South Asia: Continued Robust Growth

The outlook for South Asia's economies remains strong. After a slowdown in 2016, largely driven by lower growth in India following the country's currency exchange initiative, South Asia's real GDP growth is expected to pick up to 6.9 percent in 2017 and reach 7.3 percent in 2018. The dispersion of growth rates in the region is also declining and all countries are forecast to increase their rates of expansion. Despite a further strengthening of activity, South Asian inflation is expected to remain relatively stable. Addressing the region's remaining macroeconomic vulnerabilities remains a work in progress. Fiscal deficits and debt levels remain relatively high and are only expected to decline gradually. Vulnerabilities in the financial sector also require attention in several countries. Policymakers should focus on addressing the remaining vulnerabilities and supporting sustained high and socially inclusive growth. Some common areas of priority across the region include domestic revenue generation to support consolidation and generate space for more public investment and targeted social spending, as well as continued structural reforms to address supply-side bottlenecks and enhance the functioning of product and factor markets.

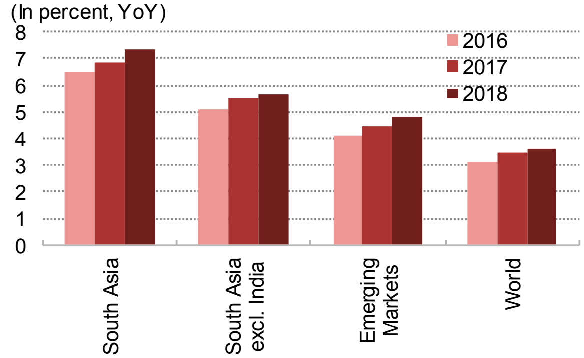
Global and Regional Economy

The global economy is gaining momentum. World economic growth is forecast to accelerate from 3.1 percent in 2016 to 3.5 percent in 2017 and reach 3.6 percent in 2018—a slight upward revision for 2017 compared with the October 2016 *World Economic Outlook* (WEO) forecast. The pace of economic activity has strengthened in advanced economies, including the United States, as well as in some emerging market and developing economies. Market sentiment has been favorable. Asset price changes generally reflect both a more optimistic market environment, with stronger risk appetite, and shifting expectations regarding policy setting in major economies. In particular, markets expect a shift toward looser fiscal and tighter monetary policy in the United States.

The outlook for the Asia-Pacific region remains robust—the strongest in the world, in fact—and recent data point to a pickup in momentum. In particular, India and China are expected to be responsible for about half of global growth in 2017. Growth in the region is forecast to accelerate to 5.5 percent in 2017, up 0.2 percentage points from last year, as the region continues to be the leader of global growth. The IMF Asia-Pacific Department's May 2017 *Regional Economic Outlook* estimates Asian economic growth at 5.4 percent in 2018, citing accelerating growth in many major advanced and emerging economies as supporting Asia's positive outlook.

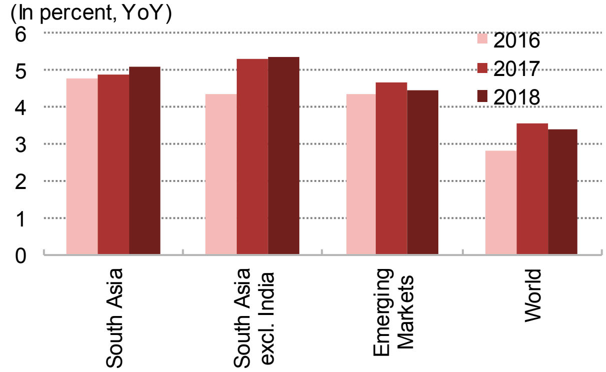
Growth in China and Japan is revised upward for 2017 compared to the October 2016 *World Economic Outlook*, owing mainly to continued policy support and strong recent data. Growth is revised downward in India due to temporary effects from the currency exchange initiative and in Korea owing to political uncertainty. Over the medium term, slower growth in China is expected to be partially offset by an acceleration of growth in India, underpinned by key structural reforms.

Real GDP Growth
(In percent, YoY)



Source: IMF, *World Economic Outlook*; and IMF staff estimates.

Inflation
(In percent, YoY)



Source: IMF, *World Economic Outlook*; and IMF staff estimates.

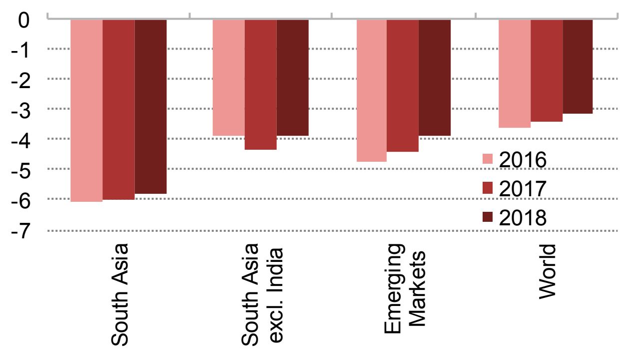
With buoyant market sentiment, there is now more tangible upside potential for the near term, particularly owing to policy stimulus in some larger economies. Nonetheless, in light of broad policy uncertainty, risks remain slanted to the downside, including a possible sharp increase in risk aversion.

The uncertainty over the likely effects of U.S. policy actions implies a wide range of upside and downside risks to the current baseline forecast for the United States as well as for the global economy. Risks of adverse feedback loops between weak demand and balance sheet problems in parts of Europe persist. A disruption of global trade, capital, and labor flows resulting from an inward shift in policies in some advanced economies would disrupt the operation of global value chains, deter investment, reduce productivity, and lower global growth. A tightening of economic and financial conditions in emerging market economies, given continued balance sheet weaknesses in some economies and building vulnerabilities in China's financial system, would have large spillovers given their increased weight in the world economy. Noneconomic factors, including geopolitical tensions, domestic political discord, and terrorism and security concerns, have been on the rise in recent years, burdening the outlook for various regions.

The outlook for South Asia's economies remains strong. Aggregate growth in the region decelerated somewhat to 6.5 percent in 2016, reflecting slowdowns in India, Sri Lanka, and Nepal. However, growth is expected to pick up again to 6.9 percent in 2017 and 7.3 percent in 2018, with all countries accelerating their rates of expansion. Growth in the region is being driven largely by domestic demand, which is benefitting from still favorable terms of trade and financial conditions. Agricultural production is also recovering in several countries (including India, Pakistan, Bangladesh, and Nepal) owing to favorable weather conditions. With continued strong growth, aggregate inflation is expected to rise slightly in 2017 and 2018, albeit remaining anchored in a narrow range around 5 percent. Inflation is expected to fall sharply in Nepal in 2017, while Afghanistan and Sri Lanka are expected to see an uptick.

