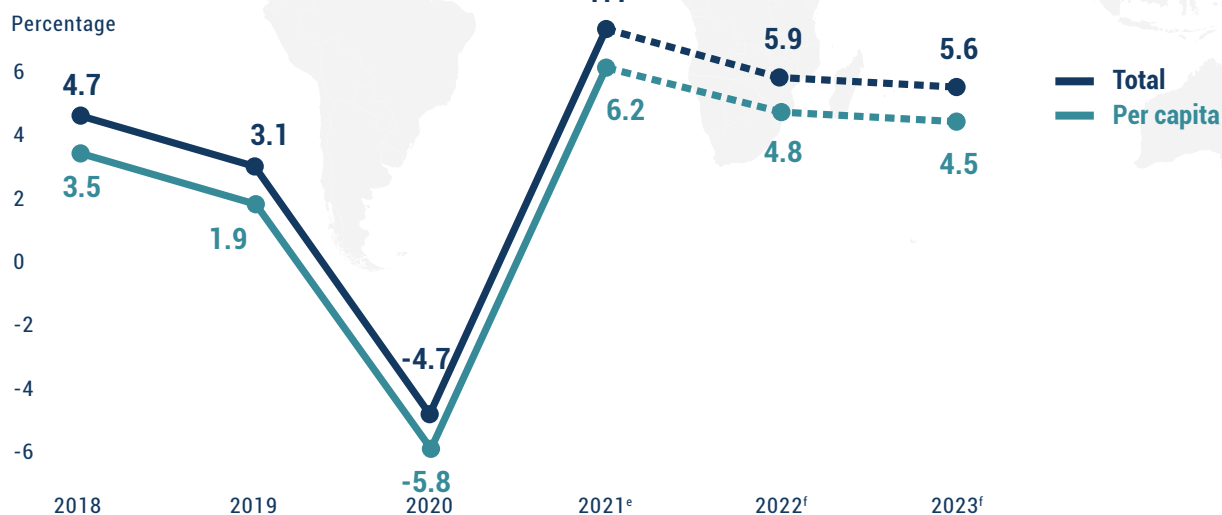


South Asia

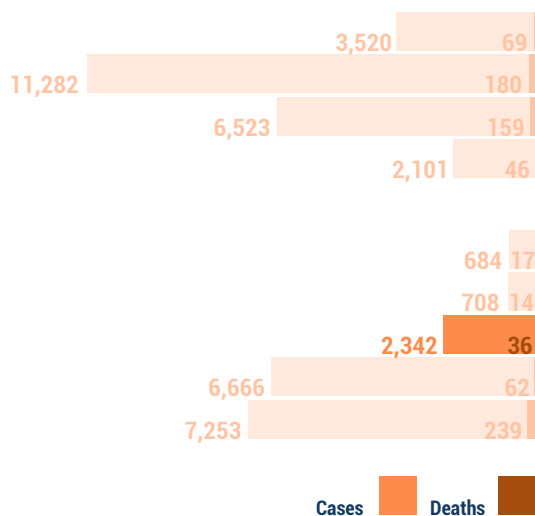
GDP growth



COVID-19 cases & deaths

as of 20 December 2021

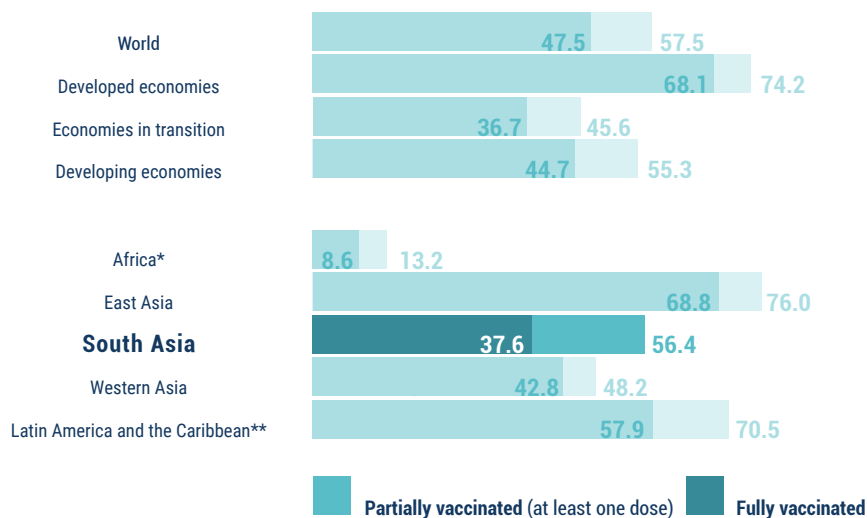
Per 100,000 people



Vaccination

as of 20 December 2021

Percentage of population



Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map represents countries and/or territories or parts thereof for which data is available and/or analysed in World Economic Situation and Prospects 2022. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries. Aggregate data for Africa, excluding Libya.

