



Project LINK
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United Nations

Department of Economic & Social Affairs
Development Policy and Planning Office

South Asia

Economic Situation and Short Term Outlook 2004 - 2005

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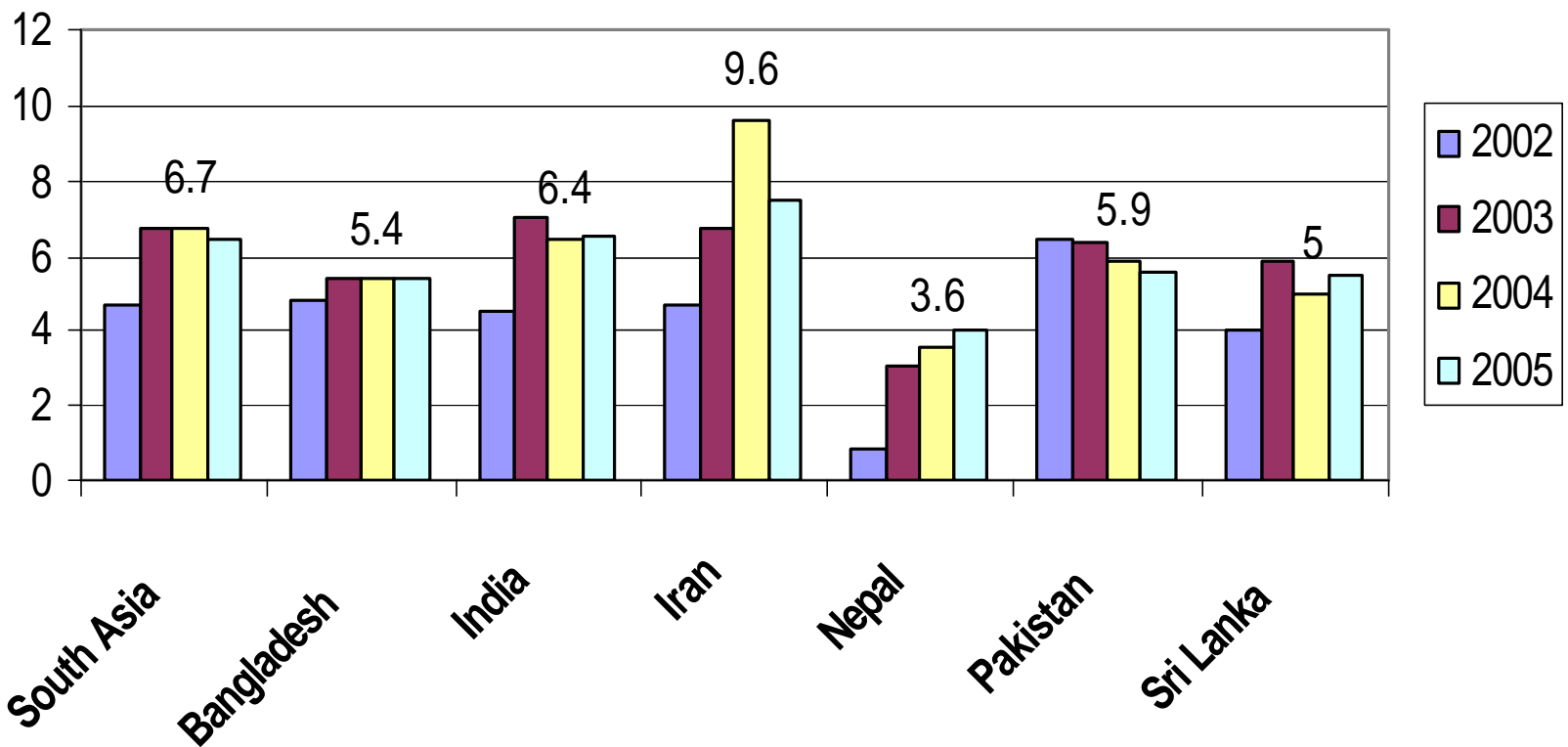
Regional growth performance

