first half of 2014.

With declining global food and fuel prices and weakening domestic demand, inflation is projected at -1.7 percent (period average) for 2015. Consumer prices inflation was already in the negative territory of -4.8 percent in July 2015. Declining both food and non-food prices have increased deflationary pressures in the economy. Further, the Afghani depreciated by around 8 percent vis-à-vis the US dollar in the first eight months of the year. Given Afghanistan's huge dependency on imports, exchange rate depreciation typically translates to higher consumer prices. However, inflationary pressures of the exchange rate depreciation have so far been offset by declining global prices.



Source: Central Statistics Organization (CSO) and Bank staff estimates

Fiscal vulnerabilities will remain high. While revenues recovered in the first half of the year, they remain below the initial targets. The most recent projections indicate domestic revenues to reach Afs 116 billion (equivalent to 9.9 percent of GDP) by end 2015, compared to the initial target of Afs 120 billion. Recurrent expenditures are projected to increase in 2015, due to growing security costs. Substantial, additional discretionary donor grants this year - agreed under the New Development Partnership Agreement with the US - may likely help to balance the budget this year. Nevertheless, the budget may run a deficit if the Government fails to meet the agreed commitments that triggers funds under this and other budget support programs. Moreover, the weak cash reserve position at the beginning of the year exposes the budget to larger fiscal risks.

A mild recovery is expected for 2016. Real GDP growth is projected to increase to 3.1 and 3.9 percent in 2016 and 2017 respectively, conditioned on improvements in the security environment and strong reform momentum, which could help restore confidence in the economy. Nevertheless, much higher growth rates are required to counter population growth at 2.5 percent and estimated 400,000 entrants into the labor force each year.

Challenges

The National Unity Government has embarked on an ambitious reform agenda to revitalize the economy, tackle corruption and improve investment climate. However, it will take time for these reforms to translate into impact and it is yet unclear to what extent they will be able to mitigate the high risks stemming from the fragile security environment. Growing trends in security, pension and wage spending over the medium-term require immediate attention. The country



TABLE: Afghanistan

(annual percent change unless indicated otherwise)

	2012	2013	2014	2015 f	2016 f	2017 f
Real GDP growth, at constant market prices	14.4	2.0	1.3	1.9	3.1	3.9
Private Consumption	5.2	-2.6	0.6	0.2	4.5	3.4
Government Consumption	10.2	-0.9	7.1	8.5	8.1	8.3
Gross Fixed Capital Investment	16.2	4.5	3.0	3.5	7.5	8.0
Exports, Goods and Services	21.3	16.6	6.6	5.0	8.0	8.5
Imports, Goods and Services	3.0	29.6	-5.9	0.6	1.2	1.3
Real GDP growth, at constant factor prices	14.2	1.9	1.8	1.9	3.5	4.0
Agriculture	18.2	0.0	-0.1	0.2	0.5	-0.5
Industry	7.8	1.8	2.4	1.4	3.1	3.9
Services	16.0	2.6	2.2	2.8	4.8	5.6
Prices						
Inflation (GDP price deflator)	8.4	4.0	0.8	-1.2	4.4	5.2
Inflation (Consumer Price Index)	6.4	7.4	4.6	-1.7	3.0	3.5
Current Account Balance (% of GDP)	6.2	7.4	6.1	4.6	1.3	-2.4
Fiscal Balance (% of GDP)	-13.5	-14.9	-18.3	-23.3	-22.0	-24.2

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice
 Notes: f = forecast. In annual percent change unless indicated otherwise.

faces significant financing shortages for both civilian and security spending - securing continued high levels of donor financing over the coming years is therefore of critical importance for fiscal stability in the country. The fragile security environment and financing constraints, compounded by weak governance capacity pose serious challenges to service delivery in Afghanistan. Any setback in reform implementation would further slowdown the pace of human capital accumulation in Afghanistan and reduce future prospects of growth.



Bangladesh

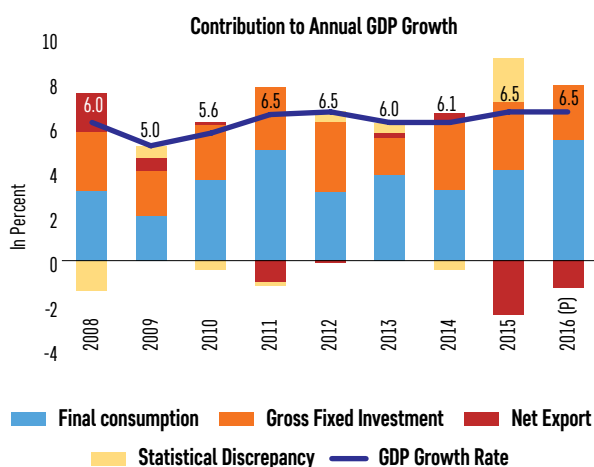
	2014
Population, million	158.5
GDP, current US\$ billion	173.1
GDP per capita, current US\$	1092

Sources: World Bank, WDI, and Macro Poverty Outlook

With the return of some degree of political stability since April 2015, domestic economic activity, which had been disrupted between January and March, has picked up. The Bangladesh Bureau of Statistics' preliminary 6.5% GDP growth estimate for FY15 (July 1, 2014 to June 30, 2015) shows a stronger economy relative to FY14 despite political turmoil, depressed export growth, only a modest rebound in remittances, and continued weakness in the private sector credit growth. Agricultural production has been healthy and services have recovered with domestic demand regaining strength. These alone cannot explain why growth in FY15 was higher than FY14.

Recent Developments

Macroeconomic stability was sustained. Bangladesh was not affected by recent turmoil in emerging and developed markets. Headline inflation evolved along the projected path toward 6.5% in FY15 from 7.4% the year before. However, non-food inflation has risen in the first half of 2015. Banks' lending rates have declined, the exchange rate has been stable, and foreign



Source: World Bank and national authorities

reserves have crossed \$26 billion. The fiscal deficit was contained at around 3.6% of GDP in FY15. The FY16 budget targets 5% deficit with 23.1% growth in expenditures and an ambitious 27.6% revenue growth target. Broad money growth fell short of the 16.5% Monetary Policy Statement target, primarily reflecting weak demand for credit both from the private sector and the central government. The (trade weighted) real effective exchange rate has appreciated by 14.4 percent in last 12 months ending August 2015, despite a stable nominal taka-dollar exchange rate, because of 15.9 percent appreciation of taka-euro nominal rate and higher domestic inflation relative to inflation in Bangladesh's trading partner countries. Weaknesses in financial regulations have continued.

Outlook

With political stability in the near-term, growth in FY16 is projected at 6.5%, driven by stronger consumption and export growth. Bangladesh is not at significant risk from contagion related to recent turmoil in international financial markets or slower growth in China. Income and REER elasticity of demand for export are low. Only 2.3% of exports go to China. Bangladesh's capital account is not open. Non-resident investor presence in Bangladesh's financial market is very limited. The recent reopening of Saudi and UAE markets to Bangladeshi labor may help regain remittance growth momentum, although the decline in oil prices may weaken labor demand in these markets. The risks of inflation remain non-trivial.