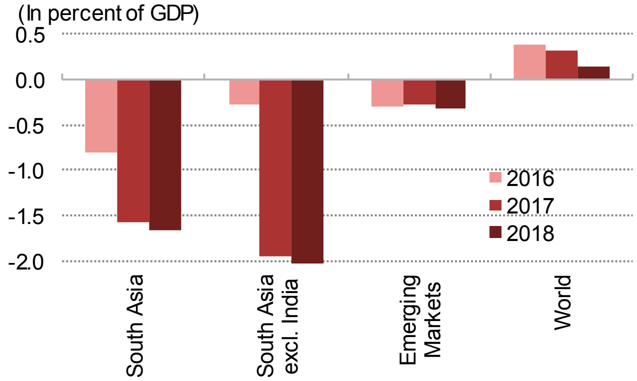
Addressing the region's remaining macroeconomic vulnerabilities remains a work in progress. Fiscal deficits and debt levels in South Asia are expected to decline somewhat in 2017 and 2018, due largely to continuing consolidation in India and Sri Lanka, but will remain high relative to other regions. Annual credit growth has touched or topped 20 percent in the Maldives, Nepal, and Sri Lanka, and impaired loans are approaching or exceeding 10 percent of total loans in all countries excepting Nepal and Sri Lanka. While capitalization levels of the region's banking systems appear generally adequate, underlying financial vulnerabilities are a matter of concern. After several years of decline, the region's current account deficit is also expected to rise to about 1.6 percent of GDP in both 2017 and 2018. Bhutan's current account imbalances are expected to remain extremely large at about 29 percent of GDP in 2017, yet are expected to decline over the medium term as hydropower exports to India expand.

Fiscal Balance
(In percent of GDP)



Source: IMF, *World Economic Outlook*; and IMF staff estimates.

Current Account Balance
(In percent of GDP)



Source: IMF, *World Economic Outlook*; and IMF staff estimates.

Policies in the South Asia region should address remaining macroeconomic and financial vulnerabilities, and support sustained high and socially inclusive growth. Durable fiscal consolidation remains essential in the Maldives and should continue steadily in several other countries, including India, Sri Lanka, and Pakistan. Domestic revenue generation is a priority for most countries to support consolidation where needed, and to generate space for more public investment and targeted social spending. Addressing financial sector vulnerabilities, including high levels of distressed assets, also remains high on the policy agenda, particularly in the case of India. Finally, structural reforms to overcome supply-side bottlenecks and enhance the functioning of product and factor markets would help support potential growth.

India

The Indian economy is on a consumption driven recovery path, supported by a large terms of trade gain and reduced external vulnerabilities, and more recently by a favorable agricultural crop outlook due to a return to normal monsoonal rainfall. After bottoming at 5.5 percent in FY2012/13, growth has risen steadily, reaching 7.9 percent during FY2015/16. Nonetheless, cash shortages arising from the currency exchange initiative announced on November 8, 2016 strained consumption and business activity, thereby weakening the near-term outlook. Accordingly, growth was revised downward by about 4/5th of one percentage point for FY2016/17 and ½ of one percentage point for FY2017/18, compared to the October 2016 WEO forecasts. Real GDP growth (at market prices) is projected at 6.8 percent in FY2016/17 and 7.2 percent FY2017/18. Nevertheless, investment continues to be lackluster, reflecting excess capacity in key industrial sectors and strains in the financial and corporate sectors.

Between FY2013/14 and FY2015/16 there was a cumulative 13 percent increase in India's terms of trade, largely due to low oil and energy prices, which boosted economic activity, contributed to a further improvement in India's current account and fiscal positions, engendered a sharp decline in inflation, and a real appreciation of the rupee. As a result of reduced external vulnerabilities, improved growth prospects and continued relaxation in FDI ceilings, India has experienced large FDI and portfolio capital inflows and a robust rebound in international reserves (reaching about US$370 billion or about 8 months of import cover). Macroeconomic challenges remain as growth is constrained by supply-side bottlenecks and continuing balance sheet weaknesses in India's corporate and banking sectors.

Lower global commodity prices, a range of supply-side measures, and a relatively tight monetary stance have resulted in a sharp decline of CPI inflation from an average of 9½ percent during 2011-13 to around 4½ percent during FY2016/17. CPI inflation is projected at around 4.9 percent by end-2017/18, within the Reserve Bank of India's official target range of 4 percent with a symmetrical band of +/- 2 percent. The current account deficit has narrowed from a high of 4.8 percent of GDP in FY2012/13 to an average of around 1.3 percent of GDP during FY2013/14–FY2016/17, and is projected at about 1.5 percent of GDP in FY2017/18. Exports rebounded in 2016 but subdued external demand will likely continue to dampen net exports.

The FY2017/18 Budget continues with fiscal consolidation, albeit at a slower pace than previously envisaged, with a fiscal deficit target of 3.2 percent of GDP (authorities' definition). Continued subsidy and tax reforms, including implementation of a robust Goods and Services Tax (GST) and improving tax administration, are needed to achieve fiscal consolidation plans over the medium term.

The Government of India implemented multiple structural reforms in 2016, including: adoption of a formal medium-term inflation target (4 percent median CPI inflation with a symmetric 2 percent band) in August 2016; passage of the GST constitutional amendment in August 2016; passage of a new Bankruptcy Code in May 2016; supply-side measures to contain food inflation; and improvements in financial inclusion and domestic bond markets.

The long-awaited GST will enable a major reform of the Indian tax system, as it will replace a plethora of cascading center, state, inter-state, and local taxes with a single, nationwide, value-added tax on goods and services. Supporting legislation was passed by Parliament in late March 2017 and technical preparations are ongoing. State legislatures still have to pass state GST bills in advance of the country-wide rollout of the tax, which is expected from July 2017. Other key reform priorities include safeguarding financial stability by addressing vulnerabilities in the banking sector, labor market reforms to facilitate greater and better quality job creation, and agricultural sector reforms to reduce production risk and improve competitiveness. These reforms and others already in train should help raise medium-term GDP growth rates in India above 8 percent.

Pakistan

Supported by buoyant activity in construction and services and recovery in agriculture, notably cotton production, economic growth is expected at 5 percent in FY2016/17, accelerating to 5.2 percent in FY2017/18. Strong machinery imports and fast-growing iron and steel, and auto sectors indicate strengthening domestic demand. Growth is also benefitting from improving global economic conditions, rising investment under China Pakistan Economic Corridor (CPEC), strengthened private sector credit growth, and reduced fiscal drag. Headline inflation picked up to 4.9 percent (y-o-y) in March 2017, driven by higher food prices, but is expected to remain contained at around an average of 4.3 percent for the fiscal year ending June 2017.

