South Asia: Strong Outlook But External Pressures Can't Be Ignored

Buoyed by India's ongoing recovery from two transitory shocks and upwardly revised activity in Bangladesh, growth in the region is firming and remains stronger than in most other comparator regions. Growth is projected at 7 percent in 2018 and 2019 in aggregate for the region reflecting continued strong consumption and investment. Favorable developments in food prices have helped to keep inflation in check. However, rising international oil prices alongside strong domestic demand are projected to lead to a firming of inflation and a widening of current account deficits. Moreover, downside risks have become more pronounced reflecting the uncertain outlook for trade and the tightening of external financial conditions. Policies in the region need to address macroeconomic and financial vulnerabilities. Durable, growth-friendly, and in many cases, revenue-based fiscal consolidation remains a priority for several of the countries. Financial vulnerabilities also require attention in most countries. Policymakers should focus on supporting sustained high and socially inclusive growth, while addressing the remaining vulnerabilities. Some common areas of priority include domestic revenue generation to support both 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.

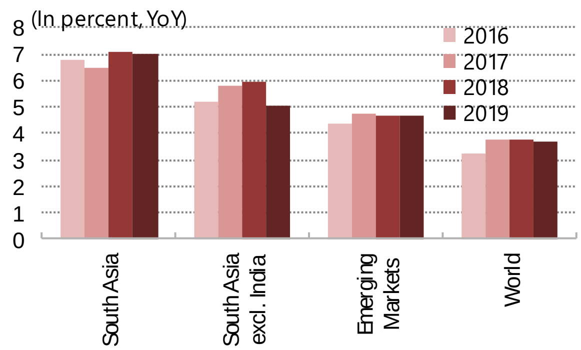
Global and Regional Economy

The global upswing that began two years ago appears to have peaked and become less synchronized across economies. Trade tensions have risen, and, together with U.S. monetary policy normalization and the dollar appreciation, are contributing to severe market pressures on vulnerable emerging economies (EMs, e.g., Argentina and Turkey). In the October 2018 *World Economic Outlook* (WEO), global growth is forecast to remain steady at 3.7 percent in 2018-19. However, this is 0.2 percentage points lower than the forecast in the April 2018 WEO. The outlook remains robust in the U.S. on the back of expansionary fiscal policy, while it has weakened in the euro area, the U.K., and especially some EMs. In addition to the revisions to the baseline, risks have shifted to the downside—tied particularly to rising trade tensions and tightening financial conditions—and individual country prospects have changed on account of the differential impact of higher oil prices, tighter financial conditions, and specific domestic factors.

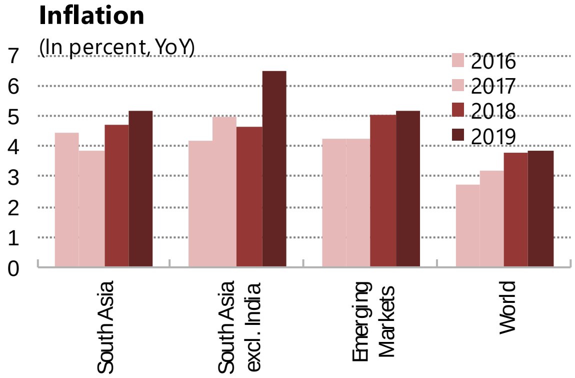
The near-term outlook for the Asia and Pacific region remains positive, and the strongest in the world, notwithstanding the tightening of financial conditions and downside risks noted above. Supported by broadly accommodative policies, Asia is projected to grow by 5.6 percent in 2018 (unchanged from April). The IMF Asia and Pacific Department's October 2018 *Regional Economic Outlook* projects Asia's economic growth at 5.4 percent in 2019, down from 5.6 percent in April. Part of the downgrade is attributable to financial market stress and resultant policy tightening in some economies, but recent tariff actions have been another key driver. Indeed, these actions by themselves would have justified a much sharper growth markdown, but policy stimulus from China (and possibly other economies) is likely to offset much of the impact.

Projected growth in China remains at 6.6 percent for 2018 but has been marked down from 6.4 to 6.2 percent for 2019, with some increase in medium-term risks reflecting a possibly slower pace of deleveraging. In Japan, growth in 2018 has been marked down from 1.2 to 1.1 percent, reflecting recent quarterly outturns, and over the medium-term growth is projected to converge toward potential. In India, the economy is projected to grow at 7.3 percent in FY2018/19 and 7.4 percent in FY2019/20, revised down by 0.1 and 0.4 percentage point, respectively, on account of higher oil prices and further monetary policy tightening.