The Medium-Term Macroeconomic Framework presented with the FY16 budget is achievable if the structural reforms in infrastructure management and business regulation are implemented. However, achieving the 7% GDP growth target while reducing inflation to 6.2% during FY16 will be challenging. All



TABLE: Bangladesh

(annual percent change unless indicated otherwise)

	2012	2013	2014	2015	2016 f	2017 f
Real GDP growth, at constant market prices	6.5	6.0	6.1	6.5	6.5	6.7
Private Consumption	4.1	5.1	4.0	5.4	6.5	6.6
Government Consumption	3.1	5.8	7.9	9.4	20.2	12.8
Gross Fixed Capital Investment	10.6	5.4	9.9	9.6	7.4	7.6
Exports, Goods and Services	12.5	2.4	3.2	-3.7	8.5	10.5
Imports, Goods and Services	10.5	1.2	1.2	7.5	12.0	11.5
Real GDP growth, at constant factor prices	6.7	6.1	6.2	6.5	6.5	6.7
Agriculture	3.0	2.5	4.4	3.0	7.3	6.7
Industry	9.4	9.6	8.2	9.6	7.0	8.1
Services	6.6	5.5	5.6	5.8	6.0	5.9
Prices						
Inflation (GDP price deflator)	8.2	7.2	5.8	5.7	9.4	9.3
Inflation (Consumer Price Index)	8.7	6.8	7.3	6.4	6.5	6.7
Inflation (Private Consumption Deflator)	9.9	6.8	7.4	6.4	8.1	7.3
Inflation (Consumer Price Index)	8.7	6.8	7.3	6.4	6.5	6.7
Current Account Balance (% of GDP)	-0.3	1.6	0.8	-0.8	-0.4	-0.6
Fiscal Balance (% of GDP)	-3.5	-3.9	-3.5	-3.6	-4.6	-4.4
Sources: World Bank, Macroeconomics and Fiscal Management Global Practice. Notes: f = forecast. In annual percent change unless indicated otherwise.						

evidence suggest Bangladesh's potential GDP growth rate is no more than 6.5% given its demographics, feeble state of physical infrastructure, and lingering political uncertainties. Macroeconomic management will have to include strong surveillance of the economy's proclivity to overheat if growth diverges above the potential rate and adjust the policy instruments accordingly.

The FY16 budget is expected to boost growth directly through consumption and indirectly by facilitating exports and private investment. It has increased public pay and allowances by 57.3% and promised to complete a number of large ongoing investment projects this year. In education, health and social protection, there is decline in the level of spending relative to the total size of the FY16 budget, which does not bode well for human development and might slow the pace of poverty reduction. Central government bank borrowing requirements may exceed the budget target due to likely shortfall in revenue collection, aid disbursement, and non-bank borrowing targets. The budget deficit may rise in FY16, but the debt level is currently at a low risk of distress. The monetary program envisages accommodating the central government bank borrowing target without monetizing it.

Challenges

Bangladesh's progress on structural reforms has remained slow. Structural reforms are particularly challenging in the following areas:

Financial. There has been no visible reduction in nonperforming loans as habitual defaulters continue their delinquent behavior with impunity. Inaction on making the defaulters accountable has not helped change the game.

Energy. Bangladesh has not made use of this opportunity either to build fiscal space, which would allow an effective counter-cyclical response in the event of an economic slowdown, or to invest in infrastructure or human capital.

Fiscal. Reforms to improve the effectiveness of public expenditure and revenue administration are badly needed.

Administrative. Much of the reform agenda, including a broad-based reform of state-owned enterprises, remains to be implemented.



Bhutan

	2014
Population, m	0.77
GDP US\$, bn	1.82
GDP per capita, US\$	2,380
GDP per capita, US\$ PPP	7,867

Sources: National Bureau of Statistics, Bhutan, World Development Indicators, 2014

Continued large investments in hydropower projects support economic growth in 2015. On the expenditure side, investment remains strong, government consumption and capital spending are supported by higher revenues from the start of Dagachhu power project and grants from the Government of India, while private consumption has resumed along with bank credit. Bhutan's significant dissaving is illustrated by a large current account deficit. Private sector development and asset diversification are keys to reduce its vulnerability to donor finance and address rising youth unemployment.

Recent developments

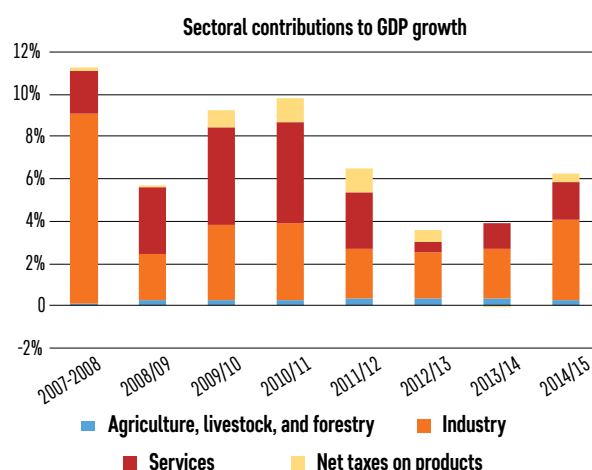
GDP growth in 2014-15 is estimated at 6.3 percent. Drivers of growth include continued construction of hydropower dams and the five-year plan implementation in full swing through increased capital spending financed by grants and tourism.¹ On the demand side, while private consumption was supported by the relaxation of credit restrictions, investments have remained robust in hydropower and construction in particular. Growth of gross capital fixed investment is estimated to 10 percent, masking a larger expansion in the hydropower sector. Real export earnings grew at 3.3 percent, supported by tourism expansion, but was outpaced by rapid import growth (11.5 percent).

The fiscal deficit in 2014/15 was 2.5 percent of GDP. Civil service wages and allowances were increased by 19 to 23 percent respectively but the impact on spending was partly offset by a stabilization of non-wage current and capital expenditures in real terms. Domestic revenues as a share of GDP have declined over the last three years, from 22 percent to

an estimate of 19.9 percent in 2014/15, while grants finance about 27 percent of the budget, 70 percent of which come from India. Bhutan's public and publicly guaranteed external debt stood at 99 percent of GDP by end-June 2015, two thirds of which are from commercially profitable hydro projects. Domestic debt stood below 5 percent of GDP.

Bhutan runs a growing current account deficit (26 percent of GDP at end June 2014/15), to which the hydropower sector contributed 15 percentage points. It is essentially financed by donor resources, to which India contributes the most through loans and grants financing hydropower projects. International reserves had slightly declined to US\$ 958 million by June 2015, while remaining at a very comfortable level of about 10 months of imports, reflecting prudent management.

Consumer price inflation in Bhutan has slowed to 3.4 percent in July 2015 from 6.3 percent in January, driven by the decline in oil prices and India's easing of inflation (Bhutan has a fixed exchange rate with India from which it imports most of its consumption).



Source:

¹ Fiscal year in Bhutan spans from July 1st to June 30th.



TABLE: Bhutan

(annual percent change unless indicated otherwise)

	2012	2013	2014	2015e	2016f	2017f
Real gross domestic product	3.6	3.9	6.3	6.8	7.2	5.6
Private consumption	8.8	9.6	6.6	6.6	6.6	6.6
Government consumption	-5.2	6.5	14.0	4.9	5.9	7.4
Gross fixed capital investment	-11.7	-11.7	10.0	14.9	6.7	1.0
Statistical discrepancy (%GDP)	0.1	0.1	0.2	0.1	0.1	0.2
Exports, goods and services	3.1	6.8	3.3	2.6	7.2	9.7
Imports, goods and services	-2.3	10.1	11.5	6.5	6.7	4.6
GDP, at market prices	3.6	3.9	6.3	6.8	7.2	5.6
Agriculture	2.6	2.5	2.0	1.8	1.8	1.8
Industry	5.1	5.4	8.6	9.5	10.1	10.8
Services	1.3	3.2	4.7	4.7	4.8	4.9
CPI inflation, period average	10.4	8.8	4.7	5.0	5.0	5.0
Current account balance (%GDP)	-23.5	-25.3	-26.3	-26.0	-27.0	-22.0
Fiscal balance (%GDP)	-4.2	-2.6	-2.5	-3.7	-1.8	-1.1

Notes: e: estimates; f: forecasts; * In annual percentage change percent, unless otherwise noted; ** Fiscal years. Sources: National Statistical Bureau, Royal Monetary Authority, Ministry of Finance, World Bank forecasts

Outlook

2015-2016 economic activity is expected to accelerate with real GDP growing at 6.8 percent, driven by massive hydropower construction, a marked acceleration in capital spending funded by grants from India and a relaxation of credit controls. Tourism arrivals could disappoint during the first semester of 2015, following the Nepal earthquakes and associated decline in bookings. Agriculture is projected to grow at its historic rate of 2 percent. Economic growth will only pick up at end 2018, when new hydropower projects will come on stream. Domestic demand will be driven by hydropower investment and, to a lesser extent, government consumption. Consumer inflation will closely follow India's tracks. The current account deficit is expected to continue growing over the next years, driven by the construction of hydropower projects. The current account deficit outside the hydropower sector is forecasted to remain stable, supported by a robust growth in the tourism sector. Fiscal policy is assumed to remain in balance, supported by donor grants, with current spending contained, and capital spending following the patterns of the five-year plan disbursements. The revenue effort is expected to weaken slightly, unless new measures to strengthen the tax base are introduced. The risk of Bhutan's external debt distress continues to be moderate. This is based on the commercial viability of the hydropower projects, the risk-sharing agreement with India for

hydropower loans, Bhutan's strong track record of project implementation, rapid growth in energy demand from India, committed donor support, and Bhutan's high level of international reserves.