A widening current account deficit (expected at around 2.9 percent of GDP in FY2016/17)— reflecting strong import growth, sluggish remittances and an ongoing (though moderating) decline in exports—has led to a decline in international reserve buffers amid a stable exchange rate. Revenue shortfalls earlier this fiscal year have impacted the fiscal performance and, despite significant efforts, the overall fiscal deficit (excluding grants) is expected to exceed the FY2016/17 Budget target of 3.8 percent of GDP by some margin.

Reemerging fiscal and external vulnerabilities underscore the need for prudent macroeconomic policies. A stronger focus on tax reform and administration measures will be necessary to support gradual fiscal consolidation, while the rising current account deficit and international reserve losses underscore the case for policies to support export competitiveness amid greater downward exchange rate flexibility.

Structural policy priorities include creating space for higher social and infrastructure spending by expanding tax revenue in an equitable way, addressing recent slippages in the energy sector and advancing on the energy reform agenda, restructuring or privatizing loss-making public sector enterprises, further improving the business climate, and fostering financial sector stability, development and inclusion.

Bangladesh

Output growth rose to 7 percent in FY2015/16 from 6.5 percent in the preceding fiscal year, supported by robust domestic demand, particularly government consumption and private investment, and external demand. Headline inflation eased further in FY2015/16, with annual average CPI inflation reaching 5.9 percent in June 2016, compared to 6.4 percent in June 2015. Food inflation has eased on the back of a good harvest and lower global commodity prices.

The fiscal deficit in FY2015/16 reached 3.5 percent of GDP, well below the original budget target of 5 percent of GDP. Both revenues and spending fell short of the original budget. Public debt remains relatively low, slightly above 30 percent of GDP. On the external front, exports grew by almost 9 percent in FY2015/16, which together with modest import growth resulted in an increase in the current account surplus to 1.7 percent of GDP, from 1.5 percent of GDP in the previous year. The overall balance of payments recorded a surplus of around US$5 billion, and international reserves increased to over 7 months of imports. Money and credit growth are broadly in line with the Bangladesh Bank's monetary program targets and sufficient to support robust economic activity.

The outlook for Bangladesh remains broadly positive. Real GDP growth is expected to reach 6.8 percent in FY2016/17 and to remain around 7 percent over the medium term. Headline inflation is projected to pick up moderately from recent lows, reflecting higher global commodity prices. The fiscal deficit is expected to gradually diminish, and the public debt-to-GDP ratio to remain broadly stable. On the back of investment-led growth and a slowdown in remittances, the current account balance is expected to turn into a slight deficit over the medium term, with international reserves remaining adequate.

However, maintaining the past growth performance will become more challenging in the future, and will require increasing investment and upgrading the policy-making practices and institutions.

Domestic revenue collection needs to be boosted, to provide fiscal space for growth-enhancing public investment and social spending. Launching the new VAT on July 1 will be an important step in this direction. Budget financing needs to be managed better as well. The issuance of national savings certificates has picked up sharply in FY2016/17, and these expensive non-market instruments now finance the whole fiscal deficit, complicating debt management and hampering monetary transmission. Liquidity in the banking sector needs to be closely monitored and controlled, and state-owned banks' profitability and capital adequacy strengthened. To provide alternative sources of long-term investment financing, developing a well-functioning domestic capital market is a medium-term priority.

Sri Lanka

Real GDP growth was 4.3 percent in 2016, with a rebound from 3.7 percent in H1 to 5.0 percent in H2, driven by strong industrial production and a robust service sector. The agriculture sector contracted by 4.2 percent in 2016, reflecting flooding in May and a severe drought in Q4. Growth is expected to pick up in 2017 as growth in manufacturing, construction, and services will offset somewhat the drought impact on agriculture. Headline inflation rose to 7.3 percent in March 2017 from 4.5 percent at end-2016, due to higher food inflation and the VAT rate increase in November 2016, and is expected to stabilize in the second half of 2017. Core inflation also remained elevated at 7.3 percent in March 2017. Credit growth slowed from its July peak of 28.5 percent but remained high at about 21 percent at January 2017.

Sri Lanka's external current account deficit was contained to 2.3 percent of GDP in 2016, as a large trade deficit (11 percent of GDP) was offset by strong inflows from remittances and tourism. Due to capital outflows in the first and last quarters of 2016, gross international reserves declined from US$7.3 billion at end-2015 to US$6 billion (about 3 months of imports) at end-2016. Recently, the CBSL resumed accumulating reserves as global market conditions improved and foreign sales of government securities tapered off.

The authorities embarked on revenue-based fiscal consolidation in 2016 under a 3-year IMF-supported program. The fiscal deficit was reduced to 5.7 percent of GDP in 2016 (from 7 percent of GDP in 2015), supported by strong tax collections including from the VAT measures introduced in November 2016. The government has committed to achieve primary balance in 2017 and reduce the overall fiscal deficit to 3.5 percent of GDP by 2020. Under this scenario, the public debt-to-GDP ratio is projected to decrease from 79 percent in 2016 to about 70 percent in 2020. Fiscal structural reforms are underway, including a new income tax law that widens the tax net through removing exemptions. Besides the income tax reform, the authorities have been strengthening tax administration and public financial management, as well as enhancing oversight and transparency of major state-owned enterprises. Financial regulation is improving, including with the phased introduction of Basel III Minimum Capital Requirement. The monetary policy framework will transition to a flexible inflation targeting regime, accompanied by greater exchange rate flexibility. A more business-friendly regulatory environment will be instrumental to promoting FDIs and fostering growth.

Nepal

Nepal's economy is rebounding following a slowdown caused by the 2015 earthquakes and trade disruptions at the southern border. Subsequent to the release of the April 2017 *World Economic Outlook* projections, which are reported in the Figures and Table at the back of this note, the authorities released national accounts data which estimate real GDP growth at market prices at 7.5 percent in 2016/17 (mid-July 2016 to mid-July 2017), supported by a good monsoon, accommodative monetary policy, and rising government spending. This represents a sharp rebound from growth of only 0.4 percent in 2015/16. Shortages of fuel and other essential goods due to the trade disruption drove up inflation to 12 percent (y/y) in January 2016, but eased subsequently to 2.9 percent (y/y) in March 2017, due to favorable base effects after the end of the trade disruptions and lower food prices. Inflation is expected to undershoot the central bank's mid-2017 target of 7.5 percent.