Real GDP Growth



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



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

The balance of short- and medium-term risks has shifted to the downside. In recent years, forecasters, including the IMF, systematically underestimated the strength of the recovery. This now appears less likely given outturns in the first half of 2018 and weakening signals from forward-looking indicators. Key sources of near-term downside risks include:

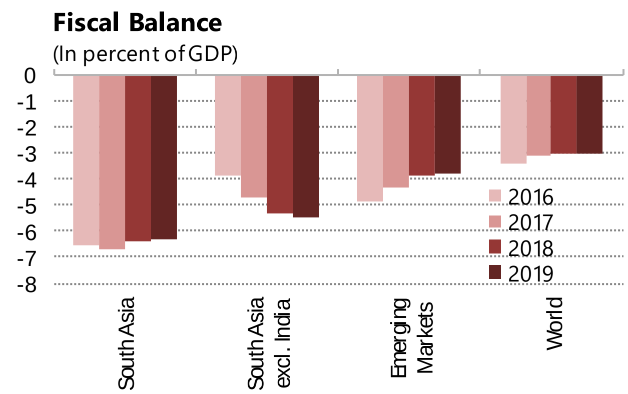
- *Escalating trade tensions*. The U.S. has raised tariffs on important categories of imports from China, which has retaliated on a similar scale. Sustained trade tensions could further undermine confidence, hurt financial markets, disrupt supply chains, and discourage investment and trade.

- *Tighter global financial conditions*. A faster-than-anticipated tightening of financial conditions in the United States could worsen turmoil already seen in some emerging market economies, with negative spillovers to Asia through reduced capital flows and higher funding costs.

- *Homegrown risks.* Macro policies in China have been focused on addressing the significant and longstanding financial vulnerabilities, but the shift toward stabilizing growth may mean slower progress on deleveraging and thus heightened medium-term risks for China and the entire region. Economies also face their own domestic risks, including from high private-sector leverage in some countries such as Korea and inflated real estate markets in Australia and Hong Kong SAR.

Asia faces important challenges to its long-term growth prospects. One of these relates to trade. While it is difficult to predict how the current situation will unfold, policymakers now confront the possibility of a pronounced and protracted slowdown in trade. If tariffs spiral upward and economies slip toward autarky, global growth would take a substantial hit, and Asia would be vulnerable. Population aging is another important long-term challenge. Some countries, such as India, Indonesia, and the Philippines, still enjoy a young population and a growing labor force, but Japan, Korea, Thailand, and several other economies are well past their demographic dividend. Slowing productivity growth is another key challenge for Asia, as it is for other regions. Finally, Asia is at the forefront of digitalization, which promises a radical transformation of the global economy, and indeed of society itself, while at the same time threatening substantial disruptions and dislocation. For instance, workers worry that robots will make them obsolete, while financial supervisors are concerned about the risks to financial stability posed by the latest fintech innovations. Handling the possibly bumpy transition to an increasingly digital future will be yet another major challenge for policymakers during the coming decades. At the same time, digitalization may well be a key driver of productivity growth and improved welfare over the long run. Thus, while Asia is at the forefront of the global economy today, it confronts some fundamental challenges that may require a shift in the region's growth model. The IMF Asia and Pacific Department's October 2018 *Regional Economic Outlook* report and its four background papers take up these issues, suggesting that, with the appropriate policy responses, Asia will be able to meet its challenges and secure its growth prospects.

The outlook for South Asia remains strong. Aggregate growth in the region decelerated somewhat to 6.5 percent in 2017 from 6.7 percent in 2016, reflecting primarily the slowdown in India. Growth is expected



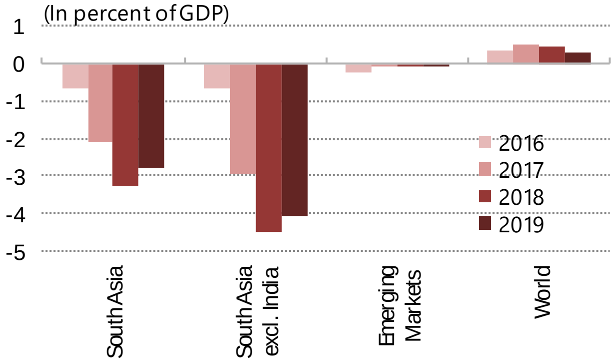
Source: IMF, *World Economic Outlook*; and IMF staff estimates.

to pick up, though, to 7.1 percent in 2018, with growth increasing or broadly stable in all countries with the exception of Nepal and Bhutan. Growth in the region, which is stronger than in most comparator regions, continues to be driven primarily by domestic demand, with support from favorable financial conditions and improving external demand. Headline inflation is expected to decline in 2017 before rising again in 2018, reflecting mainly changes in food and other commodity prices.

