
World Economic Situation and Prospects 2013

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UN: Economic Growth in South Asia Slowest in 10 years

High inflation, political uncertainties and slowing exports weigh on regional growth; India's economy projected to recover from slump

New Delhi, 17 January 2013—Economic growth in South Asia during 2012 fell to its slowest pace in a decade, according to the UN's World Economic Situation and Prospects 2013 (WESP), but is projected to recover in 2013.

After growing by 5.8 per cent in 2011, the WESP reports that South Asia's gross domestic product expanded by only 4.4 per cent in 2012. Going forward, economic growth in the region is projected to accelerate to 5.0 per cent in 2013 and 5.7 per cent in 2014, led by a gradual recovery in India.

The report said persistent high inflation, political uncertainties, and transport and energy constraints weighed on household consumption and business investment in 2012. At the same time, the exports of most countries in the region were hit by the slowdown in developed and emerging economies.

India's economy continued to lose steam

India's economy, which represents almost three quarters of the region's GDP, slowed markedly in the past two years. Annual growth declined from more than 9 per cent in 2010 to 5.5 per cent in 2012, the slowest pace in 10 years.

The slowdown reflected weaker consumption and investment demand as a result of persistent inflation, high nominal interest rates, large fiscal deficits and political gridlock, the report said. These factors will likely continue to impact economic growth in the next two years even as a moderate recovery is expected.

According to WESP, GDP growth in India will accelerate to 6.1 per cent in 2013 and 6.5 per cent in 2014, as a result of stronger growth of exports and capital investment. The report said that investment demand is expected to respond to a more accommodative monetary policy stance and slightly improved business confidence.

Political instability and security concerns stymie parts of South Asia

Nepal and Pakistan continued to experience subdued growth as ongoing political instability and security concerns weighed on domestic demand, the report said. In Pakistan, total investment has fallen for four consecutive years. Economic activity in the Islamic Republic of Iran contracted in 2012 as international sanctions led to a sharp decline in oil exports and the value of the rial.

Economic prospects for Bangladesh and Sri Lanka, in contrast, remained favourable despite a moderate slowdown in 2012, the report found. In both countries, economic expansion was based on strong growth in private investment and consumption, which was supported by a steady increase in workers' remittances.

Inflation remains persistently high

Consumer price inflation averaged 11.6 per cent in the region in 2012, slightly up from 11.2 per cent in 2011. The report attributed the renewed rise in inflation to several factors: droughts in parts of the region; higher world food prices; significant depreciation of local currencies; and increases in administered fuel and electricity prices.

Year-on-year inflation rose to about 25 per cent in the Islamic Republic of Iran in late 2012, as the removal of government subsidies and the fall of the rial against the dollar drove up domestic prices. However, Bangladesh and Pakistan experienced moderate declines in inflation in 2012.

In the outlook, consumer price inflation is projected to decline slightly in most economies, averaging 10.6 per cent in 2013 and 9.9 per cent in 2014 for the region. More stable local currencies, lower global food prices and slower money supply growth are expected to reduce price pressures. However, persistently high inflation expectations, severe supply bottlenecks and the need to further raise administered energy prices will limit progress in reducing inflation.

Widening twin deficits in most countries

Lower growth of tax revenues, rising expenditures on energy, food and fertilizer subsidies, and higher security spending have put additional pressures on fiscal balances in South Asia. In almost all countries, the report said, the deficit reduction targets for the past fiscal year were missed by a considerable margin.

In most South Asian economies, trade and current-account deficits also widened significantly in 2012. Exports were hit hard by weakening demand in key markets, including the European Union, the United States and China. Over the next two years, most economies will continue to record large and widening current-account deficits. Given continuing inflationary pressures and large fiscal deficits, the report said, the scope for monetary policy easing in response to slowing economic growth in South Asian countries is limited.

Remittances from abroad help, but challenges to job growth remain at home

Workers' remittance flows to Bangladesh, Pakistan and Sri Lanka continued to increase rapidly in 2012, partially offsetting the large trade deficits.

The report noted that South Asia struggled with deep-rooted structural challenges in its labour markets. These challenges include the dominance of low-productivity jobs in the large informal sector, high shares of working poor, low female participation rates and high youth unemployment.

Risks to future economic growth

The report said downside risks to the economic outlook for South Asia were related to continued global weakness and to regional or domestic vulnerabilities. A further economic downturn in the United States or Europe or a hard landing of China's economy would further weaken South Asia's exports, while also reducing inflows from workers' remittances. Widening cur-

rent-account deficits, coupled with lower portfolio capital inflows, could add pressure on the balance of payments, possibly requiring contractionary policy adjustment. Political instability and deteriorating security conditions represent downside risks for several countries, notably the Islamic Republic of Iran, Nepal and Pakistan.

Table:

South Asia: rates of growth of real GDP, 2009-2014

| | 2009 | 2010 | 2011 | 2012 ^a | 2013 ^b | 2014 ^b |
|---------------------------|------------|------------|------------|-------------------|-------------------|-------------------|
| South Asia | 7.0 | 8.3 | 5.8 | 4.4 | 5.0 | 5.7 |
| Bangladesh | 5.7 | 6.1 | 6.7 | 6.2 | 6.3 | 6.4 |
| India | 8.2 | 9.6 | 6.9 | 5.5 | 6.1 | 6.5 |
| Iran, Islamic Republic of | 4.0 | 5.9 | 2.0 | -1.9 | -0.9 | 1.5 |
| Nepal | 4.5 | 4.8 | 3.9 | 4.0 | 3.7 | 4.0 |
| Pakistan | 3.6 | 3.5 | 3.0 | 3.8 | 4.2 | 4.4 |
| Sri Lanka | 3.5 | 8.0 | 8.3 | 6.5 | 6.7 | 6.4 |

Source: UN/DESA, based on data of the United Nations 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.

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.

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

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