The general government balance was in surplus in 2015/16 as budget under-implementation worsened, particularly for capital spending. As a result, net public debt (gross public debt net of government deposits held at the central bank) fell to 22 percent of GDP, down from 34 percent of GDP in 2012. The 2016/17 budget envelope envisaged a near doubling of total spending compared to the 2015/16 outturn but this is unlikely to materialize. Staff projects an overall fiscal deficit of 1.6 percent of GDP in 2016/17, taking into account under-spending due to limited budget execution capacity.

Private sector credit growth rose to a 7-year high of 32 percent (y/y) in February 2017 before moderating somewhat to 28 percent (y/y) in March. The external current account surplus reached 6.3 percent of GDP in 2015/16 as trade disruptions lowered imports. The growth rate of remittances slowed sharply, to 1 percent in 2015/16, from an annual average of 15 percent during the previous 5 years, due to weak growth in oil-producing host countries. Gross international reserves of the central bank reached a record US$8.8 billion (10 months of imports) in February 2017

Risks to the outlook are broadly balanced, with the main downside risks pertaining to domestic political instability and vulnerabilities in the banking sector. The medium-term outlook critically depends on progress with reforms, in particular strengthening key institutions and administrative capacity to overcome the chronic under-performance of the budget; developing robust and sustainable intergovernmental fiscal arrangements for the impending move to a federal system; and improving the business climate to boost private investment. The rapid growth in credit underscores the need to tighten monetary policy and address financial sector risks through accelerating banking sector reforms.

Bhutan

The outlook for Bhutan remains generally favorable. Growth has been robust at around 6 percent in recent years, driven by hydropower construction and services. In the medium-term, commissioning of new hydropower projects will further boost output and exports, as well as fiscal revenues. Inflation has picked up from below 3 percent in end 2016 to 5.6 percent in February 2017, but is projected to remain stable, benefitting partly from India's improved inflation outlook and stable Indian rupee to which Bhutan's currency is pegged.

Because of accelerated capital spending at the end of the 11th Five-Year Plan and modest domestic revenue growth, the budget deficit is expected to widen from around 1 percent in FY15/16 to around 5 percent of GDP in FY16/17 and FY17/18. Funding by donors will cover part of the FY17/18 deficit, but no new revenue policy measures are envisaged, leaving the gap to be funded domestically, including possibly by the issuance of government t-bonds. The authorities are considering new tax incentives to support business start-ups, which given the recent decline in tax revenues risks further weakening domestic revenues. Strengthening domestic revenue collection will be important in the medium-term to ensure fiscal sustainability. To that effect, the planned implementation of a modern goods and services tax will be key.

The current account deficit is projected to remain high in the near future as large hydropower projects remain in the construction phase. The deficit will continue to be financed mainly by loans and grants from India. However, over the medium-term, a sharp increase in hydropower exports are projected to improve the current account balance. Thus, international reserves, currently at about US$1.1 billion (over 10 months of imports) are projected to increase further.

Increased deposits related to hydropower construction have boosted liquidity in the banking sector. The Royal Monetary Authority (RMA) is sterilizing a large portion of the liquidity, to avoid excessive credit growth. Banks' nonperforming loans remain elevated but stable. To improve the allocation of credit to more productive activities, the RMA is working on guidelines for priority sector lending.

Work is progressing on formulating the 12th Five-Year Plan (2018/19 – 2022/23). The main priorities of the 12th Five-Year Plan include maintaining macroeconomic stability, decentralizing capital spending from the central government to the provinces, and enhancing economic diversification.

Looking ahead, the main challenges facing Bhutan are effectively managing the commissioning of new large hydropower plants and their economic impact, and boosting domestic revenue collection. The effort to further develop and deepen the financial sector needs to be balanced with a focus on maintaining financial stability.

Islamic Republic of Afghanistan

Constrained by weak confidence owing to continued difficult security conditions and political uncertainty, economic activity remains feeble. Real GDP is estimated to have increased by 2 percent in 2016, a pickup from 0.8 percent growth in 2015, likely reflecting improved agricultural output. Inflation moderated in 2016H2 before picking up to 7.2 percent y/y in March 2017, driven mostly by movements in global food prices.

A small overall fiscal surplus (including grants) of 0.1 percent GDP was recorded in 2016. The improvement (from a 1.4 percent deficit in 2015) was mainly on the operating budget—that is expenditure and revenue not related to development projects—with security grants and domestic revenues increasing in broadly equal amounts. The operating deficit excluding grants narrowed by one percentage point of GDP to 8.4 percent. Domestic revenues were up 15.4 percent, reaching Af141.1 billion (11 percent of GDP), partly reflecting policy measures introduced in 2015.

The current account was in surplus reflecting inflows of foreign aid and lower imports due to temporary border closure with Pakistan and some import substitution. Afghanistan's international reserves cover 11 months of imports.

Growth is projected to rise modestly to 3 percent in 2017, but the increasingly tenuous security situation and political uncertainty constitute important downside risks. The authorities continue to address fiscal and banking vulnerabilities by mobilizing revenue and strengthening financial sector supervision and enforcement. Substantial medium-term grant financing will be needed to finance development and security needs, facilitate the move toward fiscal sustainability, and enhance confidence in the Afghan economy.

Going forward, fiscal policy priorities should be domestic resource mobilization, to prepare for an eventual decline in foreign aid, mostly through a broadening of the tax base, and raising the efficiency of spending through reforms in public financial management. Structural reform priorities should include promoting private sector activity by boosting anti-corruption efforts, accelerating financial sector reforms, and strengthening the business climate.

Maldives

Momentum has picked up and real GDP growth in 2016 is estimated to have risen to 3.9 percent from 2.8 percent in 2015, due to recovering tourism and buoyant construction, albeit still below potential. CPI inflation continued to decline in 2016 driven by lower international commodity prices, and currency appreciation, but picked up at the end of the year to 2.2 percent following the phasing out of food and fuel subsidies in October 2016.

The economy continues to be exposed to vulnerabilities from the wide current account deficit, low international reserves, and a highly fragile fiscal position. The current account deficit widened sharply from 10 to 18 percent of GDP between 2015 and 2016, reflecting an increase in infrastructure-related imports, a decline in tourism receipts and higher remittance outflows. Gross international reserves have declined significantly from US$564 million a year ago to US$467 million (1.8 months of import cover) in late 2016 of which US$200 million are usable. The premium in the parallel foreign exchange market has increased from around 3 percent in 2015 to 12.5 percent by end-2016, reflecting lower tourism receipts and the sharp decline in international reserves.