The region continues to face key macroeconomic vulnerabilities. While expected to improve slightly during 2018-19, fiscal deficits and public debt are higher in the region than comparator ones. Annual credit growth is increasing by more than 15 percent (y/y) in many of the countries—other than India and Afghanistan—and impaired loans are around 10 percent of total loans in all countries but Nepal and Sri Lanka. While capitalization levels of the region's banking systems appear generally adequate, underlying vulnerabilities are a matter of concern. After declining through 2016, the region's current account deficit is expected to rise from 2.1 percent of GDP in 2017 to 3.3 percent of GDP in 2018.

Current Account Balance

(In percent of GDP)



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

Policies in the region should address remaining macroeconomic and financial vulnerabilities, and support sustained high and socially inclusive growth. Durable and growth-friendly fiscal consolidation remains important in several other countries, including India, Sri Lanka, Pakistan, and the Maldives. 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 continues to recover from two transitory shocks in recent years. The effects of the currency exchange initiative (launched on November 8, 2016) and the new national Goods and Services Tax (GST, rolled out on July 1, 2017) have gradually worked their way through the economy and GDP growth accelerated to a two-year high of 8.2 percent in the April-June quarter of 2018 (year-on-year). Growth is expected to recover to 7.3 percent in FY2018/19, from 6.7 percent in the previous year. Nevertheless, reflecting higher oil prices, tighter global financial conditions, and increasing global trade tensions, this represents a downward revision, compared to the Spring WEO by 10 bps in FY2018/19. For FY2019/20, IMF staff expects growth to reach 7.4 percent. Near-term growth will be underpinned by strengthening investment and robust private consumption. Medium-term prospects remain positive, benefiting from key structural reforms implemented in recent years, including the landmark national GST.

The improvement in India's terms of trade between FY2013/14 and FY2015/16 by a cumulative 13 percent contributed to improvement in India's current account and fiscal positions, a sharp decline in inflation, and a real appreciation of the rupee. Because of reduced external vulnerabilities, improved growth prospects, and continued relaxation in FDI ceilings and steps to improve the business climate, India experienced large FDI and portfolio capital inflows, contributing to a robust rebound in international reserves (hitting US$424 billion in mid-April 2018, or about 7¾ months of import cover). However, in recent months, the ongoing increase in world oil prices alongside strong demand for imports and capital outflows—in line with other EMs—have been putting pressure on India's balance of payments. In addition, other macroeconomic challenges remain as high government debt limits fiscal space and 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 and further to 3.6 percent in FY2017/18. This is a 17-year low reflecting low food prices on a return to normal monsoon rainfall and agriculture sector reforms (e.g., pulses buffer stock, national agriculture market, crop insurance, irrigation), subdued domestic demand, and currency appreciation. Most recently, inflation printed at 3.8 percent (y/y) in September 2018 on continued low food prices. Headline inflation is projected to rise to 4.7 percent in FY2018/19 due to tighter demand conditions and higher energy prices and with core inflation currently at 5.5 percent and inflation expectations over the forecast horizon remaining elevated. In the June and August meetings, the Monetary Policy Committee increased the policy repo rate by 25 basis points (bps) each, consistent with inflationary pressures and the inflation targeting regime. On this basis, inflation will likely return to and stay in the upper half of the RBI's target band (4 percent CPI inflation ± 2 percent) over the medium-term.

The current account deficit is projected at 3 percent of GDP in FY2018/19, up from 1.9 percent of GDP last year, due to rising oil prices and strong demand for imports. While inflows of FDI have been holding up, portfolio outflows from mid-April 2018 have prompted the Reserve Bank of India (RBI) to conduct foreign exchange interventions while also allowing the Indian rupee to depreciate by about twelve percent vis-à-vis the U.S. dollar and by almost nine percent in real effective terms during the first nine months of 2018.