* Excluding Libya; **Excluding Bolivarian Republic of Venezuela. **e:** 2021 estimates. **f:** 2022-2023 forecasts.

Source for COVID-19 data: UN DESA calculations, based on data from Johns Hopkins University.

South Asia: moderate economic prospects amid large uncertainties and more constrained policy space

- South Asia's recovery is gathering steam but remains fragile and subject to downside risks.
- Revitalizing employment growth is crucial to tackle worsening poverty and inequality.
- Amid higher public debt and prospects for tightening financial conditions, fiscal policy faces increasing constraints.

The economic recovery continues to gain momentum in South Asia amid contained COVID-19 infections and higher mobility, robust remittance inflows and broadly supportive macroeconomic policy stances. After an estimated expansion of 7.4 per cent in 2021, regional GDP is projected to expand at a more moderate pace of 5.9 per cent in 2022 as base effects gradually disappear.²² The recovery, however, is still fragile, uneven and subject to pandemic-related uncertainties and downside risks. A lagging labour market recovery illustrates the severe socioeconomic difficulties for large segments of the population. Achieving robust, sustained and inclusive growth will be critical in tackling the region's recent rise in poverty and inequality, with the pandemic erasing years of progress on poverty reduction and an estimated 30 million more people in extreme poverty in 2020. A sustained recovery may prove challenging as global financial conditions tighten, however, and monetary and fiscal policy space become more constrained. Policymakers need to maintain essential support for the recovery and job creation, such as by prioritizing public infrastructure and green investments that crowd-in private finance.

South Asia faces major downside risks that can strengthen headwinds in achieving the 2030 Agenda. Relatively slow vaccination progress leaves the region vulnerable to new variants and recurrent outbreaks. Financial constraints and an inadequate global vaccine supply continue to drag down full recovery in some countries. As of early December 2021, Bangladesh, Nepal and Pakistan had less than 26 per cent of their populations fully vaccinated (figure III.16). By contrast, the fully vaccinated population is above 64 per cent in Bhutan, Maldives and Sri Lanka. In India, a deadly wave of infection with the Delta variant stole 240,000 lives between April and June and disrupted economic recovery. Similar episodes could take place in the near term.

Accelerated global monetary tightening could increase volatility, trigger capital outflows and disrupt credit growth, especially in countries with elevated debt, large financing needs and high levels of foreign-currency-denominated debt. Significant financial distress could emerge as highly leveraged firms face greater refinancing costs, particularly in sectors hit harder by lockdowns, even more so if the removal of forbearance measures uncovers a large deterioration in balance sheets. In Bangladesh and Bhutan, non-performing loans were elevated even before the pandemic. While still vulnerable, India is in a better position to navigate financial turbulence compared to its situation during the "taper tantrum"

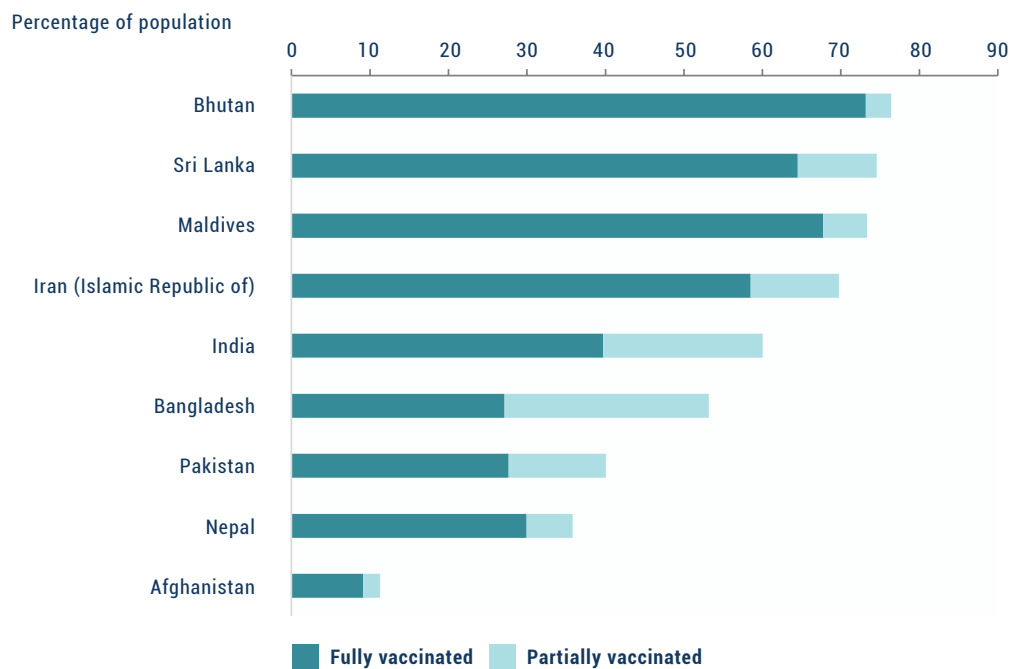
South Asia confronts challenges to achieving robust and inclusive growth

