
World Economic Situation and Prospects 2012

Press Release

UN sees slowdown in India holding back South Asian economic growth

Double-dip recessions in Europe and US would affect countries across the region, UN warns

New Delhi, 17 January 2012 – South Asia's economies are expected to grow by 6.7 per cent in 2012 and 6.9 per cent in 2013, accelerating slightly from 6.5 per cent in 2011. Robust domestic demand will sustain this increase, but the economic slowdown in India, where growth declined from 9 per cent in 2010 to about 7.6 per cent in 2011, brings down the regional average. In the baseline scenario of [World Economic Situation and Prospects 2012 \(WESP\)](#), the [United Nations](#) annual economic report launched today, India's economy is forecast to expand at a pace similar to 2011 in the following two years (*see table at the end of the release*).

Downside risks to the regional outlook have sharply increased in recent months, however, particularly in the case of India. Double-dip recessions in Europe and the United States would have a significant impact on economic activity across South Asia, UN economists say, as both Europe and the US are key export markets for South Asia and a main source of tourism revenues. In a pessimistic scenario, gross domestic product (GDP) in South Asia would dwindle by about two percentage points to 5.7 per cent in 2012 and 5.8 per cent in 2013. South Asia's economies are also particularly vulnerable to volatile commodity prices, the UN notes.

Domestic consumption offsets falling developed country demand

In 2011, private consumption and investment continued to be the main drivers of growth in South Asia. Domestic demand was supported by strong agricultural output and robust remittance inflows. As in previous years, disparities within the region were significant. GDP in Bangladesh, India and Sri Lanka increased by 6.5 per cent or higher, while the Islamic Republic of Iran, Nepal and Pakistan registered growth of less than 4 per cent. In the latter countries, long-standing structural problems such as weak policy implementation, security concerns and low investment in physical and human capital continue to constrain the economy.

Inflation remains high, though projected to moderate

[WESP](#) says that most economies in South Asia continued to face high inflation in 2011, driven mainly by food and energy prices. Average inflation declined only slightly from 11.6 per cent in 2010 to 10.3 per cent in 2011, constituting a persistent challenge to policymakers. Domestic supply shortages, reduction of fuel subsidies in several countries (including the Islamic Republic of Iran) and strong demand in Bangladesh, India and Sri Lanka contributed to inflationary pressures. In the UN's outlook, inflation is projected to decline slowly, averaging 9.1 per cent in 2012 and 8.0 per cent in 2013, as food and commodity prices ease

and the impact of monetary policy tightening is felt in Bangladesh and India. But inflationary risks remain, including the threat of insufficient monsoon rains or a rise in international commodity prices.

Central bank policies diverge on inflation

Facing high and persistent inflation, several central banks in South Asia—most notably the Reserve Bank of India—continued to tighten monetary policy in 2011. However, the tide has started to turn towards supporting domestic demand. In October 2011, the Reserve Bank of India hiked its key policy rates for the thirteenth time since early 2010, but also signalled an end to the current tightening cycle. In Pakistan, a slowdown in inflation during the third quarter of 2011 led the State Bank to cut its main policy rate from 14 per cent to 12 per cent in an attempt to stimulate private investment and growth. By contrast, Bangladesh Bank stepped up measures to contain accelerating inflation, lifting interest rates and restraining credit flows, especially to sectors considered unproductive. Looking ahead, central banks in South Asia are likely to continue to move towards a growth-supportive monetary policy if inflationary pressures ease.

More jobs in India and Sri Lanka, but fewer elsewhere

[WESP](#) reports a mixed picture for South Asia's labour market, with only India and Sri Lanka enjoying gains in employment rates. Other parts of the region that saw sluggish economic growth in the past few years—notably the Islamic Republic of Iran and crisis-ridden Pakistan—experienced rising joblessness. The average unemployment rate increased in the Islamic Republic of Iran from 11.9 per cent in the fiscal year 2009-2010 to 14.6 per cent in 2010-2011 and in Pakistan from 5.6 per cent in 2009-2010 to 6.0 per cent in 2010-2011. Unemployment in Sri Lanka, however, declined to an all-time low of 4.3 per cent in early 2011 on the back of strong expansion in the services and industry sectors.

In addition to elevated unemployment rates, South Asia's labour markets face deep-rooted structural challenges such as the highest share of vulnerable employment among all developing regions and widespread youth unemployment. Moreover, unemployment rates among women are far higher than among men in all countries of the region.

India unlikely to meet deficit target

India's fiscal deficit declined to 5.1 per cent of GDP in the fiscal year 2010-2011, as economic growth boosted tax revenues and the sale of 3G telecommunications licences increased non-tax revenues. But India's government is unlikely to reach its deficit target of 4.7 per cent of GDP for the fiscal year 2011-2012, as lower growth brings down tax revenues, and disinvestment in state-run companies is put on hold. In Pakistan, devastating floods, higher security expenditures and failed efforts to implement a general sales tax led to a deficit of 6 per cent of GDP in 2010-2011, missing the International Monetary Fund target of 4.7 per cent. Despite some progress in recent years, high fiscal deficits continue in the rest of South Asia, particularly in Sri Lanka. Throughout the region, government spending rose significantly in 2011 as development expenditures (on education, health and infrastructure), non-development spending (for civil service salaries and defence) and interest payments increased.