Fiscal consolidation paused in FY2017/18 (on the authorities' definition of the central government fiscal balance), reflecting lower non-tax revenues offset primarily by higher privatization receipts and lower capital expenditures. In the IMF's presentation, the deficit is estimated to have deteriorated by 0.3 percent of GDP relative to FY2016/17. The FY2018/19 Budget aims to resume fiscal consolidation by targeting a deficit reduction of 0.2 percent of GDP (a reduction of 0.4 percent of GDP in the IMF's presentation with net revenues budgeted to increase by 0.6 percent of GDP, roughly half from an increase in direct tax collections, and expenditures budgeted to increase by 0.2 percent, primarily reflecting higher subsidy payments). The rollout of the national GST in July 2017 was an important milestone. In addition to increasing fiscal revenues, the GST should boost India's growth potential over the medium term through a more unified national market and higher productivity. Further reductions in subsidies and tax reforms, including continued improvements to the GST, are needed to bring down India's elevated public debt (70.4 percent of GDP in March 2018), and create space to ease financial repression.

The Government of India implemented multiple structural reforms in 2016 and 2017. The emphasis has now shifted mainly to accelerating implementation of ongoing reforms rather than initiating new ones. The authorities' 3-year action agenda for 2017/18–2019/20 aims to establish a path to development of India and its people. The agenda proposes seven reform areas along with key action points. Key recent measures include: 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 steps to enhance financial inclusion and the operations of domestic bond markets. In October 2017, the government also announced a major two-year plan to recapitalize state-owned banks, committing to provide about two-thirds of the cost of 1.3 percent of GDP.

Despite progress in advancing reforms, India's income per capita remains low and income disparity has widened. In the near-term, focus should remain on further streamlining the GST rate structure and improving the supporting infrastructure to ease implementation costs particularly for SMEs. Rising balance of payments pressures increase the importance of achieving the FY2018/19 fiscal consolidation target. Addressing banking weaknesses is also a policy priority. Important steps have been taken to address India's twin balance sheet problem and revive bank credit. These include the recognition of non-performing assets, the recapitalization of public sector banks (PSBs), and the resolution of some distressed assets. These efforts need to be complemented by governance reforms, to improve PSBs' risk management and operations. For the medium term, greater infrastructure investment, labor and product market reforms, further trade liberalization and trade and investment reforms are needed to boost competitiveness and productivity. Reforms should also focus on boosting health and education spending to improve human capital, increasing formal sector female labor force participation and access to finance, and pursuing agricultural reforms.

Pakistan

Pakistan has reached a difficult macroeconomic situation. While economic growth was strong in FY2017/18 (5.8 percent of GDP), macroeconomic imbalances are increasingly taking a toll. The FY2017/18 budget deficit (excluding grants) rose to 6.6 percent of GDP ahead of the July 2018 general elections, 2.5 percent of GDP higher than budgeted. Inter-company arrears in the power sector surged, and losses of other key state-owned enterprises further mounted. The fiscal stimulus, accommodative monetary policy, and an overvalued exchange rate were driving factors underlying an import-led surge in the current account deficit to 5.9 percent of GDP in FY2017/18. The fast rise in international petroleum prices and tighter global financial conditions for emerging markets have added to this difficult picture. As a result, gross international reserves fell to below one and a half months of import cover.

Recent policy measures are steps in the right direction, but not yet sufficient to stabilize the economy. Measures have included 27 percent cumulative nominal exchange rate depreciation allowed by the State Bank of Pakistan (SBP) since last December and policy rate increases by cumulatively 275 bps. The September 2018 budget amendment is a first step toward much-needed fiscal adjustment. A recent gas tariff increase and a planned electricity tariff hike are welcome, but do not achieve cost recovery.

Under unchanged policies, economic growth is expected to decline significantly in FY2018/19 and imbalances will continue to build, further eroding international reserves. High-frequency indicators suggest a marked slowdown in growth, likely reflecting declining confidence and weakening domestic demand. These factors, together with expected deceleration in cotton production growth due to water shortages and slowdown in public investment, could lead to a decline in economic growth to 4 percent this year. Under this scenario, inflation is expected to further increase to 7.7 percent, reflecting pass-through from exchange rate depreciation, lagged effects of accommodative monetary policy, and an expected normalization in food prices. The fiscal deficit is projected to grow to 7.1 percent of GDP this year. (In this regard it should be noted that the WEO projections on which this note is based do not yet include the September 2018 budget supplement.) Quasi-fiscal losses in the energy sector will continue to accumulate, albeit more slowly than in the recent past. The current account deficit is expected at 5.3 percent of GDP this year, in part reflecting higher oil prices. Risks are firmly tilted to the downside, reflecting the continued erosion of international reserves from already low levels. The Pakistani authorities have requested IMF financial support.