- South Asia sustains 6.7 per cent regional GDP growth in 2004, some slowdown expected in 2005
 - Strong agricultural rebound in 2003
 - Unfavourable weather conditions and high oil prices in 2004
 - Robust and sectorally balanced economic growth in 2005
- Main drivers of growth in 2004:
 - Services and manufacturing sector in net oil importers
 - Oil sector in Islamic Republic of Iran



Real GDP Growth Rates 2002-2005

per cent





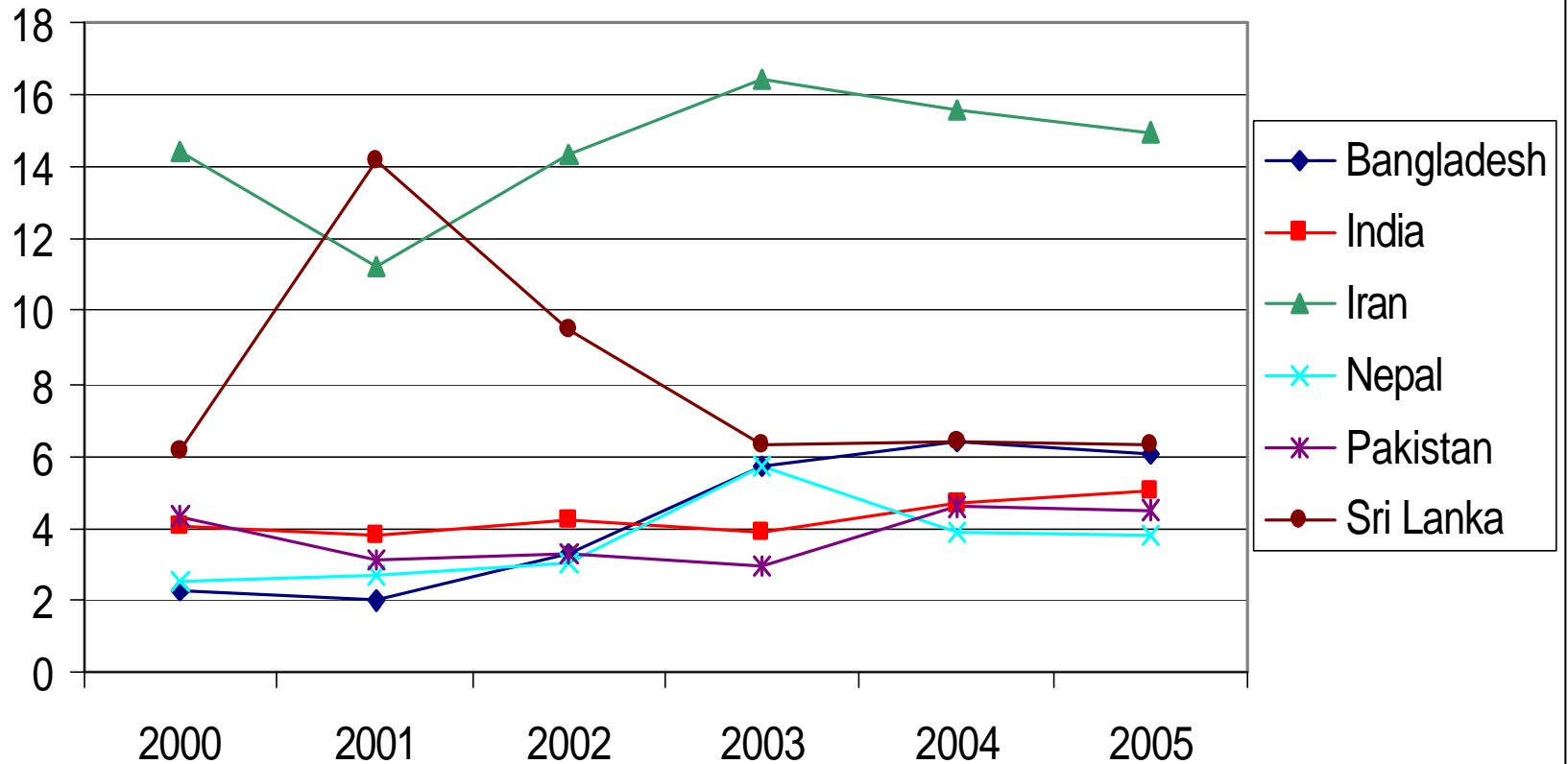