Export growth to decelerate, trade deficits widen

Despite slowing demand from the developed world, export earnings in 2011 in most of South Asia were about 20 per cent higher than in 2010. In the outlook for 2012, however, export growth is likely to decelerate, further widening of trade deficits in most countries.

In India, exports of engineering goods, petroleum products, gems and jewellery soared in 2011. Bangladesh, Pakistan and Sri Lanka benefited from a strong recovery in demand for textiles and garments, partly as a result of significant cost increases in China and political turmoil in North Africa and Western Asia. High oil and commodity prices and strong domestic demand boosted import spending in 2011, notably in Bangladesh, India and Sri Lanka. Since imports had started from a higher base than exports in most countries, merchandise trade deficits widened further in 2011. This was offset in part by improvements in the services balance and higher current transfers, although workers' remittances grew at a slower rate than in previous years.

For interviews or to obtain more information in New York, contact Vikram Sura, tel 1-212-963-8274, e-mail sura@un.org, UN Department of Public Information

Join Rob Vos, Director of [UN/DESA's Development Policy and Analysis Division \(DPAD\)](#) and economists from DPAD's Global Economic Monitoring Unit on 20 January from 9:00 - 10:00 am EST for a [live Facebook chat](#) (<http://on.fb.me/wesp2012>) on the world economy. Follow us on [Twitter](#) (<https://twitter.com/#!/UNDevelopPolicy>) at #WESP2012.



World Economic Situation and Prospects is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN DESA), the United Nations Conference for Trade and Development (UNCTAD) and the five United Nations regional commissions.

<http://www.un.org/en/development/desa/policy/wesp/index.shtml>

Developing Asia: Rates of growth of real GDP, 2008-2013^a

Annual percentage change						
	2008	2009	2010	2011 ^b	2012 ^c	2013 ^c
East and South Asia	6.2	5.2	8.8	7.1	6.8	6.9
<i>East Asia</i>	6.4	5.1	9.2	7.2	6.9	6.9
Brunei Darussalam	-1.9	-1.8	4.1	2.4	1.6	1.5
China	9.6	9.2	10.4	9.3	8.7	8.5
Hong Kong SAR ^d	2.3	-2.7	7.0	4.9	4.1	4.5
Indonesia	4.9	4.6	6.1	6.5	6.3	6.4
Korea, Republic of	2.3	0.3	6.2	3.9	3.6	4.0
Malaysia	4.8	-1.6	7.2	4.6	4.4	5.0
Myanmar	10.2	10.4	10.4	5.1	4.7	5.1
Papua New Guinea	6.6	5.5	7.1	7.6	5.5	5.2
Philippines	4.2	1.1	7.6	4.3	4.4	4.9
Singapore	1.5	-0.8	14.5	5.0	4.0	4.5
Taiwan Province of China	0.7	-1.9	10.9	4.4	3.9	4.3
Thailand	2.5	-2.3	7.8	2.3	4.1	4.2
Viet Nam	6.3	5.3	6.8	5.8	6.0	6.3
<i>South Asia</i>	5.8	5.5	7.2	6.5	6.7	6.9
Bangladesh	6.2	5.7	6.1	6.5	6.4	6.7
India	7.5	7.0	9.0	7.6	7.7	7.9
Iran, Islamic Republic of	1.0	0.1	1.0	2.6	3.0	3.1
Nepal	6.1	4.4	4.6	3.9	4.3	4.4
Pakistan	1.6	3.6	4.1	3.3	4.1	4.4
Sri Lanka	6.0	3.5	8.0	7.9	7.2	7.0

Source: United Nations, *World Economic Situation and Prospects 2012*.

- a** Regional averages are calculated as a weighted average of individual country growth rates of GDP, where weights are based on GDP in 2005 prices and exchange rates.
- b** Partly estimated.
- c** Baseline scenario forecasts, based in part on Project LINK and UN/DESA World Economic Forecasting Model.
- d** Special Administrative Region.

Developing Asia: the downside scenario^a

Annual percentage change						
Rates of growth of real GDP	2010	2011 ^b	Downside scenario		Difference with the baseline scenario	
			2012 ^c	2013 ^c	2012	2013
World	4.0	2.8	0.5	2.2	-2.1	-1.0
Developed economies	2.7	1.3	-0.9	1.1	-2.1	-0.8
European Union	2.0	1.6	-1.6	1.0	-2.3	-0.6
Japan	4.0	-0.5	0.5	1.2	-1.5	-0.8
United States	3.0	1.7	-0.8	1.1	-2.3	-0.9
Economies in transition	4.1	4.1	-2.0	3.3	-5.9	-0.9
Developing economies	7.5	6.0	3.8	4.5	-1.7	-1.4
East and South Asia	8.8	7.1	5.6	5.7	-1.2	-1.2
East Asia	9.2	7.2	5.6	5.7	-1.3	-1.2
China	10.4	9.3	7.8	7.6	-0.9	-0.9
South Asia	7.2	6.5	5.7	5.8	-1.0	-1.1
India	9.0	7.6	6.7	6.9	-1.0	-1.0

Source: United Nations, *World Economic Situation and Prospects 2012*.

a Regional averages are calculated as a weighted average of individual country growth rates of GDP, where weights are based on GDP in 2005 prices and exchange rates.

b Partly estimated.

c Downside scenario forecasts, based in part on Project LINK and UN/DESA World Economic Forecasting Model.