The overall fiscal deficit in 2016 is estimated at 8.5 percent of GDP, higher than the 2016 Budget projection of 6.5 percent of GDP, with lower tourism GST receipts, non-tax revenues, and grants largely accounting for the difference. Sustained high deficits have raised the public debt in 2016 to 81.7 percent of GDP, up nearly 17 percentage points over the past two years (which is above the 60 percent limit in the Fiscal Responsibility Law) and is projected to rise further over the medium-term. Such fiscal imbalances have prompted the government to undertake major subsidy reforms (in late 2016) while reforms of the welfare and social protection system are currently underway. Revenues have also been strengthened with the introduction of new airport development levy, revision of import duties, and a host of other non-tax measures.

The authorities continue to scale up infrastructure investment, which aims to diversify the economy, incentivize resettlement to regional centers, and adapt to climate change. These investments are expected to generate significant benefits but also carry risks to the economy, including external financing adding to the already elevated public debt. Going forward, durable fiscal adjustment is needed over the medium term. To achieve this adjustment, firmer control of current spending (including the wage bill and healthcare costs) and prioritization of capital expenditures are essential. Stronger public financial management, including over capital budgets, would also support adjustment. In addition, the well-administered tax system should be leveraged to generate higher revenues, through base broadening and higher tax rates. Structural reforms in the areas of infrastructure, investment, labor and product markets (i.e., removal of bottlenecks in electricity generation, renewable energy, and waste management, and strengthening active labor market policies aimed at promoting investment in job skill training), as well as steps to foster competition and promote economic diversification will be important to support sustainable growth.

India: High-Frequency Economic Activity Indicators

% y-o-y	2012		2013		2014		2015				2016										2017			
	H1	H2	H1	H2	H1	H2	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Consumption																								
Domestic passenger vehicle sales	12.8	6.5	-9.7	-5.0	-2.9	4.9	3.8	6.3	6.2	14.6	2.5	11.0	6.3	2.7	16.8	16.7	19.9	4.5	1.8	-1.4	14.4	9.0	10.0	
Aviation: Passenger traffic	4.9	-9.1	0.1	9.8	4.3	14.2	20.1	19.5	20.4	21.4	24.3	20.1	20.6	20.2	26.3	23.5	23.8	23.6	22.0	23.9	25.6	15.4	14.6	
Cellular subscribers	16.2	7.6	-0.3	1.8	9.1	6.6	-2.3	-2.3	-3.1	6.3	10.3	8.7	8.0	7.9	8.0	7.6	7.2	7.1	7.0	7.2	7.1	6.3		
Consumer credit	12.4	14.1	13.3	13.6	14.1	14.6	16.3	16.5	17.4	17.8	18.9	19.7	19.1	18.5	18.8	18.1	19.7	17.0	15.2	13.5	12.9	12.0	16.7	
Rural wages (male)	18.2	18.5	17.2	20.2	25.4	15.3	7.5	6.6	6.6	5.6	5.9	6.3	6.3	6.3	5.8	5.7	5.3	5.7	5.9	6.1	6.2	6.2		
Domestic two-wheeler sales	10.8	1.1	-0.7	8.6	13.1	9.6	-0.2	0.6	-1.3	4.4	8.6	21.2	9.7	12.3	13.5	26.3	21.6	8.7	-5.9	-22.0	-7.4	0.0	0.3	
Investment																								
Railway traffic: Net tonne km	4.1	0.5	0.3	1.9	2.2	7.1	3.5	0.9	-2.9	-6.9	-8.4	-13.3	-8.3	-4.5	-7.1	-7.6	-9.7	-7.3	-1.2	-5.7	-3.5	-0.7	3.3	
Government Capex (YTD)	-18.0	8.3	13.6	26.3	-20.2	-12.6	92.2	17.6	41.1	43.3	-15.3	-20.5	-12.0	-16.4	-17.1	-0.7	5.3	-12.8	-10.4	-3.8	-2.7	-1.5		
External sector																								
Visitor arrivals	6.7	2.0	4.5	7.3	10.1	10.4	3.5	4.1	7.1	4.0	10.0	10.6	3.8	7.4	17.1	11.8	13.3	10.3	9.2	13.6	16.5	12.9	10.8	
Exports value	0.0	-4.1	2.3	10.1	3.8	1.1	-14.7	-16.0	-18.1	-19.1	-7.8	-5.7	-0.6	1.5	-6.9	0.0	4.8	9.2	2.7	6.2	4.5	17.5	27.6	
Export (ex-oil) value	0.2	-8.5	0.1	10.8	3.4	3.1	-7.7	-6.9	-10.2	-11.7	-5.6	-3.1	1.7	3.9	-4.8	1.7	5.2	9.0	2.4	5.4	1.5	16.0	23.1	
Imports (ex-oil, gold) value	7.9	-5.3	-0.7	-6.4	-3.8	12.3	4.3	3.6	-3.3	-8.4	-3.8	-17.3	-4.1	-1.3	-8.3	-0.3	0.0	2.5	8.0	4.1	4.0	4.8	19.8	
Industry																								
Industrial production	0.2	1.3	0.7	0.5	1.9	1.7	3.3	3.3	4.8	1.7	0.2	-1.3	1.3	2.2	-2.5	-0.7	0.7	-1.9	5.6	-0.1	3.3	-1.2		
Manufacturing PMI*	55.9	53.7	51.0	50.6	51.7	53.6	51.7	52.1	51.5	50.2	51.9	50.5	51.5	51.2	51.8	52.4	52.6	56.1	50.4	48.6	49.8	50.7	54.0	52.5
Corporate (industry) credit	18.4	15.9	14.6	16.5	13.3	7.8	6.2	6.1	5.3	5.7	6.1	3.9	3.9	3.7	4.1	4.1	7.0	2.2	0.3	0.1	-0.4	-0.7	5.8	
Coal output	9.5	6.4	-0.8	3.2	3.3	10.8	5.2	7.0	0.9	5.2	4.5	-0.9	5.5	12.0	5.1	-9.2	-5.8	-1.6	6.4	4.4	4.8	7.1	10.0	
Steel output	4.9	2.7	10.5	10.5	9.3	6.8	-1.3	2.1	-1.9	-5.1	4.5	6.1	3.2	2.4	-0.5	17.0	16.3	16.9	5.6	14.9	11.4	8.7	11.0	
Cement output	10.8	5.6	5.4	3.8	5.4	7.0	-0.5	1.4	1.6	4.8	11.8	4.4	2.4	10.3	1.4	3.1	5.5	6.2	0.5	-8.7	-13.3	-15.8	-6.8	
Electricity generation	5.7	3.6	2.7	6.7	9.5	9.4	3.7	2.3	6.8	9.5	15.1	14.7	4.6	8.1	1.6	0.1	2.2	2.8	10.2	6.0	4.8	1.5	5.9	
Services																								
Services PMI*	55.3	54.3	52.7	47.5	52.9	51.3	52.5	50.9	50.5	52.5	53.0	54.3	51.4	50.4	51.1	54.4	52.2	55.0	43.1	46.3	49.4	53.1	51.8	50.8
Light commercial vehicles	18.2	-0.4	1.6	-15.2	-22.9	-7.3	-4.6	-1.3	-4.0	7.0	13.9	9.1	10.8	18.0	9.4	11.0	4.0	2.9	15.1	-18.4	0.4	-0.6	3.6	
Medium & heavy commercial vehicles	-4.5	-22.8	-27.3	-34.2	-6.3	32.5	29.1	20.4	41.0	21.9	27.7	21.7	27.7	15.2	2.2	-14.9	-32.4	23.6	16.2	-20.6	-1.1	-9.8	1.7	
Railway traffic: passenger	4.7	3.2	-0.9	-1.1	3.1	-5.6	-4.2	-8.7	2.6	1.1	2.0	0.0	1.0	-1.2	0.6	1.9	-0.1	-0.9	7.0	-1.5	1.3	-0.7	2.3	2.1
Airline: cargo traffic	-3.6	-5.1	-3.9	5.8	10.2	12.5	7.0	8.5	3.0	6.6	10.2	4.6	7.3	8.9	7.4	8.1	9.8	13.5	9.0	10.6	13.7	9.4	18.5	
Deposits	14.5	13.5	13.4	13.7	14.4	12.0	11.4	10.7	10.9	10.1	9.1	9.5	8.9	9.2	8.4	9.0	12.8	9.3	15.6	15.8	12.4	12.7	16.1	
Bank Credit	17.3	16.6	15.0	15.0	13.9	10.8	9.6	9.2	9.1	9.5	10.4	10.0	9.4	9.1	8.5	8.9	11.8	8.7	6.2	6.0	3.3	4.5	8.8	
Other indicators																								
Service Taxes (YTD)	38.7	30.7	32.0	21.0	14.4	5.2	8.5	14.2	25.3	30.5	28.2	13.3	30.1	28.5	26.1	24.4	22.8	24.5	27.1	25.0	23.3	21.3		
Gross tax (ex-service tax) (YTD)	14.2	9.9	11.2	9.4	7.6	8.6	14.7	18.1	24.0	18.5	6.9	64.3	40.2	30.9	26.8	21.4	15.6	16.9	20.6	17.2	16.7	16.9		
OECD Composite leading indicators*	99.7	99.3	98.6	98.4	98.8	99.4	99.7	100.1	100.4	100.6	100.6	100.6	100.6	100.5	100.4	100.3	100.2	100.1	99.9	99.7	99.6	99.4		