Inflation

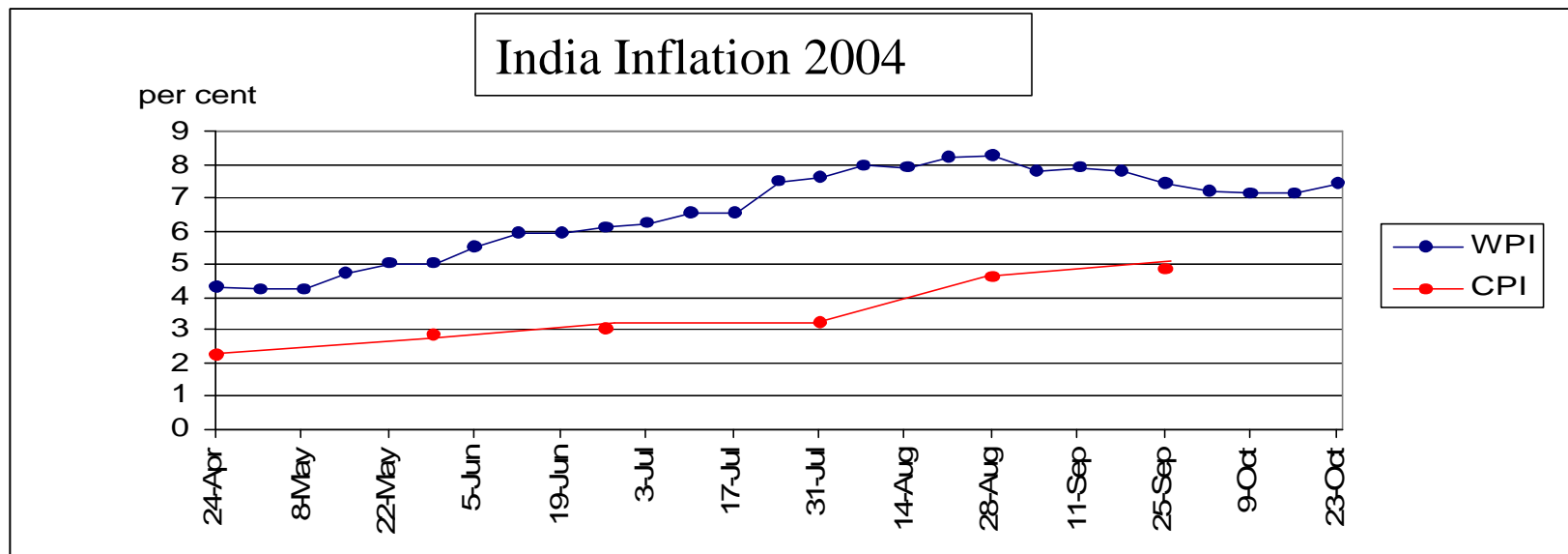
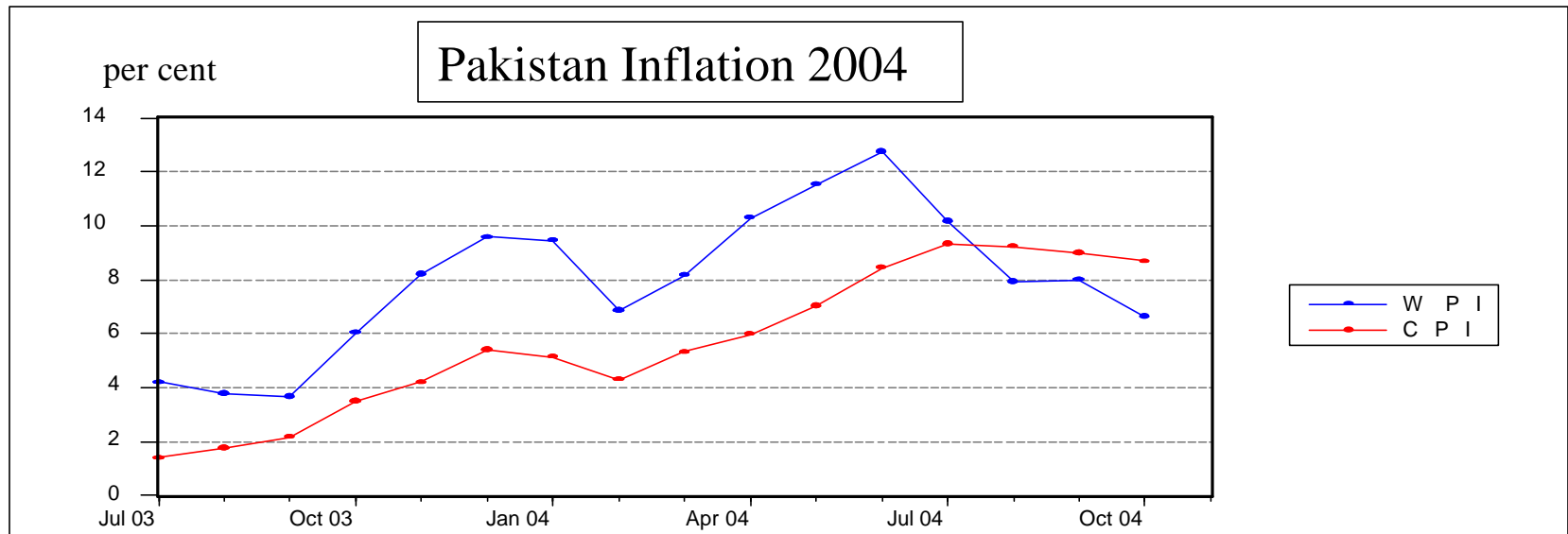
- Inflationary pressures rising in 2004, some exceptions
 - International oil and commodity prices affect wholesale price inflation
 - Slow pass-through
 - Strong domestic consumption demand and weak agricultural performance drive consumer prices
 - Slowing inflation in Islamic Republic of Iran
- Consolidation of inflation rates expected for 2005
 - Cycle of monetary easing has ended