Decisive and comprehensive adjustment policies are needed to stabilize the economy and lay the foundation for sustainable and inclusive growth. These should include allowing for exchange rate flexibility, further tightening monetary policy to instill confidence, and further adjusting fiscal policy to improve debt sustainability and mitigate external pressures. Similarly, additional measures are needed to address losses of state-owned enterprises. Significant external financing will be required to rebuild international reserve buffers. Expanding social safety nets will be key to protect the poor. Jointly these policies will allow for a recovery in international reserves and place fiscal policy on a sustainable path, while mitigating negative social consequences on the most vulnerable.

Once stabilization is beginning to take hold, increasing focus is warranted on critical reforms to support macro stability and inclusive growth. The reforms should aim at fostering exports, private investment and job creation, strengthening Pakistan's policymaking framework, and building key institutions. Priorities include modernizing the tax system and public financial management, strengthening the fiscal federalism framework, improving governance and eliminating losses of SOEs, enhancing the SBP's autonomy, strengthening AML/CFT efforts, improving the business climate and anti-corruption efforts, and buttressing policies for greater economic inclusion.

Bangladesh

Preliminary estimates indicate that output growth accelerated to 7.9 percent in FY18 from 7.3 percent in FY17. Higher food prices caused by flood-related disruption in agricultural harvests pushed inflation to 6 percent in the second half of 2017, before falling to around 5½ percent by mid-2018 as these pressures abated and non-food inflation remained broadly stable.

The FY18 fiscal deficit appears to have remained below the 5 percent of GDP budget target, though it has increased somewhat compared to the FY17 fiscal deficit of 3.4 percent of GDP. Public debt remains relatively low, close to 35 percent of GDP. Despite a pick-up in remittances, the current account deficit has increased notably in FY18, to 3.6 percent of GDP, from 0.6 percent of GDP in FY17. The higher deficit reflects a temporary spike in food imports due to floods, and higher infrastructure-related imports. Despite the increase in capital inflows, the overall balance of payments recorded a small deficit and foreign exchange reserves declined by close to US$1 billion, to US$33.0 billion (about six months of imports). Total domestic credit growth in FY18 has been broadly in line with Bangladesh Bank (BB)'s target. However, credit to the public sector has declined significantly, offset by stronger credit growth in the private sector. BB lowered the advances-to-deposit ratio to 83.5 percent in January 2018. However, with liquidity tightening and the deposit and lending rates increasing, BB eased the monetary policy stance in April by reducing banks' cash reserve ratio and the repo rate.

Although the economic impact so far is limited, the Rohingya refugee surge can be expected to have implications for economic policies. Over 700,000 Rohingya refugees have crossed over into Bangladesh bringing the total refugee population close to over 900,000. A large share of the immediate relief needs has been met with support from the international community. However, out of the estimated funding needs of close to US$1 billion in 2018, only about one half has been secured. If the situation persists, assisting the refugees and integrating them into the local community could have a sizeable budget impact.

The outlook remains broadly positive. Growth is expected to remain strong, above 7.0 percent, led by private consumption and investment. Political unrest around the elections and the large and increasing non-performing loans are among the main downside risks to the growth projection. Inflation is expected to pick up toward 6.0 percent on higher energy prices. With import growth easing, the current account deficit is projected to narrow somewhat, to 3.0 percent of GDP. Rising oil prices and the launch of LNG import in 2018 represent headwinds for the current account. The FY19 budget deficit is targeted to remain at around 5 percent of GDP. But higher interest payments on account of increased budget financing by means of high-yield national savings certificates (NSCs), increased energy subsidy spending and election-related expenditures point to increased risk.

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

With low tax revenue, domestic revenue collection needs to be boosted to provide fiscal space for growth-enhancing public investment and social spending. Non-market budget borrowing by means of NSCs is pushing up interest payments and hampering the development of a government bond market and the implementation of a sound debt management strategy. The acceleration of credit to the private sector in FY18 reflected a pick-up in much-needed investments. However, as the non-performing loans ratio remains high despite robust economic growth, financial sector regulation and supervision will need to be further strengthened. To provide alternative sources of long-term investment financing, improving the business environment and developing a well-functioning domestic capital market is a medium-term priority.