Challenges

The outlook is positive but macroeconomic pressures on domestic demand must be managed. The impact of the ongoing turbulence in global financial and exchange markets is expected to remain moderate on Bhutan's economy, mostly through higher imported inflation and lesser tourism earning in the event of a global economic slowdown. While debt risk is still moderate, the rapid-build-up over the recent years cautions against any additional non-concessional borrowing, given that Bhutan's debt carrying capacity will only improve in the long run reflecting significantly higher electricity exports when hydropower projects come on stream. Efforts to deepen the financial sector must be sustained to provide the country the basis for financing sound and sustainable development and diversification.



India

	2014
Population, million	1,295
GDP, current US\$ billion	2,066.9
GDP per capita, current US\$	1,596

Sources: WDI

Lifted by the prospects of faster implementation of reforms and a favorable terms-of-trade shock, the Indian economy has remained on a path of modest acceleration— as reflected in improvements in investments, and industrial output. However, the delay in implementing key reforms on the domestic front, a weak trade performance and the recent slowdown in rural wage growth pose risks to growth.

Recent Developments

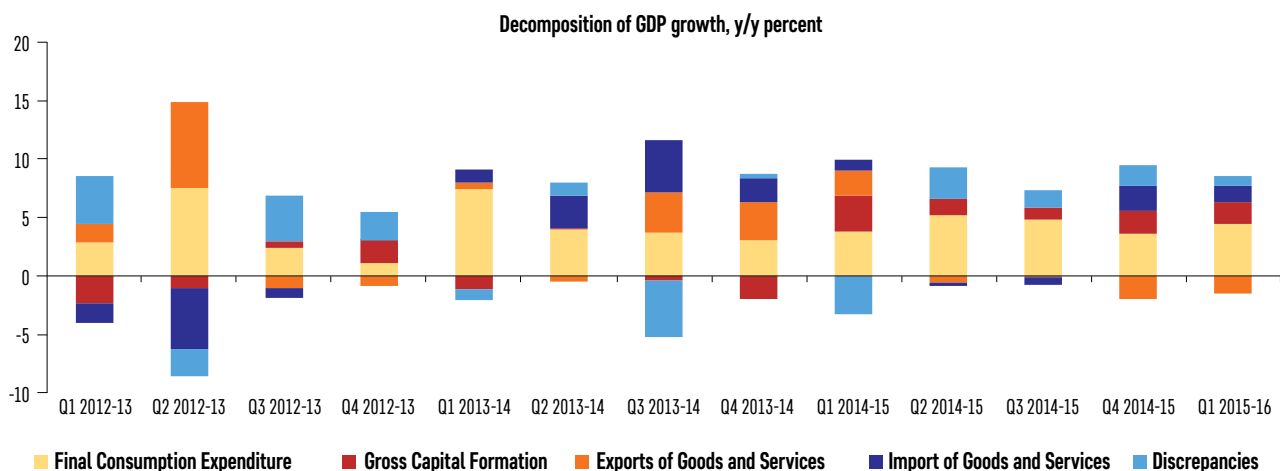
Economic growth has been robust. Growth in real GDP (market prices) increased from 5.1 percent in 2012/13 to 7.3 percent in 2014/15 before moderating slightly to 7.0 percent in the first quarter of 2015/16. While the momentum was initially supported by private consumption (average growth of 6 percent during 2012/13-2014/15), it has more recently benefited from a pick-up in investments (4.6 percent in 2014/15 and 4.9 percent in Q1 2015/16 vs. an average of 1.3 percent in the preceding two years). Non-farm activities continue to be the major drivers of growth. While

trade and transport services still make the largest contribution to growth, manufacturing, construction and real-estate services have gained prominence and their combined contribution to growth increased to nearly 55 percent in 2014/15 from 45 percent in the previous two years.

Inflationary pressures subsided during 2014/15 with retail inflation down to 5.9 percent from an average of 10.1 percent in the preceding two years. Food inflation declined (6.5 percent during 2014/15 from an average of 11.8 percent in 2012/2014), and upward revisions in minimum support prices have steadily declined as crop prices increased by an average of 17 percent during 2012/13 and by average of 2 percent in 2014/15. Most recently, inflation has been stable at 4.5 percent for the first five months of 2015/16.

Outlook

Economic activity is expected to accelerate gradually, on the back of improved industrial activity, a continued



Source: Central Statistics Office and World Bank staff calculations



TABLE: India*

	2012	2013	2014	2015 f	2016 f	2017 f
Real GDP growth, at constant market prices	5.1	6.9	7.3	7.5	7.8	7.9
Private Consumption	5.5	6.2	6.3	7.0	8.0	8.0
Government Consumption	1.7	8.2	6.6	6.5	6.3	6.2
Gross Fixed Capital Investment	-0.3	3.0	4.6	7.9	9.1	9.5
Exports, Goods and Services	6.7	7.3	-0.8	3.0	5.5	6.6
Imports, Goods and Services	6.0	-8.4	-2.1	3.0	6.5	8.8
Real GDP growth, at constant factor prices	4.9	6.6	7.5	7.6	7.8	7.9
Agriculture	1.7	3.8	1.1	2.0	2.8	2.8
Industry	2.3	4.4	5.6	5.8	6.0	6.3
Services	8.0	9.1	10.9	10.4	10.3	10.3
Current Account Balance (% of GDP)	-4.8	-1.7	-1.3	-1.4	-1.7	-2.0
Fiscal Balance (% of GDP)	-7.6	-7.3	-7.0	-6.4	-6.1	-5.7

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice

Notes: f = forecast.

* Data constraints pose a substantial challenge to analyzing growth in India. India's GDP was rebased in 2015 to 2011-12 prices. As a result of the rebasing and methodological changes, the new series is not comparable with the old, and gross value-added and GDP have diverged. High-frequency data on poverty is limited. The latest available data on consumption is from the 2011-12 NSS consumption expenditure survey, and the next survey results are expected in 2018-19.

revival of the investment cycle and resilient consumption. India is expected to weather global volatility in 2015/16, with real GDP growth projected to increase to 7.5 percent despite a weak export recovery. Public investments are expected to accelerate, in line with the government's stated focus on enhancing infrastructure investments, and start crowding in private investments. With the expected upward momentum in investment, the overall growth momentum can gradually reach 7.9 percent in 2017/18. Private consumption may also receive a fillip from the imminent civil service pay revisions and is expected to grow by 8.0 percent by 2017/18. On the production front, the acceleration would be supported by construction activity at first, with manufacturing gradually picking up pace.

Inflationary pressures are likely to continue easing in the near term on account of lower global commodity prices, and improved production capacity which will prevent overheating in the medium-term. The central bank's new inflation targeting stance is likely to further boost credibility of medium-term inflation of ~5 percent.