Consumer Price Inflation 2000-2005

per cent





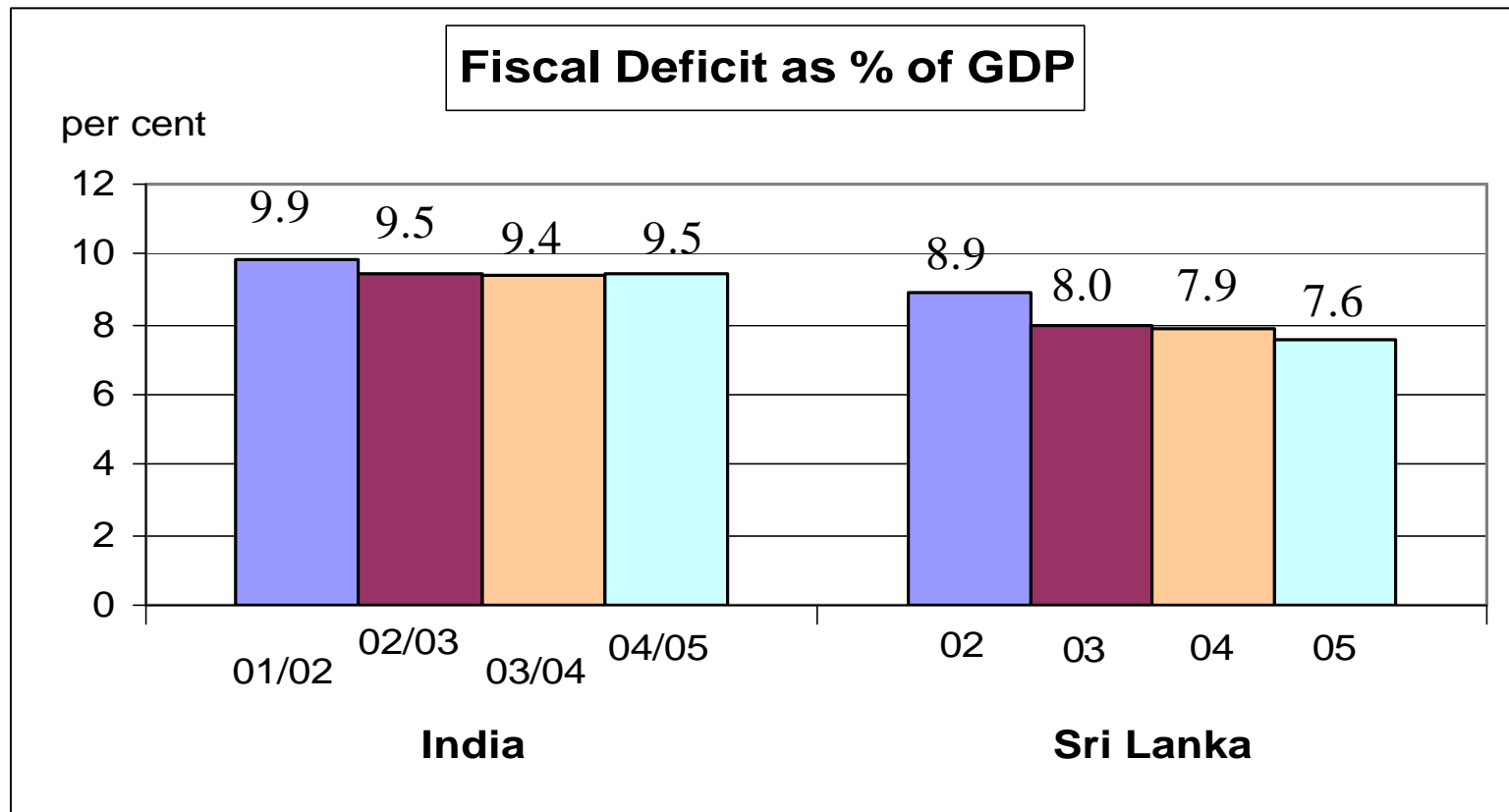


Economic Policies

- Beginning monetary tightening
 - Pakistan began raising interest rates in July
 - India began raising interest rates in October
- Uneven structural reform process
 - Privatization of state owned enterprises
 - Liberalization of trade and investment policies
- Continuing expansive fiscal policies in 2004/05
 - Stronger focus on development and social spending
 - Reforms in tax structure and administration aimed at improving revenue collection