The outlook is highly uncertain and subject to downside risks

²² All growth figures for South Asia are on a calendar year basis. For fiscal year growth figures, please refer to the Statistical Annex.

episode after the 2008-2009 global financial crisis. This is due to a stronger external position and measures to minimize risks to bank balance sheets. In the medium-term, scarring effects from higher public and private debt or permanent impacts on labour markets could reduce potential growth and prospects for poverty reduction.

Figure III.16
South Asia's vaccination progress (as of 20 December 2021)



Source: UN DESA, based on data from [Our World in Data](#) (accessed on 20 December 2021).

Economic activity has gathered pace in Bangladesh and India

India's economic recovery is on a solid path, amid rapid vaccination progress, less stringent social restrictions and still supportive fiscal and monetary stances. GDP is projected to expand by 6.7 per cent in 2022 (figure III.17) after a 9 per cent expansion in 2021, as base effects wane. Robust export growth and public investments underpin economic activity, but high oil prices and coal shortages could put the brakes on economic activity in the near term. It will remain crucial to encourage private investment to support inclusive growth beyond the recovery. India has taken an important step by committing to 50 per cent of its energy mix coming from renewable sources by 2030 and to reaching net-zero emissions by 2070. Amid sound macroeconomic policies, Bangladesh has navigated the COVID-19 pandemic relatively well. GDP is projected to expand by 6 per cent in 2022. Economic activity rides on export growth and the rising demand for apparel, robust remittance inflows, and accommodative fiscal and monetary policies. The economy of Pakistan also remains on a relatively robust recovery path. After an economic expansion of 4.5 per cent in 2021, GDP growth is projected at 3.9 per cent in 2022, driven by private consumption,

record-high remittances and fiscal support. The outlook for the Islamic Republic of Iran continues to improve after severe difficulties in recent years, supported by rising gas and oil exports. GDP is projected to expand by 3.1 per cent in 2022, following an expansion of 2.9 per cent in 2021.

Figure III.17
GDP growth in select South Asian countries



Source: UN DESA.

Note: e = estimates, f = forecasts.

The outlook is more challenging for other countries in South Asia, including those more dependent on tourism. In the Maldives, economic activity is gradually improving partly due to a solid rebound in international tourism. But renewed COVID-19 outbreaks, locally and abroad, could easily derail recovery. GDP may remain well below pre-pandemic levels; the risk of debt distress could be high. In Sri Lanka, GDP growth is projected at 2.6 per cent in 2022. Its major challenges include food shortages, dwindling foreign reserves and sovereign debt risks. Afghanistan's severe downturn has come amid drastic political changes, a decline in international aid and a lack of access to offshore assets. The