Challenges

The growth outlook is subject to substantive downside risks. The most immediate is related to corporate and financial sector balance sheets, and in the longer-term the implementation of the Government's reform program – e.g. GST, land acquisition,

and improvements in the business climate, some of which have been delayed. Unblocking the pipeline of infrastructure projects, ensuring sustainable means of financing and unlocking private investment are necessary to realize the meaningful and sustainable increase in investments embodied in the baseline scenario. On the external front, major risks stem from weak growth of India's key sources of trade, investment and remittance flows; increased volatility in financial flows; and higher global food prices due the severe El Nino expected this year.

Development outcomes are increasingly tied to states' priorities and capacities. Following the recommendation of the 14th finance commission, state governments have been awarded greater fiscal resources and spending autonomy. While the increased devolution of unconditional resources is a positive development, efficient utilization of these resources may vary across states. A simultaneous scaling down of centrally sponsored social sector schemes presents risks for development outcomes, unless compensated for by the states.



Maldives

	2014
Population(1)	341,256
GDP (USD mn)	3,032
GDP per capita (USD PPP)	14,774
GDP per capita (USD)	8,625

Sources: World Bank, WDI

Notes: (1) Excluding expatriate workers (58,683)

Sources: Ministry of Finance and Treasury, National Bureau of Statistics, Maldives Monetary Authority, WDI, staff calculations

Economic growth continued its recovery from the 2012 dip, while inflation has slowed down, although recent political developments present a downside risk. The dominant tourism industry is operating on an enclave model of development, while the fisheries sector, with the largest share of employment, is only weakly linked to this sector. The challenges are fiscal and external imbalances driven by large and rising public spending leading to high debt, limited fiscal space and depleted reserves, and an undiversified economy, which primarily depends on tourism and fisheries.

Recent developments

Growth in 2014 (estimated by Bank staff at 5.0 percent), continued its recovery from the dip of 1.3 percent in 2012. This was driven by tourism and related sectors, which maintained an upward trend in 2014, albeit at a slower pace, while the public sector and social sectors showed improvement over last year as well. The expansion of the industrial sector was caused by the significant increase in construction activity—which grew at 20.6 percent in 2014, while manufacturing contributed marginally. The agriculture and fisheries sector is the only sector to have contracted in 2014

owing to a decline in activity of fisheries output. This is significant as the fisheries sector has traditionally played a large role in employment generation, especially among poorest Maldivians. Tourism and related activities accounts for two thirds of GDP, but provide employment to only 22 percent of the labor force.

Following the global decline in commodity prices, annual average CPI inflation slowed down sharply to 2.4 percent in 2014 and reached 1.6 percent in July 2015.

Fiscal policy in Maldives focuses on redistribution of tourism-related revenue through food and electricity subsidies, health insurance and public sector jobs. Despite high revenue of 32.4 percent of GDP, spending reached 44 percent of GDP, leading to a fiscal deficit estimated at 11.6 percent of GDP in 2014. Tourism-related earnings have driven the increase in total revenue, but not enough to prevent a widening of the deficit.

Persistent primary fiscal deficits have led to a high and increasing level of public debt. Although the country's risk of external debt distress is moderate, overall public debt is high at 74.6 percent of GDP in 2014, and subject to vulnerabilities.

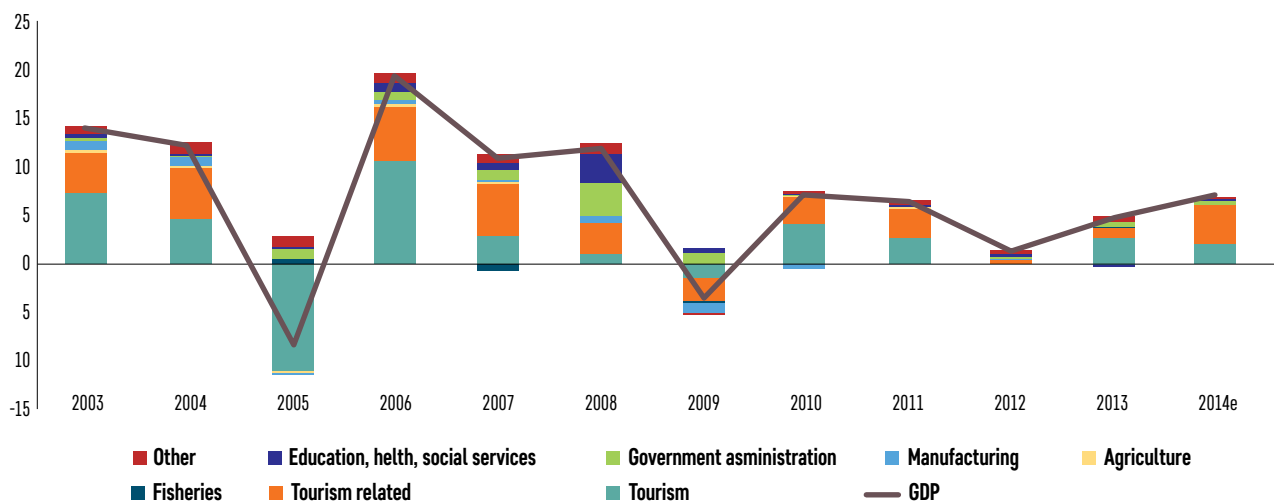


TABLE: Maldives

(annual percent change unless indicated otherwise)

	2011	2012	2013	2014e	2015f	2016f	2017f
Real GDP growth, at constant market prices	6.5	1.3	4.7	5.0	5.0	3.9	4.2
Private Consumption	...	...	...	...	...	...	...
Government Consumption	...	...	...	...	...	...	...
Gross Fixed Capital Investment	...	...	...	...	...	...	...
Exports, Goods and Services	...	...	...	...	...	...	...
Imports, Goods and Services	...	...	...	...	...	...	...
Real GDP growth, at constant factor prices	6.5	1.3	4.7	5.0	5.0	3.9	4.2
Agriculture	1.1	0.0	5.1	...	...	...	...
Industry	3.0	0.5	2.4	...	...	...	...
Services	-1.1	-0.7	8.2	...	...	...	...
Prices							
Inflation (Consumer Price Index)	11.3	10.9	4.0	2.4	0.3	2.1	3.5
Current Account Balance (% of GDP)	-16.0	-7.4	-4.4	-6.3	-5.0	-6.2	-5.6
Fiscal Balance (% of GDP)	-6.6	-7.6	-7.8	-11.6	-8.1	-7.3	-7.9
Sources: Maldives Monetary Authority, Ministry of Finance and Treasury, staff forecasts Note: due to the lack of complete GDP data there are no recent GDP projections. (1) Bank-Fund staff estimates Notes: e = Government estimate, f = forecast							

The recently revised balance of payments numbers show that goods imports and tourism services exports nearly balance each other out, but substantial outflows through interest payments, dividends and remittances kept the current account in a deficit at 6.3 percent of GDP. The current account is more than fully financed by Foreign Direct Investment (FDI), mainly into the tourism sector.

As a result of the reduced goods imports and a large improvement in net capital inflows, gross official reserves have increased from USD 368 million at the end of 2013 to USD 693 million at the end of July 2015, but usable reserves (net of short-term foreign liabilities) remained low at only USD 214 million, covering about 1.3 months of imports of goods and services. However, the stable exchange rate of MVR 15.4 per USD and the parallel market premium do not signal any shortages, and in practice the tourism industry appears to supply sufficient quantities of foreign exchange at a stable premium over the official exchange rate.

Outlook

The Government estimates growth in 2015 to reach 6.3 percent, but this appears unrealistic with the growth in key tourism indicators, such as arrivals and bed nights, well below the rates seen in 2014.