Persistent high fiscal deficits in India and Sri Lanka



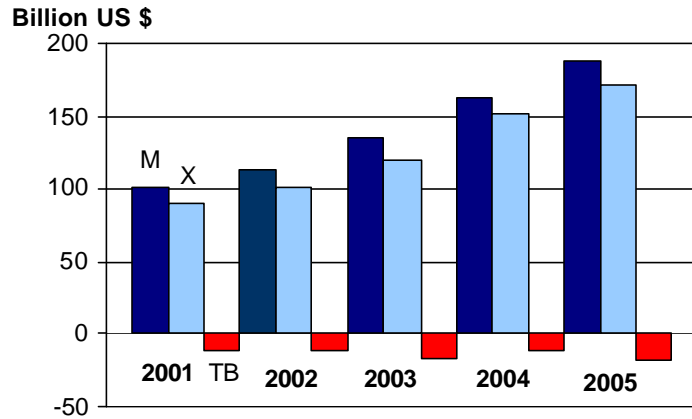


Trade

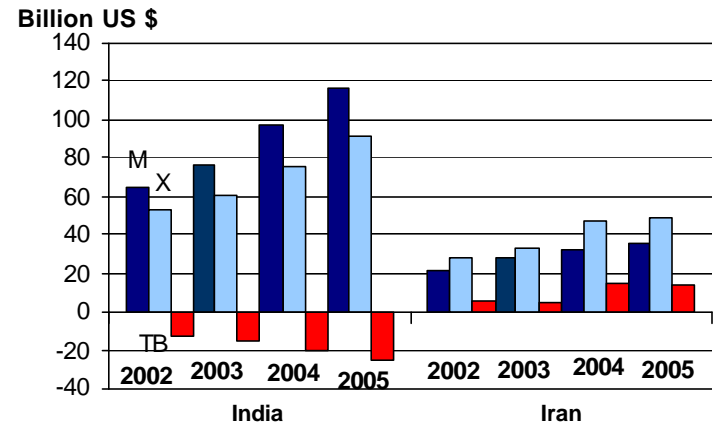
- Buoyant trade performance in 2003 and 2004
 - Double-digit growth in import and export values in India, Pakistan, Isl. Rep. of Iran and Bangladesh in 2004
 - Rising trade deficits, except for Iran and Pakistan
 - Service exports and continuing strong inflow of remittances offset deficits in merchandise trade
- Slight slowdown in 2005
 - Slowing external demand expected in 2005
 - Divergent implications of phasing out of Agreement on Textiles and Clothes



