

UN expects growth in South Asia to rebound in 2020

However, the region faces daunting challenges to sustainable development

New Delhi, XX January – Growth in South Asia is projected to rebound in 2020, but the region will continue to face daunting challenges to sustainable development, according to the United Nations World Economic Situation and Prospects (WESP) 2020, which was launched today.

The Report states that, the global economy suffered its lowest growth in a decade, slipping to 2.3 per cent in 2019, as economic activity was impacted by prolonged trade disputes. The world, however, could see a slight uptick in growth in 2020 if risks are kept at bay.

While global growth of 2.5 per cent in 2020 is possible, the Report cautions that a flareup of trade tensions, financial turmoil or an escalation of geopolitical tensions could derail a recovery. In a downside scenario, global growth would slow to just 1.8 per cent this year. A prolonged weakness in global economic activity may cause significant setbacks for sustainable development, including the goals to eradicate poverty and create decent jobs for all. At the same time, pervasive inequalities and the deepening climate crisis are fueling growing discontent in many parts of the world.

UN Secretary-General António Guterres warned that “These risks could inflict severe and long-lasting damage on development prospects. They also threaten to encourage a further rise in inward-looking policies, at a point when global cooperation is paramount.”

Growth prospects in South Asia

Economic growth in South Asia is forecast to recover to 5.1 per cent in 2020, after falling to a decade-low of 3.3 per cent in 2019, but it will remain well below the rates seen in the recent past. The region struggled in 2019 with a combination of external headwinds, notably the global economic slowdown and falling trade, and country-specific domestic challenges. As the effects of one-off shocks wane and governments respond with vigorous fiscal expansion, economic activity will rebound in most of the countries.

After experiencing a sharp economic slowdown from 6.8 per cent in 2018 to 5.7 per cent in 2019, India has committed to an ambitious fiscal expansion to complement the country’s already loose monetary policy. The combination of the fiscal stimulus and financial sector reforms, boosting investment and consumption, is expected to support a recovery in growth to 6.6 per cent, but it will take continued structural reforms to bring India’s growth back to its previous levels.

The Islamic Republic of Iran experienced a visibly sharp drop in economic growth, which fell from -2.0 per cent in 2018 to an estimated -7.1 per cent in 2019, owing to a combination of social unrest, flooding, trade sanctions, and increased tensions with Saudi Arabia. The economy is expected to contract at a milder rate of 2.7 per cent in 2020, but it will likely take several more years for economic growth to return. The country's lack of economic diversification will continue to weigh on growth, exposing it heavily to external shocks.

Pakistan has been struggling with twin deficits and has been forced to tighten its fiscal policy, with growth of 3.3 per cent in 2019. The economy is expected to recover gradually from 2021 onward, amid the implementation of government reforms.

Risks and policy challenges

The risks to South Asia's economic outlook are heavily tilted to the downside. The region remains exposed to external shocks, notably trade shocks and climate change, due to insufficiently climate-resilient infrastructure and a lack of economic diversification in most countries. Structural challenges also include the low quality of employment, with gender barriers to the labour market among the highest in the world. High-quality formal employment continues to be a distant dream for most people in South Asia, hampering the region's long-term development prospects. As economic growth recovers, policy makers will urgently need to address these structural barriers to development.

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