The 2015 budget foresees an ambitious fiscal consolidation mostly by increasing one-off revenue and

planning a fiscal consolidation. The full impact of the increase in the Tourism Goods and Service Tax rate will be felt in 2015, while recently abolished tourism bed tax of USD 8 per night will be replaced by a "Green tax" on the same base later in 2015.

Inflation is projected to remain subdued as long as global commodity prices are expected to remain low, which will also benefit the current and fiscal accounts.

Challenges

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

Meanwhile, continued domestic political unrest and a slowdown in major tourism-providing countries (China and European countries) might lead to reductions in tourism visits, which could put pressure on growth, revenue and the balance of payments.

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



Nepal

	2014
Population, million	28.1
GDP, current US\$ billion	19.4
GDP per capita, current US\$	690

Sources: World Bank, WDI

Nepal experienced a massive shock with two devastating earthquakes causing large damage, slowing growth. In addition, revenues underperformed leading to a deficit. Remittances surged in the aftermath of the disasters resulting in a strong current account surplus and growing reserves. Growth will continue to be affected in FY2016 due to delays in set up of the reconstruction authority and increased political instability. As the political process stabilizes, and recovery starts in full, growth is expected to rebound.

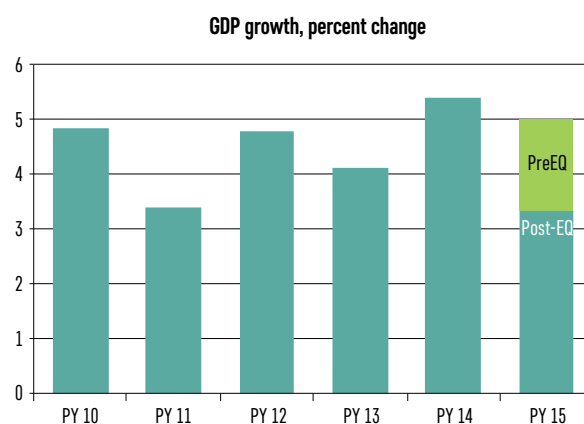
Recent developments

Devastating earthquakes in April and May of 2015 took a huge human toll, destroyed homes, factories, cultural heritage sites and slowed economic growth. The Government of Nepal (GoN), through a Post Disaster Needs Assessment (PDNA), estimated the value of physical damage at \$5.2 billion with additional \$1.9 billion in economic losses. In total, the estimated value of damages (destruction of capital stock) and losses (changes in flows), is one third of FY2013/14 GDP. Estimates of damages are equal to 100 percent of combined annual public and private capital investment. In addition, growth is estimated to have slowed to 3.4 percent in FY2014/15, 1.6 percentage points lower than a pre-earthquake estimate, reflecting both weak agricultural season at the start of the fiscal year as well as earthquake-related disruptions.

Fortunately, before the disaster struck, Nepal's macroeconomic fundamentals were in a good shape. Both external and fiscal accounts were in a surplus for several years, while public debt was low and declining. While not optimal, this was achieved on the back of large inflows of remittances (29 percent of GDP in FY2014/15) that have offset the gapping trade deficit, while persistent under-implementation of the capital expenditures has kept the fiscal accounts in surplus.

As a result of the earthquake, in FY2014/15, revenue target was missed for the first time in several years and, despite worsening budget execution, led to a deficit (1.2 percent of GDP). Remittances grew 12 percent in FY2014/15, even though the outflow of migrant workers declined (down 1 percent y/y) for the first time since 2009, reflecting a post-disaster surge in remittances in the last three months of the FY.

In the aftermath of the earthquake, political priorities appear to have changed. GoN carried out a very credible PDNA and successfully organized an international donor conference that resulted in significant pledges of reconstruction aid. In addition, the largest four political parties forged an agreement to adopt a new constitution after 8 years of deliberations paving way for a new chapter in country's history. However, progress remains fragile. There have been delays in the setting up of the National Reconstruction Authority. In addition, political unrest and violence has erupted in parts of the country in protest against constitutional proposals to demarcate provinces in the future federal Nepal.



Sources: Central Bureau of Statistics (CBS)



TABLE: Nepal

(annual percent change unless indicated otherwise)

	2012	2013	2014	2015 f	2016 f	2017 f
Real GDP growth, at constant market prices	4.8	4.1	5.5	3.4	3.7	5.5
Private Consumption	16.1	3.4	3.4	3.0	3.5	3.6
Government Consumption	15.9	-6.9	18.0	14.3	12.8	18.8
Gross Fixed Capital Investment	-5.5	23.1	7.4	12.1	14.0	24.5
Exports, Goods and Services	1.9	10.3	23.7	5.4	5.0	9.0
Imports, Goods and Services	3.4	14.2	18.0	9.0	10.0	15.0
Real GDP growth, at constant factor prices	4.6	3.5	5.0	3.0	3.7	4.8
Agriculture	4.6	1.1	2.9	1.9	2.5	2.6
Industry	3.0	2.5	6.2	2.6	2.0	2.7
Services	5.2	5.6	6.3	4.0	5.0	6.9
Prices						
Inflation (GDP price deflator)	6.6	8.6	7.6	9.9	9.7	11.0
Inflation (Consumer Price Index)	9.5	9.0	8.4	7.5	8.2	8.6
Current Account Balance (% of GDP)	5.4	4.0	5.5	5.7	2.6	-1.7
Fiscal Balance (% of GDP)	-0.6	0.8	0.8	-0.9	-0.7	-1.8
Sources: World Bank, Macroeconomics and Fiscal Management Global Practice Notes: f = forecast. In annual percent change unless indicated otherwise.						

Outlook

As a response to the earthquake, GoN announced a very ambitious budget for FY 2015-16 in which total spending is to increase by 9 percentage points of GDP while the capital expenditure is to be doubled to 15 percent of GDP. In addition, several notable measures were also announced to streamline capital expenditure procedures to address persistent underutilization of the budgets. Despite this, growth is projected at 3.7 percent in FY 2015/16 as the effects of the earthquake, sub-optimal planting season, increased protests and nationwide strikes, and delays in adopting the budget and establishment of the Reconstruction Authority, all took a toll on activity, especially in the first part of the year. Growth is expected to pick up to 5.5 percent in FY 2016-17 on the back of the increased investment (both public and private) as the political process stabilizes and the earthquake recovery speeds up in earnest.

Consequently, the reconstruction will lead to a surge in imports, which will tip the current account balance into deficit, despite increasing remittances. Similarly, fiscal spending on capital expenditure is expected to grow leading to a larger deficit. However, financed by combination increased foreign grant assistance and concessional borrowing, it will not endanger debt sustainability. Inflation is expected to remain in high single digits, despite lower oil and food prices and falling inflation in India, reflecting domestic bottlenecks.

Challenges

Nepal faces several simultaneous challenges ahead—effective implementation of post-earthquake recovery coupled with completion of political transition to a new federal constitution while leveraging its endowments (hydropower potential, human capital) to achieve a faster growth and create economic opportunities for its citizens at home. Delays or missteps in any one of these challenges may lead to permanently forgone opportunities and income.

Low and middle income countries in general tend to experience a permanent loss of potential output following a geological disaster like the one experienced by Nepal given their lower capacity to execute spending efficiently and effectively in rebuilding lost capital stock. In fact, the key growth constraint for Nepal in the past has been the insufficient public investment and resulting infrastructure deficit. While the quantity of public investment may increase as a result of a newly proposed and empowered National Reconstruction Authority, ensuring the quality of spending will be even more critical.

Furthermore, permanently lower oil prices may reduce economic opportunities in the oil-exporting Gulf Co-operation Countries, which are an important destination for Nepali migrants and a key source of remittances for the country.