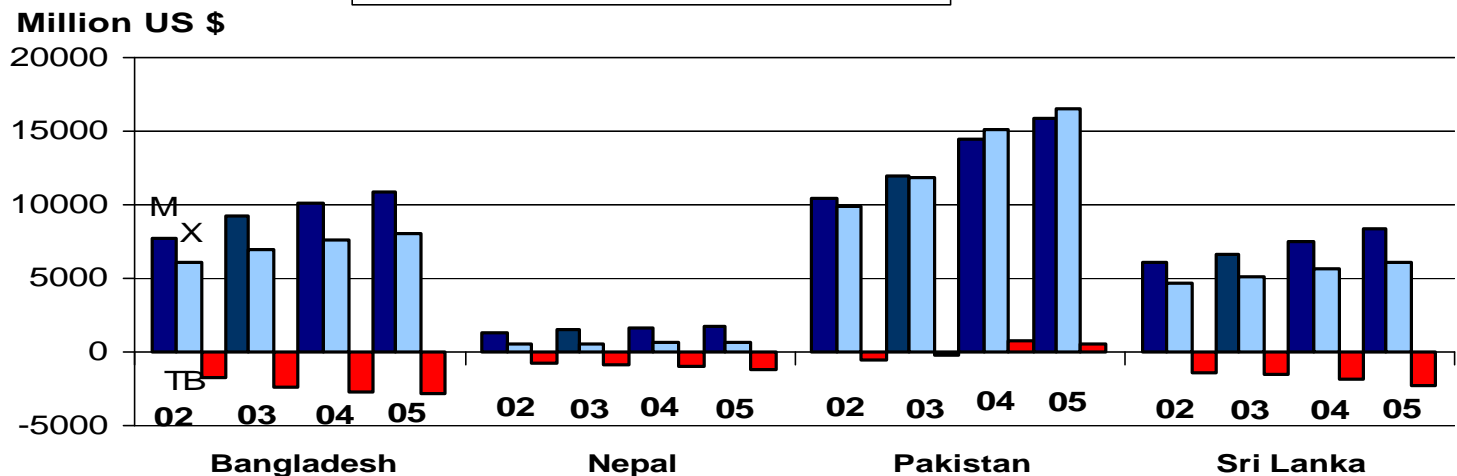
South Asia Merchandise Trade 2002-2005



Merchandise Trade 2002-2005

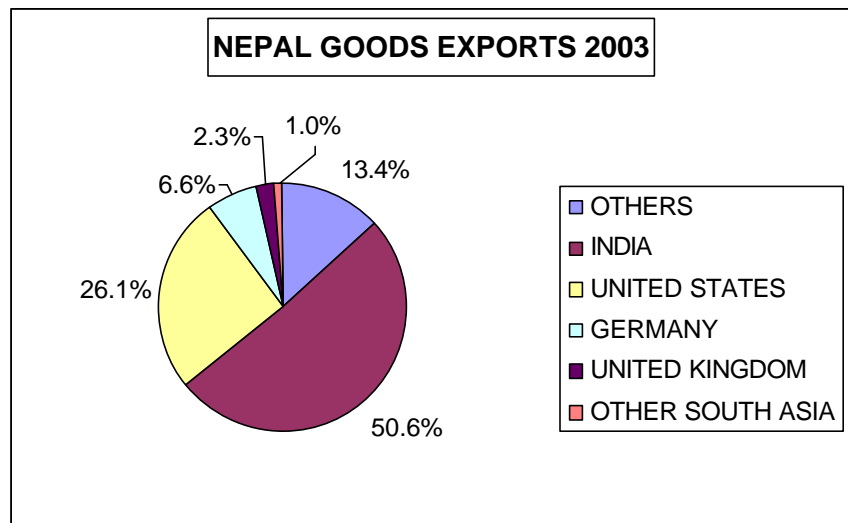
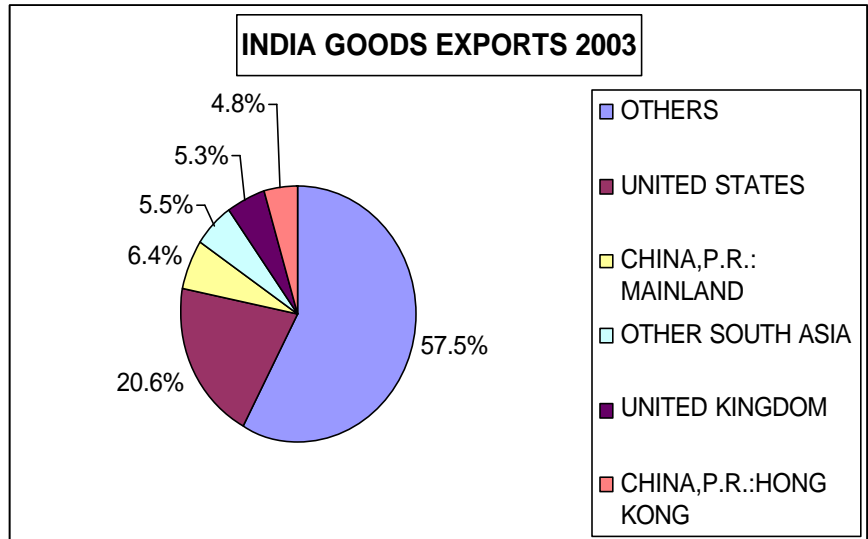


Merchandise Trade 2002-2005





- Historically weak regional trade integration
 - Larger economies' main trading partners are OECD countries and, recently, China
- Revival of regional trade agreements
 - Multilateral and bilateral agreements and negotiations (SAFTA, BIMST-EC, India-Bangladesh)



