

South Asia expected to be the world's fastest-growing region in 2016-17, says UN

India's economy is projected to grow over 7 per cent

New Delhi, 22 January – South Asia is expected to be the world's fastest-growing region in 2016 and 2017 despite challenging global conditions, says the United Nations World Economic Situation and Prospects 2016 report, launched today.

Average Gross Domestic Product (GDP) growth in South Asia is forecast at 6.7 per cent in 2016 and 7.0 per cent in 2017, up from an estimated 6.0 per cent in 2015. The expected improvement depends, however, on steady progress in domestic policy reforms to address structural challenges. External demand is projected to remain subdued as the world economy continues to face major headwinds amid lower commodity prices, weak trade activity, large capital outflows from emerging economies and increased financial market volatility.

According to the report, the majority of countries in South Asia will see growth accelerate over the next two years. Strong private consumption will remain the main driver of growth, offsetting relatively tight fiscal policies and sluggish exports. Consumer spending will be supported by low commodity prices, moderate inflation, accommodative monetary policies, steady employment growth, especially in the service sector, and rising workers' remittances.

Some country-specific factors, such as the lifting of international sanctions against the Islamic Republic of Iran, reconstruction spending in Nepal and construction of large-scale hydropower plants in Bhutan, are also expected to help growth during the report's outlook period.

India is expected to be the world's fastest-growing large economy

India's economy, which accounts for over 70 per cent of South Asia's GDP, is projected to grow by 7.3 per cent in 2016 and 7.5 per cent in 2017, slightly up from an estimated 7.2 per cent in 2015. According to UN report, India will therefore be the fastest-growing large economy in the world. As in other countries of the region, the macroeconomic environment in India has improved, helped by the sharp decline in the prices of oil, metals and food. Consumer and investor confidence has risen even as India's Government faces difficulties in implementing its wide-ranging reform agenda and some economic indicators, such as industrial production, remain volatile.

Risks to the outlook are mostly on the downside

The risks to the regional outlook are still mostly on the downside. On the external side, the region would not escape unscathed from a sharper-than-expected slowdown of China's

economy or renewed financial turbulences in the wake of rising United States interest rates. On the domestic side, lack of further progress in policy reforms as well as poor weather conditions and a worsening of the security situation could result in lower-than-expected growth and higher inflation during the forecast period.

Most countries have benefited from the sharp decline in energy prices

As net-oil importers, most countries in South Asia—the main exception is the Islamic Republic of Iran—have benefited from the sharp decline in global energy prices. Inflation has slowed considerably, while pressure on fiscal and current accounts has eased. Average consumer price inflation declined from 8.2 per cent in 2014 to 6.2 per cent in 2015, the lowest level in more than a decade. In some economies, including India, Pakistan and Sri Lanka, inflation has, however, started to pick up again in the last quarter of 2015.

In response to falling inflation, monetary policy has been loosened in several economies, most notably India and Pakistan. While monetary policy is expected to remain accommodative, the room for further easing is constrained by the pickup in inflation and concerns over the effect of lower interest rates on capital flows and exchange rates.

Fiscal deficits have narrowed but challenges remain

Fiscal deficits have tended to narrow in 2015, largely as a result of lower energy prices and fuel subsidy reforms in several countries, such as Bangladesh, India, the Islamic Republic of Iran and Nepal. Despite some recent progress, fiscal positions remain generally weak owing to the small tax base, poor tax administration, and the large expenditures required for closing the infrastructure and energy gaps and maintaining internal security. The report, therefore, underscores the need to implement fiscal reforms that boost government revenues.

The report also notes labour markets in South Asia have remained largely stable, although high-frequency data is limited. A concern is that unemployment rates tend to be higher among women than men despite the fact that female labour force participation rates are low. Even with growth expected to accelerate, employment pressures will remain substantial due to the high number of new labour market entrants each year.

A mild recovery in South Asia's merchandise export growth is projected for 2016/17, following a very weak performance in 2015. While global conditions are expected to remain challenging, economic activity in some major destination markets, particularly the United States and Europe, should gain some strength. Solid growth in workers' remittances—where local currency values have been boosted by the strengthening of the dollar—and increases in service exports, especially tourism, will continue to support economic activity.

About the report: *The World Economic Situation and Prospects report is produced annually by the UN Department of Economic and Social Affairs (UN/DESA), the UN Conference on Trade and Development (UNCTAD), the five UN regional commissions and the World Tourism Organisation (UNWTO). The report is available from <http://bit.ly/WESP>.*

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