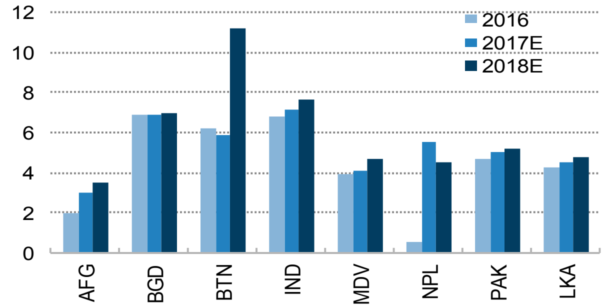
Sources: CEIC Data Company Ltd., Haver, OECD, and IMF staff estimates.

* Index values. Note: The cell is highlighted in dark green if the growth is above average. The cell is highlighted in dark red if the growth is below average. The average for each data series covers data points since 2012 H1 to latest month.

South Asia: Recent Economic Developments and Outlook

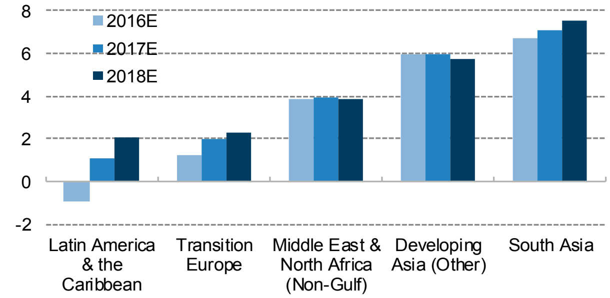
Economic growth is expected to accelerate in all South Asian countries

Real GDP Growth
(In percent, YoY)



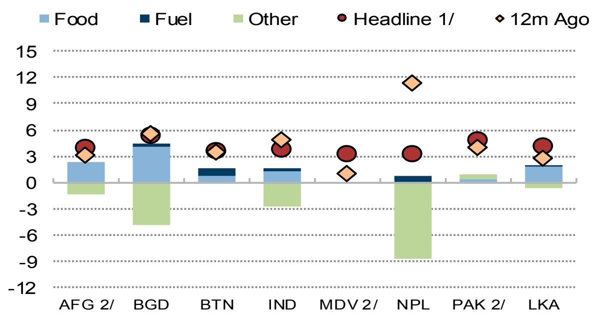
South Asia's growth exceeds growth in comparator regions

Emerging Regions: Real GDP Growth
(In percent, YoY)



Inflation remains anchored, with Nepal's inflation rate having decreased substantially in recent months

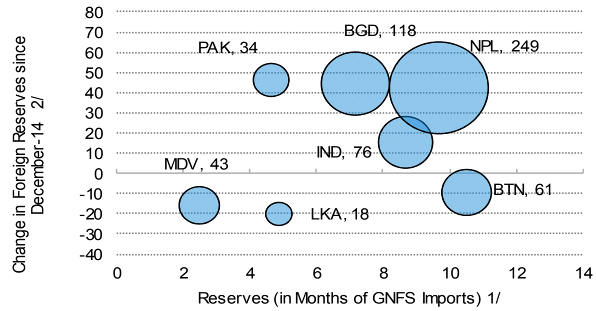
Inflation: Headline and Contributions to Change
(In percent, YoY)



1/ IND, PAK (Mar-17); NPL, BGD, AFG (Feb-17); MDV (Jan-17); LKA, BTN (Dec-16).
2/ Fuel series unavailable.