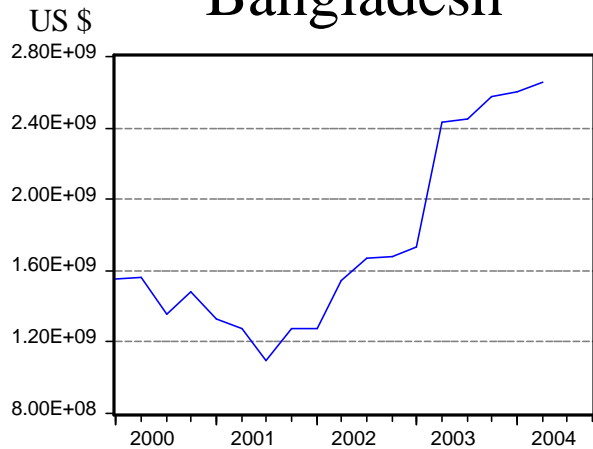


Foreign Exchange Reserves

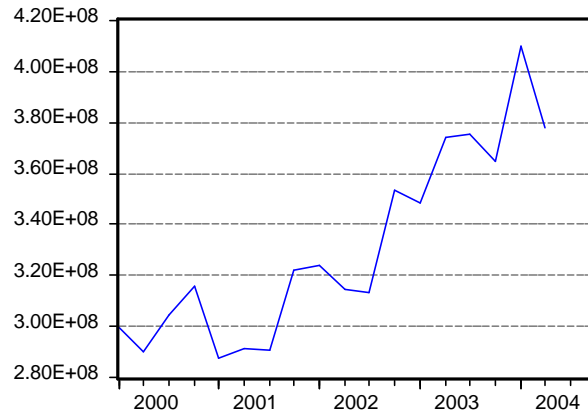
- Strong national currencies in 2004 and 2005
 - Weak US dollar
 - Private and official capital inflows
- Buildup of reserves
 - Oil stabilization fund (Islamic Republic of Iran)
 - Fighting currency appreciation
 - Import cover at end of 2004 between 3 (Sri Lanka) and over 14 (India) months of imports
- Cost of reserve holdings
 - Opportunity cost
 - Risk of further US dollar devaluation