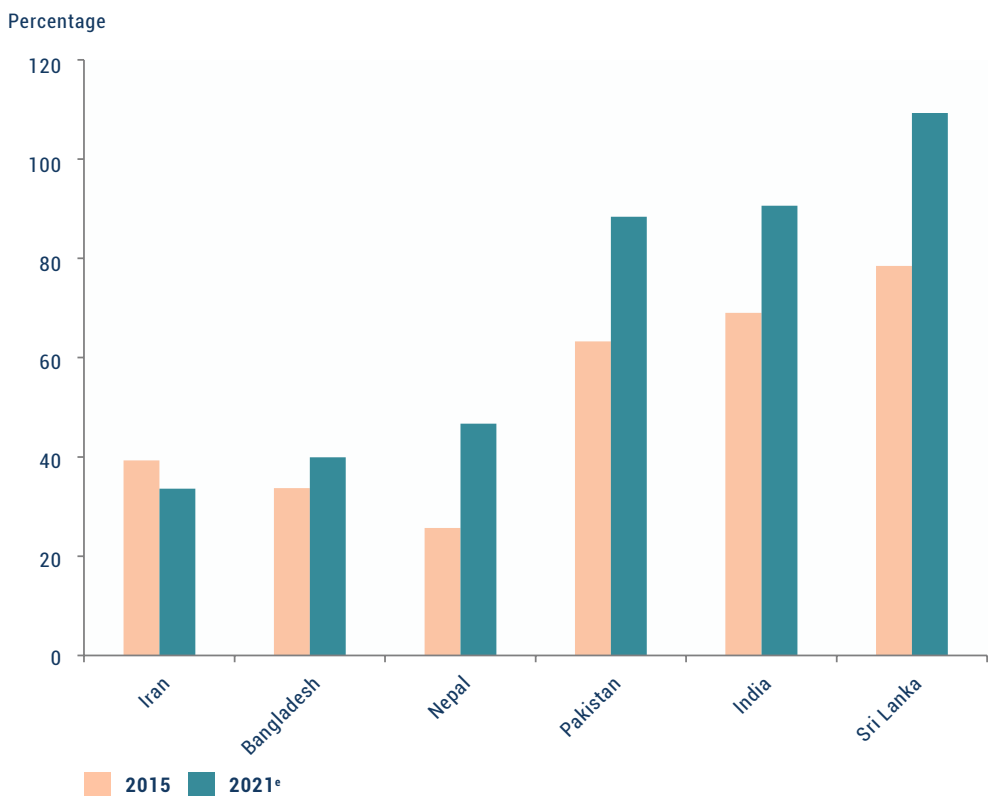
Sri Lanka faces major challenges; Afghanistan is on the brink of economic meltdown

worsening situation is leading to extreme poverty and food insecurity with the risk of the entire country becoming a humanitarian catastrophe.²³

More constrained fiscal policy space

In South Asia, fiscal responses to the crisis were relatively restrained compared to other regions, largely due to sovereign credit ratings and debt-to-GDP ratios. Fiscal policies remain moderately supportive as the recovery gathers pace. In India and Pakistan, fiscal deficits are projected to decline gradually. At the same time, policy priorities have shifted towards capital expenditure. Pressures for fiscal consolidation will likely increase from higher public debt and rising borrowing costs (figure III.18). Amid elevated social needs, a still fragile recovery and lagging employment, it is imperative to avoid premature consolidation, however. The weak debt situation emphasizes the need for revenue mobilization (box III.3) as well as further multilateral support, especially for countries with elevated sovereign risks. Yet the G20 Debt Service Suspension Initiative did not provide substantial relief to eligible countries, namely, Afghanistan, Maldives, Nepal and Pakistan. Relief stood at less than 20 per cent of debt service obligations or about 1.6 per cent of GDP, on average.

Figure III.18
Public debt over GDP in select South Asian countries



Source: UN DESA based on IMF, 2021a.

Note: e = estimates.

²³ The United Nations estimated that about 23 million people would be at risk of acute hunger, with 3.2 million children expected to suffer from malnutrition (IPC, 2021).

Inflation is projected to remain largely stable in most economies in South Asia, which offers flexibility to central banks before they move to more restrictive monetary stances. After inflationary pressures gained momentum in early 2021 due to supply constraints and rising energy prices, consumer price inflation has tended to subside. At the aggregate level, it is projected at 8.4 per cent in 2022. In India, inflation is expected to decelerate throughout 2022, continuing a trend observed since the second half of 2021 when relatively restrained food prices compensated for higher oil prices. A sudden and renewed rise in food inflation, however, due to unpredictable weather, broader supply disruptions and higher agricultural prices, could undermine food security, reduce real incomes and increase hunger across the region. In the Islamic Republic of Iran, inflation remains elevated due to depreciation of the domestic currency and the monetization of fiscal deficits.

Inflation prospects remain largely stable

Monetary policies remain accommodative with interest rates close to record lows and liquidity measures still in place in most economies. Yet the monetary cycle is gradually shifting as global financial conditions tighten and the recovery gains steam. The Reserve Bank of India has begun to taper liquidity by increasing the volume of reverse repo operations and the cash reserve ratio; it is expected to raise interest rates throughout 2022. The central banks of Pakistan and Sri Lanka increased interest rates in the second half of 2021 amid rising inflation and widening current account deficits. Central banks need to assess the magnitude and timing of policy changes to support an inclusive recovery and maintain financial and price stability.

The monetary cycle is gradually shifting towards a less accommodative stance