
World Economic Situation and Prospects 2014

South Asia saw slowest economic growth in two decades, says UN report

The report projects a moderate growth recovery in 2014-2015 for South Asia, with some current headwinds subsiding

New Delhi, 13 February—A continuing slowdown in India's economy, the ongoing crisis in the Islamic Republic of Iran and challenging external conditions resulted in the slowest pace in annual growth for the region in two decades, according to the United Nations *World Economic Situation and Prospects 2014 (WESP)* released today.

After increasing by 4.2 per cent in 2012, aggregate Gross Domestic Product (GDP) for South Asia expanded by only 3.9 per cent in 2013. India's economy accounts for 70 per cent of total GDP in South Asia, and the slowdown in India dragged down the region's overall economic performance. Internal and external setbacks for the Islamic Republic of Iran and Pakistan were also detrimental to South Asia's overall economic activity.

The report says growth is expected to pick up to 4.6 per cent in 2014 and 5.1 per cent in 2015, pending improvements in the global economic environment, a moderate recovery in investment activity across the region and improvements in the capacity of transportation and energy sectors to keep up with demand. Economic growth will largely depend on progress in tackling existing growth bottlenecks and macroeconomic imbalances.

Weak growth, persistent inflation and strong capital outflows in India

Economic growth in India decelerated from 5.1 per cent in 2012 to 4.8 per cent in 2013. The report attributes India's economic slowdown to weak household consumption and sluggish investment. India also experienced large capital outflows in 2013, as investors expected a reduction of the United States Federal Reserve's bond buying programme, also known as quantitative easing. Under this policy, the Fed plans to gradually decrease its monthly purchases of long-term assets in 2014—a first move in the direction of tighter global liquidity conditions.

India's capital outflows were also motivated by concerns over the country's weak growth performance and its high current account deficit, which widened to almost 5 per cent of GDP in the fiscal year 2012/13. The current account deficit mainly reflects that the value of goods and services India exports is less than the value of those that it imports.

The capital outflows resulted in a further depreciation of the Indian rupee in 2013. Internally, the weakness of the rupee contributed to upward pressures on prices of imported goods, which added to inflation. However, the report says, the depreciation has also made India's goods and services more competitive. This has stimulated export growth and led to a considerable decline in the current account deficit in recent months.

Economic growth in India is expected to accelerate to 5.3 per cent in 2014 as a result of a good monsoon season, a slight pick-up in investment activity, and stronger export growth supported by a cheaper national currency and improved demand for goods from the European Union and the US.

Mixed results for rest of South Asia's economies

The Islamic Republic of Iran was the region's only economy to face a protracted recession with an estimated growth rate of -2.0 per cent in 2013. Economic growth in Pakistan decreased from 4.0 per cent in 2012 to an estimated 3.6 per cent in 2013. In Nepal, growth improved only slightly from 3.9 per cent in 2012 to 4.0 per cent in 2013.

High domestic demand buffered Bangladesh and Sri Lanka from the regional slowdown. In both countries, household consumption was the main driver of growth. Sri Lanka was the region's fastest growing economy, showing economic growth of 7.1 per cent in 2013. Bangladesh experienced growth of nearly 6 per cent in 2013. Both economies are expected to see fairly rapid growth in 2014 and 2015.

Throughout South Asia, household consumption continued to receive much needed support from workers' remittance inflows, which are incomes earned abroad and sent back to households in the workers' home countries. For 2013, it is estimated that remittance flows to South Asia totaled \$US 115 billion, corresponding to almost 6 per cent of the region's aggregate GDP.

High inflation constrains growth prospects

Inflation was higher in South Asia than any other region in the world. Regional inflation accelerated from 12.5 per cent in 2012 to 13.9 per cent in 2013, the report says. The high level of inflation is due to multiple factors, including persistent supply bottlenecks, especially in the agricultural sector, entrenched inflationary expectations, weak local currencies and attempts by some economies to reduce fuel and food subsidies.

Consumer price inflation, which is measured by the price levels of goods and services bought by households, further increased in the region due to rising inflation in the Islamic Republic of Iran. International sanctions continued to limit exports from the Islamic Republic of Iran and also led to supply shortages and a sharp devaluation of Iran's rial. India's consumer price inflation remained stubbornly high at nearly 10 per cent even as the economy weakened further. Inflation slowed moderately in Bangladesh, Nepal, Pakistan and Sri Lanka. The central banks of India and Pakistan raised their benchmark interest rates in recent months in an attempt to bring down inflation.

Unemployment and low labour force participation of women weighs on economic performance

The report suggests that the recent economic slowdown has taken its toll on the region's labour markets. In India, the unemployment rate rose from an estimated 3.8 per cent in 2011/12 to 4.7 per cent in 2012/13. Gender and regional disparities exist within India's unemployed population. The unemployment rate among women is estimated at 7.2 per cent, about 3 percentage points higher than among men.

Slow growth, due to weak domestic consumption and investment, continued to have a negative effect on employment in the Islamic Republic of Iran and Pakistan. The report says Pakistan faces pressures due to rapid growth in the labour force, as well as gender disparities among its unemployed population. In the second quarter of 2013, 18.7 per cent of women living in urban areas were unemployed, compared to 6.3 per cent of men.

Stronger export performance projected, but risks remain

Weak demand, particularly in the EU and the US, affected merchandise exports from much of South Asia; however, exports from Bangladesh and India saw some improvement in the course of 2013 as global conditions started to improve. The depreciation of the local currencies in India, Pakistan and Sri Lanka has made their export sectors more competitive. This is likely to support export growth in the coming quarters.

The report notes that the tapering of the Fed's bond buying programme could result in significant capital outflows, requiring further monetary tightening, especially in India. This could weigh on economic growth. In addition, higher consumer price inflation, resulting for example from subsidy cuts for food and energy or from further depreciations of currencies, could slow household spending and domestic demand, while also limiting room for monetary easing.

Table: South Asia: rates of growth of real GDP, 2010-2015

	2010	2011	2012	2013 ^a	2014 ^b	2015 ^b
South Asia	8.4	6.4	4.2	3.9	4.6	5.1
Bangladesh	6.4	6.7	6.4	5.9	6.0	6.4
India	10.1	7.3	5.1	4.8	5.3	5.7
Iran (Islamic Republic of)	5.4	3.6	-0.8	-2.0	0.8	1.7
Nepal	4.3	3.9	3.9	4.0	4.2	4.3
Pakistan	2.2	3.4	4.0	3.6	3.2	4.3
Sri Lanka	8.0	8.2	6.1	7.1	7.2	6.9

Source: UN/DESA, based on data of the United States Statistics Division and individual national sources.

Note:

a Partly estimated.

b Baseline scenario forecasts, based in part on Project LINK and the UN/DESA World Economic Forecasting Model.

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

For more information, visit: <http://www.un.org/en/development/desa/policy/wesp/index.shtml>

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