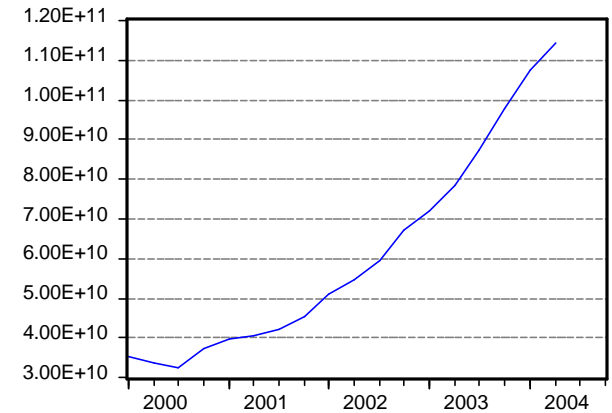
Bangladesh



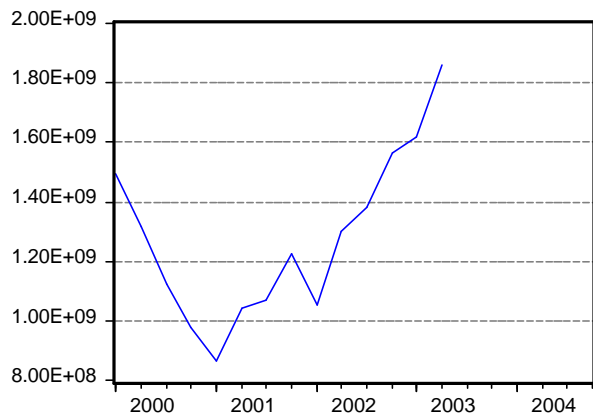
Bhutan



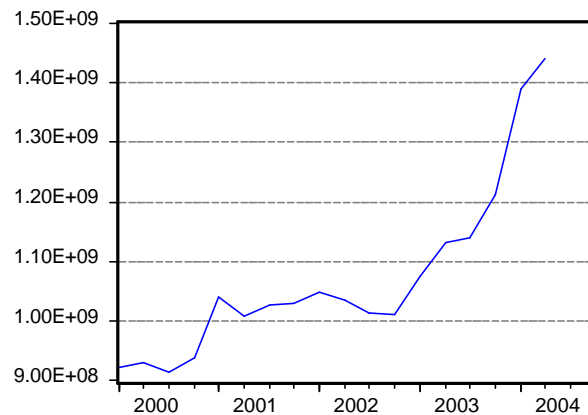
India



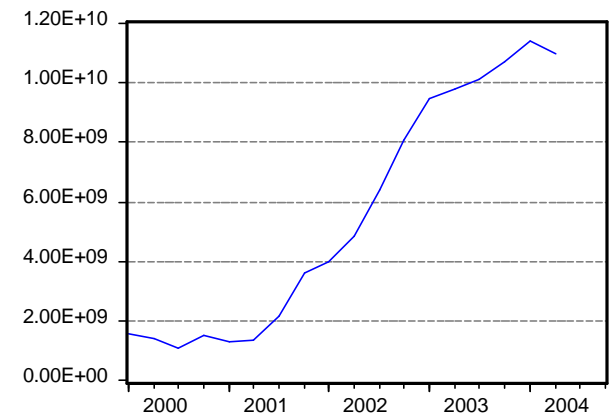
Sri Lanka



Nepal



Pakistan





Medium to long term development challenges

- Unemployment
 - Measurement and reporting problems
 - Underemployment and informal sector employment
- Agricultural sector
 - Dependence on volatile weather conditions
- Infrastructure
 - Need for investment in physical and social infrastructure
- State owned enterprises and bureaucracy
 - Further need for structural reforms



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