Pakistan

	2014
Population, million	188.0
GDP, current US\$ billion	243.6
GDP per capita, current US\$	1296

Source: World Bank

A mild recovery is underway, macroeconomic stability has largely been restored and key external risks are lower. The record increase in remittances and stable agricultural performance continues to support a steady growth outlook. Prospects for continued growth appear reasonably bright, supported by strong fiscal consolidation and improved external position. Downside risks, chiefly the China slowdown, may affect this outlook. For sustained and inclusive growth, Pakistan needs to successfully implement reforms in energy and taxation, and increase investment.

Recent Developments

Economic conditions have improved over the past year. A strengthened external position, continued fiscal consolidation efforts, and progress in achieving structural reforms have led to Pakistan's outlook being raised to positive from stable by the main rating agencies.

External sector vulnerabilities have reduced. Record-high remittances offsetting a persistent trade deficit;

subdued international oil prices curtailing the import bill; and improved inflows against Coalition Support Fund together contributed to a manageable current account deficit of 0.8% of GDP in FY2015. This, coupled with higher net inflows in capital and financial accounts, resulted in an overall external surplus for the second year in a row with a significant increase in international reserves, inducing stability in the foreign exchange market.

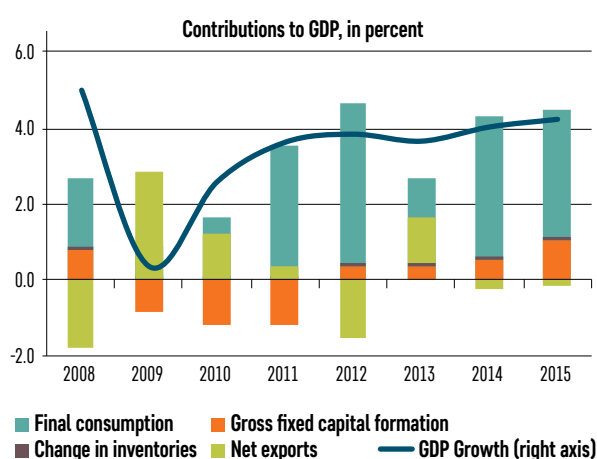
Despite weaker manufacturing performance, economic growth marginally picked-up in FY2015 to 4.2%, compared to 4.0% in FY2014, driven mainly by services and agriculture sectors. On the demand side, government consumption, growing at 16%, contributed 1.9% to overall growth. Private consumption also contributed to overall growth, although growing at a much smaller rate. Inflation continued its single-digit trend for the third year in a row and recorded an 11-year low of 4.5%.

Fiscal consolidation was on track due to healthy non-tax revenues and some rationalization in power subsidies, supported by decline in international oil prices. Nevertheless, Federal Board of Revenue (FBR) collection continues to fall short of targets. Total public debt is on a declining path, an outcome that coupled with improved import coverage has allowed Pakistan to qualify again for IBRD financing.

Outlook

Macroeconomic outlook for the next two years projects steady growth recovery-cum-low inflation, supported by fiscal consolidation and an improving external position.

Pakistan's economic growth is projected to accelerate to 4.5% in FY2016 and then further to 4.8% in FY2017



Source: Pakistan Economic Survey



TABLE: Pakistan

	2012	2013	2014	2015	2016 f	2017 f
Real GDP growth, at constant market prices	3.5	4.4	4.7	5.5	5.5	5.4
Private Consumption	5.0	2.1	5.4	3.6	5.6	5.7
Government Consumption	7.3	10.1	1.5	16.0	3.1	3.1
Gross Fixed Capital Investment	2.4	2.6	4.2	8.2	7.0	7.0
Exports, Goods and Services	-15.0	13.6	-1.6	-2.7	-0.9	0.5
Imports, Goods and Services	-3.1	1.8	0.2	-1.2	0.8	2.5
Real GDP growth, at constant factor prices	3.8	3.7	4.0	4.2	4.5	4.8
Agriculture	3.6	2.7	2.7	2.9	2.9	3.0
Industry	2.5	0.6	4.5	3.6	4.4	4.8
Services	4.4	5.1	4.4	4.9	5.2	5.5
Prices						
Inflation (GDP price deflator)	6.0	7.0	6.9	3.5	5.1	5.5
Inflation (Consumer Price Index)	11.0	7.4	8.6	4.5	5.0	6.0
Current Account Balance (% of GDP)	-2.1	-1.1	-1.3	-0.8	-0.8	-1.0
Fiscal Balance (% of GDP)	-8.8	-8.3	-4.7	-5.1	-4.0	-3.5
Source: World Bank.						

supported by strong growth in industry and services. Investment is expected to increase to 15.4% of GDP by FY2017 on account of operationalization of China Pakistan Economic Corridor (CPEC)-related projects. Inflation is projected to stay low in view of low commodity prices, exchange rate stability and a prudent fiscal policy.

The current account deficit is projected to increase slightly to 1.0% of GDP by FY2017 but will remain manageable. So far, remittances originating from Gulf countries have not been affected by the decline in oil price and are expected to stay robust in the near term. Exports are projected to contract in the first year owing to tapered global demand and then grow marginally the following year. Imports, however, are projected to post moderate growth due to CPEC-related investments and higher domestic demand.

Fiscal consolidation is projected to continue over the medium term based on strong tax revenue efforts as well as gradual phasing-out of energy-related subsidies and of contingent liabilities on loss-making SOEs. Resultantly, the fiscal deficit is expected to decline to 3.5% of GDP by FY2017. The reduced need for deficit financing should facilitate provision of bank credit to the private sector, leading to increased economic activity.

Challenges

The slowdown in China, if protracted, could have adverse effects on investment and trade, and Pakistan may not have the ability to absorb external shocks in the absence of strong buffers. Furthermore, realization of tax revenue targets largely hinges on steady implementation of tax reform agenda. Fiscal consolidation may also be negatively affected by delayed implementation of the government's privatization agenda. Moreover, for the economy to accelerate in the long run, key growth constraints like electricity shortages, cumbersome business climate, complex trade regime, low access to finance and security situation need to be addressed.



Sri Lanka

The newly elected government has shown commitment to carry out needed political and economic reforms. Sustained growth since 2010 has contributed to a significant reduction in poverty; yet many pockets of poverty remain. Public debt is rising, fiscal revenue is low, and the external current account is in deficit. Much needs to be done in order to attract FDI, improve external sector competitiveness and arrest declining fiscal revenues to adopt an export-led growth path and create the space to pursue counter-cyclical policy. Promoting inclusive growth by targeting disadvantaged areas and boosting social protection programs can hasten further declines in moderate poverty.

Recent developments

Sri Lanka is in a major political transition with a national unity government formed for the first time in the history. Although the detailed policies of the new government are yet to be clearly seen, it has shown commitment to promoting a globally competitive, export-led economy with an emphasis on inclusion.

Growth in 2013 and 2014 was revised downward to 3.4 and 4.5 percent respectively, from 7.2 and 7.4 percent, due to a national accounts rebasing. The average growth for the period 2010-2014 stood at 6.7 percent. The GDP per capita was USD 3,811 as of end 2014. The economy grew by 5.6 percent in the first half of 2015 driven mainly by service sectors.

Thanks to the reduction of administered energy prices and the managed exchange rate despite pressures, annual average inflation decelerated to 1.0 percent in August 2015.