Reserves have grown rapidly, except in the Maldives, Sri Lanka and Bhutan

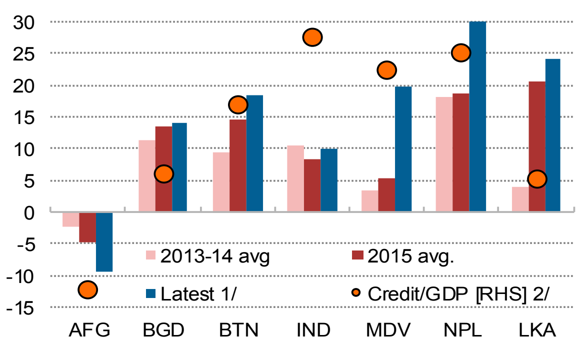
Foreign Reserves
(In percent; bubble size: reserves as a % of external debt 1/)



1/ As of end-2016.
2/BGD (Mar-17); MDV, NPL, PAK (Feb-17); BTN (Dec-16); IND, LKA (Nov-16).

Credit growth is accelerating in many South Asian economies, but remains modest in India

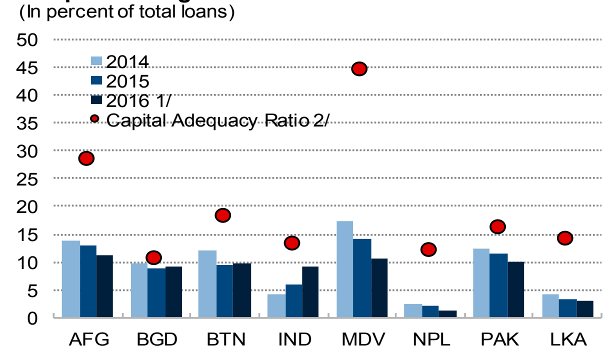
Credit to the Economy
(In percent, 3mma, YoY)



1/ IND, MDV, NPL, AFG (Feb-17); BTN (Dec-16); BGD (Oct-16); LKA (Jun-16).
2/ As of 2015 or latest available.

Impaired loans are large in some banking systems, but capitalization appears adequate

Nonperforming Loans Ratio
(In percent of total loans)



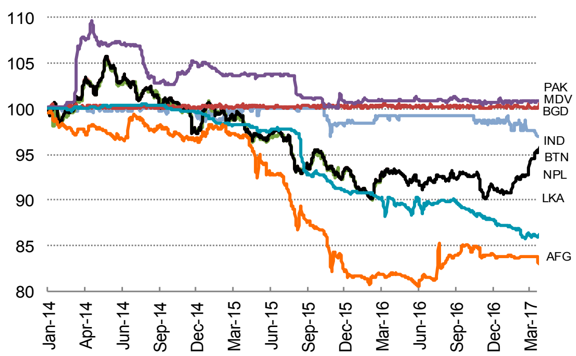
1/ IND, MDV, BGD, AFG, PAK (2016Q4); NPL (2016Q3); BTN (2016Q2).
2/ IND, MDV, PAK, AFG (2016Q4); NPL, LKA (2016Q3); BGD, BTN (2016Q2).

Sources: IMF, *International Financial Statistics*; IMF, *Financial Soundness Indicators;* IMF, *World Economic Outlook*; national monetary authorities; Haver Analytics; Bloomberg; and CEIC. Country acronyms denote: Islamic Republic of Afghanistan (AFG); Bangladesh (BGD); Bhutan (BTN); India (IND); Maldives (MDV); Nepal (NPL); Pakistan (PAK); and Sri Lanka (LKA). EM denotes emerging market economies.

South Asia: Recent Economic Developments and Outlook, cont'd

Nominal exchange rate flexibility is a policy feature in several South Asian economies

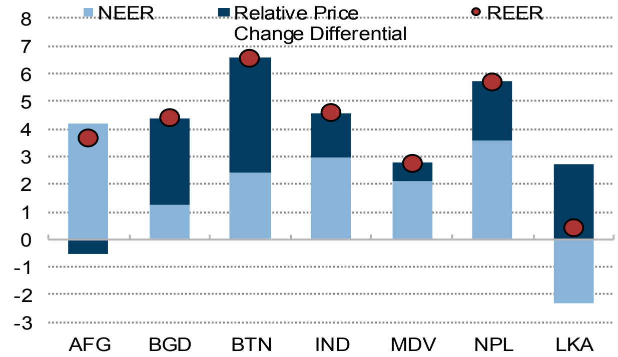
Exchange Rates
(USD/LCU, Index, Jan 1 2014 = 100, 5-day moving average) 1/ 2/



1/ LCU = Local currency unit.
2/ BTN and NPL have pegs with the Indian rupee.

Cross currency movements have been a prominent driver of real exchange rates

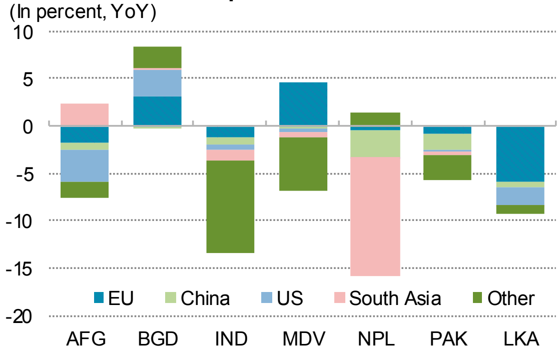
Contributions to changes in REER 1/
(In percent, YoY)



1/ As of March 2017.

Intra-South Asian trade remains small—links to advanced economies and large EMs are key

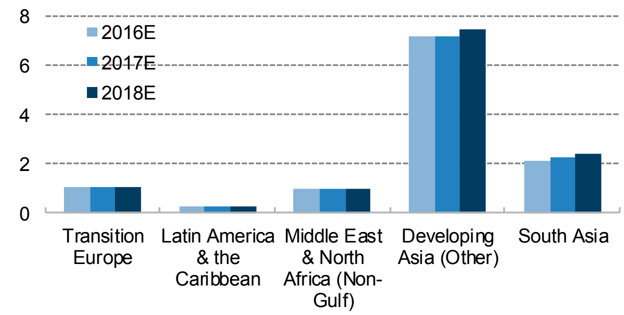
Contributions to Export Growth 1/
(In percent, YoY)



1/ As of April 2016.