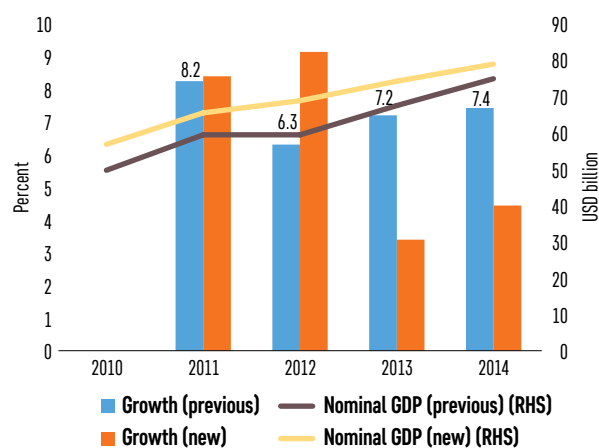
The fiscal deficit for 2014 was 5.7 percent of GDP, up from 5.4 percent for 2013. This marked a slight reversal of the consolidation in the post-conflict period. The

	2014
Population, million	20.5 ⁽¹⁾
GDP, current US\$ billion	74.4 ⁽²⁾
GDP per capita, current US\$	3,811 ⁽²⁾⁽³⁾
GDP per capita (USD PPP)	9,834 ⁽²⁾⁽³⁾⁽⁴⁾

Sources: Central Bank of Sri Lanka, DCS
(1) 2013, (2) 2014, (3) Staff estimates, (4) Based on national accounts data before recent revision.

widening primary deficit and slowdown in growth led to a slight increase in public debt to 71.8 percent of GDP, while contingent liabilities were estimated at 5.4 percent of GDP by end 2014. The low tax revenue, placed at 10.2 percent of GDP in 2014 remains a key macro-economic concern.

The external current account deficit narrowed to 2.6 percent of GDP in 2014 thanks to strong tourism and remittance flows, financed mainly by FDI and other private sector loan flows along with inflows to the government. For the first half of 2015, the trade deficit widened by 15.6 percent on a year-on-year basis due to rising imports of vehicles and consumer goods, reversing the favorable impact of a reduced petroleum bill. Rapid growth in private credit in a historically low interest environment was a key driver of the surge in imports. Gross official reserves declined to USD 6.5 billion by end August 2015 from USD 7.5 billion at end 2014 due to capital outflows, debt repayments, the widening trade deficit and central bank intervention in the forex market. The central bank allowed more flexibility in the exchange rate in early September, leading to strong depreciation. The year-to-date



Source:



depreciation of LKR against the US dollar stood at 6.6 percent as of September 15, 2015.

Outlook

Growth is expected to reach 5.3 percent year-on-year in 2015 with significant contributions from the service sectors and accelerated private consumption, thanks to increased public sector wages partially compensated by reduced public investment. Currency depreciation will exert upward pressure on prices in the second half of 2015, but relatively low international commodity prices and lowered taxes on key commodities are expected to keep annual average inflation around 1 percent in 2015. Despite savings in the oil bill, private credit driven import expenditure is expected to widen the current account deficit to 3.2 percent of GDP in 2015, financed mainly by borrowing. Increased wages, social welfare and interest payments will expand the fiscal deficit to 5.8 percent of GDP, while public debt-to-GDP is expected to rise in the next two years. Unless permanent revenue measures are implemented, fiscal consolidation will be challenging in 2016 and beyond.

The pace of growth and poverty reduction depends on the success of reforms that increase fiscal revenue, promote export-led growth, rebalance the role of the public sector, enhance economic inclusion by

targeting poor areas and disadvantaged groups, and promote sustainable sources of growth.

Key risks are a growth slowdown, which would lead to a fast rising public debt burden. While the direct impact of a slowdown in China is limited, continued economic woes in the Middle East, the EU and Russia could adversely affect exports and remittance inflows. Tightening global financial conditions could increase capital outflows and currency pressure, and make borrowing more expensive.

Challenges

Immediate challenges include managing currency pressure and raising revenue to reduce the 2015 fiscal deficit. Structural challenges include increasing fiscal revenue and narrowing a persistent current account deficit linked to structural competitiveness issues in the export sector. With the country approaching upper middle income status, borrowing terms are becoming more commercial, which could affect affordability. Finally, with limited national savings compared to national investment, Sri Lanka needs to attract FDI. Going forward, to sustain its high growth path it needs to increase growth in the manufacturing and export sectors.

TABLE: Sri Lanka

	2012	2013	2014	2015	2016 f	2017 f
Real GDP growth, at constant market prices	9.1	3.4	4.5	5.3	5.6	6.0
Private Consumption	9.3	0.6	4.5	5.3	5.6	6.0
Government Consumption	1.8	-1.5	9.8	13.0	-1.9	4.7
Gross Fixed Capital Investment	10.7	6.4	5.6	5.8	5.2	5.7
Exports, Goods and Services	2.6	2.8	2.7	3.7	4.7	3.4
Imports, Goods and Services	2.9	-3.2	7.2	8.7	0.5	3.2
Real GDP growth, at constant factor prices	9.1	3.4	4.5	5.3	5.6	6.0
Agriculture	3.9	3.2	-2.2	1.7	1.7	2.0
Industry	9.0	4.1	1.2	3.6	5.0	5.8
Services	11.2	3.8	6.5	6.0	6.4	6.6
Prices						
Inflation (GDP price deflator)	10.8	6.2	2.7	2.2	3.2	3.1
Inflation (Consumer Price Index)	7.5	6.9	3.3	0.9	3.0	2.9
Current Account Balance (% of GDP)	-5.8	-3.4	-2.6	-3.2	-2.2	-1.9
Fiscal Balance (% of GDP)	-5.6	-5.4	-5.7	-5.8	-6.2	-6.0
Sources: CBSL, DCS, World Bank staff forecasts Notes: e = estimate, f = forecast; 1/ In annual percentage change percent, unless otherwise noted						





South Asia at a glance

			AFG (1)	BGD (4)	BTN (8)	IND (12)	MDV (16)	NPL (17)	PAK (22)	LKA (27)	SAR (31)
BALANCE of PAYMENTS	Real GDP Growth	2013	2.0	6.0	3.9	6.9	4.7	4.1	3.7	3.4	6.5
		2014	1.3	6.1	6.3	7.3	5.0 (est)	5.5	4.0	4.5	6.9
		2015	1.9 (f)	6.5	6.8 (est)	7.5 (f)	..	3.4 (f)	4.2	5.3 (f)	7.1 (est)
		Q1	..	..	..	7.6	..	..	..	4.3	7.5
		Q2	..	..	..	6.9	..	..	..	6.8	6.9
	"Inflation (y-o-y %) (CY)"	2012	6.4	8.7	10.4	9.7	10.9	9.5	6.0	7.5	9.4
		2013	7.4	6.8	8.8	10.7	4.0	9.0	7.0	6.9	10.1
		2014	4.6	7.3	4.7	6.7	2.4 (est)	8.4	6.9	3.3	6.6 (est)
		2015	-1.7 (f)	6.4	5.0 (est)	4.1 (prov)	0.7 (prov)	7.5 (f)	3.5	0.9 (f)	..
		Jul	-4.8	6.4	..	3.7	..	..	1.8	-0.3	1.8
		Aug	..	6.2	..	3.6	..	..	1.7	-0.3	2.7
	"REER (CY)"	2013	100.5	87.3	99.4	103.6	99.8	100.3	99.8	100.0	98.8
		2014	97.4	100.7	100.7	103.0	101.9	99.9	100.2	108.6	101.5
		2015	99.7 (prov)	106.5 (prov)	100.9 (prov)	109.3 (prov)	103.4 (prov)	106.8 (prov)	103.1 (prov)	118.5 (prov)	106.0 (prov)
		Jul	95.8	107.5	100.4	110.1	103.3	107.9	104.4	121.6	106.4
		Aug	96.1	107.6	99.8	109.7	104.1	108.0	104.7	122.1	106.5
	Current Account (% of GDP)	2012	6.2	-0.3	-23.5	-4.8	-7.4	5.4	-2.1	-5.8	-4.1
		2013	7.4	1.6	-25.3	-1.7	-4.4	4.0	-1.1	-3.4	-1.4
		2014	6.1	0.8	-26.3	-1.3	-6.3 (est)	5.5	-1.3	-2.6	-1.1
		2015	4.6 (f)	-0.8	-26.0 (est)	-1.4 (f)	..	5.7 (f)	-0.8	-3.2 (f)	-1.2 (est)
Trade Balance (% of GDP)	2012	-33.6	-7.8	-24.3	-6.7	18.9	-23.5	-8.0	-13.7	-7.0	
	2013	-42.8	-7.2	-22.0	-3.0	16.8	-26.8	-6.7	-9.5	-4.0	
	2014	-37.4	-5.5	-27.6	-2.4	15.0	-28.2	-6.5	-8.5	-4.0	
"Import Growth (CY)"	2012	..	-2.1	-7.0	5.9	..	3.0	4.8	-3.9	4.9	
	2013	..	7.3	-2.0	-1.4	..	4.0	3.5	-4.0	-0.6	
	2014	..	17.3	..	4.9	..	18.0	7.8	9.8	6.1	
"Export Growth (CY)"	2013	..	13.7	4.0	8.1	..	10.0	4.8	7.7	8.3	
	2014	..	5.9	..	5.6	..	24.0	0.2	8.9	5.3	
	2015	..	..	..	..	..	..	..	..	..
	Q1	..	5.7	..	-11.6	..	..	-7.9	3.8	-9.6	
	Q2	..	4.9	..	-14.8	..	..	-0.3	-3.5	-12.1	



			AFG (1)	BGD (4)	BTN (8)	IND (12)	MDV (16)	NPL (17)	PAK (22)	LKA (27)	SAR (31)	
BALANCE of PAYMENTS	"Reserves in Months of Import (CY)"	2012	..	4.5	..	7.3	2.5	..	3.7	5.2	6.9	
		2013	..	6.0	..	7.6	2.6	..	1.9	5.7	7.1	
		2014	..	6.4	..	8.3	3.8	..	3.6	6.1	7.8	
		2015	..	..	..	..	..	..	..	..	..
		Jul	..	..	..	10.1	..	..	5.1	..	9.5
		Aug	..	..	..	10.1	..	..	4.6	..	9.4
	"Remittances (US\$ billion) (CY)"	2012	0.4	14.2	0.02	30.6	0.003	4.8	14.0	6.0	70.0	
		2013	0.5	13.8	0.01	32.3	0.003	5.6	14.6	6.4	73.3	
		2014	..	14.9	0.01	39.0	0.003	..	17.2	7.0	..	
		2015	..	..	..	..	..	..	..	..	..
		Q1	..	3.7	..	10.5	..	..	4.4	1.7	..
		Q2	..	4.1	..	9.1	..	..	5.1	1.8	..
GOVERNMENT FINANCES	Fiscal Deficit (% of GDP)	2012	-13.5	-3.5	-4.2	-7.6	-7.6	-0.6	-8.8	-5.6	-7.2	
		2013	-14.9	-3.9	-2.6	-7.3	-7.8	0.8	-8.3	-5.4	-6.9	
		2014	-18.3	-3.5	-2.5	-7.0	-11.6 (est)	0.8	-4.7	-5.7	-6.7	
		2015	-23.3 (f)	-3.6	-3.7 (est)	-6.4 (f)	..	-0.9 (f)	-5.1	-5.8 (f)	-6.5 (est)	
	Public Debt to GDP (%)	2012	..	33.8	72.2	67.6	62.8	34.3	64.0	79.2	59.10	
		2013	..	34.7	89.2	65.7	66.7	31.2	64.3	78.3	61.41	
		2014	..	33.9	107.5 (est)	63.0	74.8 (est)	26.3	64.2	75.9	63.90	
		2015	..	33.0 (prov)	115.9 (f)	62.4 9 (f)	78.6 (f)	23.6 (f)	64.1 (est)	77.0 (f)	65.2 (est)	
	CONSUMPTION and INVESTMENT	Consumption (% of GDP)	2012	..	78.0	41.1	58.8	..	81.8	92.9	69.8	..
			2013	..	76.6	54.5	59.7	..	83.2	91.8	69.6	..
2014			..	77.7	..	60.1	..	83.7	91.5	66.9	..	
2015			..	..	..	..	..	..	91.0	..	..
Investment (% of GDP)		2012	..	28.4	63.7	31.4	..	20.8	15.1	27.1	23.0	
		2013	..	28.7	50.3	29.7	..	22.6	15.0	28.9	21.0	
		2014	..	29.0	..	28.7	..	23.7	15.0	29.2	..	
		2015	..	..	..	..	..	..	15.1	..	..
"FDI (US\$ billion) (CY)"		2013	-0.1	..	-0.05	33.3	0.4	-0.1	2.6	0.9	..	
		2014	..	1.6	-0.01	61.6	0.4	..	3.6	0.9	..	
		2015	..	..	..	..	..	..	..	..	..
		Q1	..	0.6	..	22.1	..	..	0.4	0.1	..
		Q2	..	..	..	8.8	..	..	0.5	0.2	..
"Portfolio Investment (US\$ billion) (CY)"		2013	0.1	-0.1	..	7.0	-0.1	0.1	0.1	-2.1	..	
		2014	..	-0.5	..	38.0	0.0	..	2.7	-2.0	..	
		2015	..	..	..	..	..	..	1.9	..	..
	Q1	..	..	..	12.4	..	..	..	..	..
	Q2	..	..	..	-2.5	..	..	..	..	..



Notes:

est	Estimate
f	Forecast
prov	Provisional
CY	Series for Calendar Year unless otherwise mentioned
Sources	World Bank, MFM, World Bank, DECPG, World Bank, WDI, IMF, IFS, IMF, WEO, national authorities and Haver
Real GDP Growth	Real GDP growth rates (percent) at market prices
Inflation	CPI inflation period average
REER	Average January-August for 2015 series
Trade Balance	Balance on goods and service

Afghanistan

- 1 2013 onwards is calendar year, preceding years correspond to solar year (Apr-Mar)
- 2 Current Account: Including grants
- 3 Fiscal Balance: Not Including grants

Bangladesh

- 4 These numbers are for fiscal year (July-June) unless otherwise mentioned. For example; for 2014 numbers, 2013-2014 values are used.
- 5 Import Growth: Merchandise Imports
- 6 Export Growth: Merchandise Exports
- 7 Consumption and Investment:WB Staff Calculations

Bhutan

- 8 These numbers are for fiscal year (July-June) unless otherwise mentioned. For example; for 2014 numbers, 2013-2014 values are used.
- 9 Import Growth: Imports of goods and services (annual % growth)
- 10 Export Growth: Exports of goods and services (annual % growth)
- 11 Consumption and Investment:WB Staff Calculations

India

- 12 These numbers are for fiscal year (Apr-Mar) unless otherwise mentioned. For example; for 2013 numbers, 2013-2014 values are used.
- 13 Import Growth: Merchandise Imports
- 14 Export Growth: Merchandise Exports
- 15 Consumption and Investment:WB Staff Calculations



16	Maldives These numbers are for calendar year unless otherwise mentioned.
17	Nepal These numbers are for fiscal year (16 July-15 June) unless otherwise mentioned. For example; for 2014 numbers, 2013-2014 values are used.
18	Trade Balance:WB Staff Calculations
19	Import Growth: Imports of goods and services (annual % growth)
20	Export Growth: Exports of goods and services (annual % growth)
21	Consumption and Investment:WB Staff Calculations
22	Pakistan These numbers are for fiscal year (July-June) unless otherwise mentioned. For example; for 2014 numbers, 2013-2014 values are used.
23	Real GDP growth reported at factor cost
24	Import Growth: Merchandise Imports
25	Export Growth: Merchandise Exports
26	Consumption and Investment:WB Staff Calculations
27	Sri Lanka These numbers are for calendar year unless otherwise mentioned.
28	Import Growth: Imports of goods and services (annual % growth)
29	Export Growth: Exports of goods and services (annual % growth)
30	Consumption and Investment:WB Staff Calculations
31	SAR These numbers are for calendar year unless otherwise mentioned.
32	Remittances: WB Staff Calculations
33	Public Debt to GDP: WB Staff Calculations





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