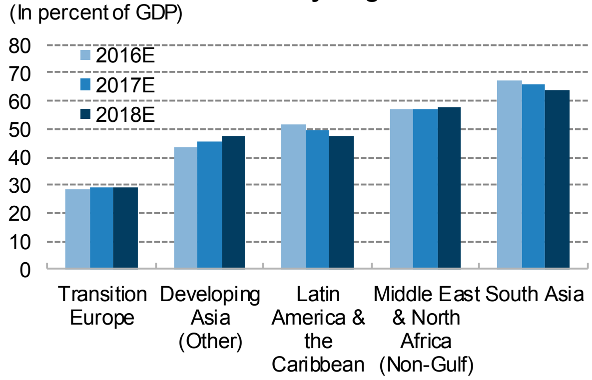
South Asia's share of world trade continues to grow, but remains relatively limited

EM's Exports of G&S
(As a share of world exports)



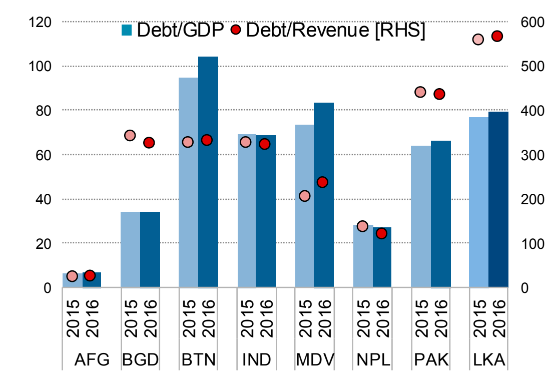
While it continues to decline, South Asian regional public debt remains the highest among comparator regions

EM's Government Debt by Region
(In percent of GDP)



Public debt-to-GDP ratios have increased in many countries, while debt-to-revenue ratios have fallen in some South Asian countries

South Asia: Public Debt
(In percent)



Sources: IMF, *Direction of Trade Statistics*; IMF, *World Economic Outlook*; CEIC; Haver Analytics; and Bloomberg. Country acronyms denote: Islamic Republic of Afghanistan (AFG); Bangladesh (BGD); Bhutan (BTN); India (IND); Maldives (MDV); Nepal (NPL); Pakistan (PAK); and Sri Lanka (LKA). EM denotes emerging market economies.

South Asia: Selected Economic Indicators

	Average 2001-10	2012	2013	2014	2015	2016	Projections 2017	Projections 2018
Real GDP Growth	**7.0**	**5.5**	**6.1**	**6.7**	**7.3**	**6.5**	**6.9**	**7.3**
(Annual change; percent)								
Afghanistan	9.1	14.0	3.9	1.3	0.8	2.0	3.0	3.5
Bangladesh	5.8	6.3	6.0	6.3	6.8	6.9	6.9	7.0
Bhutan	8.4	6.4	3.6	4.0	6.1	6.2	5.9	11.2
India	7.6	5.5	6.5	7.2	7.9	6.8	7.2	7.7
Maldives	8.5	2.5	4.7	6.0	2.8	3.9	4.1	4.7
Nepal	4.0	4.8	4.1	6.0	2.7	0.6	5.5	4.5
Pakistan	4.6	3.8	3.7	4.1	4.0	4.7	5.0	5.2
Sri Lanka	5.1	9.1	3.4	4.9	4.8	4.3	4.5	4.8
Consumer Price Inflation	**6.5**	**9.7**	**9.0**	**6.2**	**4.8**	**4.8**	**4.9**	**5.1**
(Year average; percent)								
Afghanistan	11.7	6.4	7.4	4.7	-1.5	4.4	6.0	6.0
Bangladesh	6.3	6.2	7.5	7.0	6.2	6.4	6.4	5.8
Bhutan	4.6	9.3	11.3	9.9	6.3	4.2	4.1	4.6
India	6.1	9.9	9.4	5.9	4.9	4.9	4.8	5.1
Maldives	4.1	10.9	4.0	2.5	1.4	0.9	2.5	1.9
Nepal	6.2	8.3	9.9	9.0	7.2	9.9	6.7	7.6
Pakistan	8.2	11.0	7.4	8.6	4.5	2.9	4.3	5.0
Sri Lanka	11.1	7.5	6.9	3.3	0.9	3.7	5.8	5.0
General Gov. Overall Fiscal Balance	**-7.6**	**-7.2**	**-6.8**	**-6.6**	**-6.6**	**-6.1**	**-6.0**	**-5.8**
(Percent of GDP)								
Afghanistan[1]	-1.3	0.2	-0.6	-1.7	-1.4	0.1	0.6	0.2
Bangladesh[1]	-2.9	-3.0	-3.4	-3.1	-3.9	-3.4	-4.7	-4.2
Bhutan	-2.2	-2.4	-5.8	2.9	-0.2	-2.1	-4.4	-6.1
India	-8.7	-7.5	-7.0	-7.2	-7.1	-6.6	-6.4	-6.3
Maldives	-7.5	-7.9	-7.8	-9.0	-9.5	-8.4	-10.1	-10.4
Nepal	-1.6	-2.1	1.3	0.8	-0.6	0.9	-1.6	-1.7
Pakistan	-3.8	-8.6	-8.4	-4.9	-5.2	-4.3	-4.3	-3.8
Sri Lanka[1]	-6.9	-5.6	-5.2	-6.2	-7.0	-5.7	-5.2	-4.6
Current Account Balance	**-0.7**	**-4.1**	**-1.4**	**-1.1**	**-0.9**	**-0.8**	**-1.6**	**-1.7**
(Percent of GDP)								
Afghanistan	17.0	5.3	8.5	2.2	2.9	7.1	4.5	2.3
Bangladesh	0.5	0.7	1.2	1.3	1.9	0.9	-0.5	-1.0
Bhutan	-13.1	-21.5	-25.4	-26.4	-28.3	-29.1	-29.4	-16.6
India	-0.8	-4.8	-1.7	-1.3	-1.1	-0.9	-1.5	-1.5
Maldives	-13.3	-7.3	-4.5	-3.8	-10.2	-17.9	-16.7	-14.8
Nepal	2.5	4.8	3.3	4.5	5.0	6.3	-0.3	-1.3
Pakistan	-1.5	-2.1	-1.1	-1.3	-1.0	-1.1	-2.9	-3.0
Sri Lanka	-2.7	-5.8	-3.4	-2.5	-2.5	-2.3	-2.8	-2.3

Sources: IMF, *World Economic Outlook* ; national monetary authorities; and IMF staff estimates and projections.

[1]Central government.

Notes: Regional aggregates are w eighted by national PPP GDP. South Asia countries have the follow ing shares in South Asian PPP-w eighted GDP in 2016: India (81.1 percent); Pakistan (9.2 percent); Bangladesh (5.9 percent); Sri Lanka (2.4 percent); Nepal (0.7 percent); Afghanistan (0.6 percent); Bhutan (0.1 percent); Maldives (0.1 percent). Variables reported on a fiscal year basis for India (April/March); Bhutan, Pakistan (July/June); Afghanistan (March 21/March 20 until 2011, and December 21/December 20 thereafter); Nepal (August/July); Bangladesh (Fiscal Balance only: July/June). Sri Lanka real GDP grow th numbers reflect projections based on the revised (2010 base) national accounts data published by the authorities.