Sri Lanka

Real GDP growth was subdued at 3.6 percent in 2018 H1, as robust growth in services and agriculture was partly offset by a weaker performance in the construction sector. Growth is now expected to remain below 4 percent in 2019 (below the WEO projection reported in the Selected Economic Indicators table at the back of this note). Over the medium-term, growth is expected to gradually reach 5 percent, supported by strong service growth and a sustained improvement in agriculture and industry, led by construction.

Inflation remained well within the Central Bank of Sri Lanka's (CBSL) target band at 4.3 percent in September 2018, with core inflation at 3.8 percent. The CBSL has kept its policy rates unchanged since April 2018 due to the low inflation environment and lackluster economic growth. Nevertheless, market lending rates have been rising in real terms moderating private sector credit growth to 14.3 percent in August. Nonetheless, credit concentration in the construction sector still warrants continued monitoring.

On the external side, Sri Lanka has been exposed as other emerging markets to volatile global market conditions since mid-April, resulting in capital outflows. Gross international reserves have declined to about US$7.2 billion by end-September (about 3 months of imports) from their peak of about US$10 billion in April. Over the same period, the EMBI spread increased by around 60 basis points, while the exchange rate depreciated by about 10 percent against the U.S. dollar since the beginning of the year. Sri Lanka's current account deficit widened to 2 percent of GDP in 2018 H1 compared to a deficit of 1.2 percent in 2017 H1, driven by high fuel prices and imports of vehicles. Export values grew at 8.5 percent in 2018 H1, with improved access to EU trading partners from Generalized Scheme of Preferences (GSP+) supporting textile exports.

The authorities have been implementing fiscal consolidation since 2016 under a 3-year IMF-supported program. The fiscal deficit was reduced to 5.5 percent of GDP in 2017 from 7 percent of GDP in 2015. Fiscal consolidation has continued in 2018, with the primary balance reaching 0.3 percent of GDP in H1, thanks to prudent expenditure management given weaker-than-projected revenue collection. The government remains committed to fiscal consolidation in 2019-20, with the goal of reducing the overall fiscal deficit to 3.5 percent of GDP by 2020. Under this scenario, public debt is projected to decrease from about 85 percent of GDP in 2017 to about 75 percent over the medium-term. Fiscal structural reforms are advancing, including with the implementation in April 2018 of the new Inland Revenue Act that widens the tax net through removing exemptions. Besides income tax reforms, the authorities are strengthening tax administration and public financial management, as well as enhancing oversight and transparency of major state-owned enterprises. They have also taken major steps in SOE energy reforms. An automatic pricing mechanism for fuel was implemented in May 2018 and a similar mechanism for retail electricity prices is planned. Social protection policies are also being strengthened, with the Samurdhi cash transfer program expected to be enhanced based on new objective eligibility criteria. This will help shield the poor from the distributional impact of the reforms.

Financial regulation is improving, including with planned compliance by banks with the Basel III Minimum Capital Requirements by January 2019. The CBSL is also taking important steps in the planned roadmap to guide the transition to a flexible inflation targeting regime under greater exchange rate flexibility. A major reform underway is the amendment of the central bank law to strengthen the central bank's mandate, decision-making structures, autonomy, and accountability. Accelerating structural reforms, in line with the authorities' agenda under *Vision 2025*, is instrumental in promoting inclusive growth. Key priorities include trade liberalization, a business-friendly regulatory environment, climate change and gender budgeting, and better-targeted social protection programs.

Nepal

Economic activity is expanding strongly as the recovery from the 2015 earthquakes and trade disruption continues. Growth reached 6.3 percent in FY2017/18 (mid-July 2017 to mid-July 2018). Above-trend growth has been supported by two successive favorable monsoon seasons, accommodative fiscal and monetary policy, a pickup in reconstruction activity, and markedly improved electricity supply. Inflation averaged 4.2 percent (y/y) in FY2017/18—a multi-year low—aided by declining food prices. The WEO projections have economic growth moderating to 5 percent and inflation to pick up to 5 percent in FY2018/19 as activity begins to run up against capacity constraints. However, staff may revise the growth projections for Nepal upward in the context of the mission for the Article IV consultation which is planned for December.

Loose monetary conditions, along with a fourfold increase in banks' paid-up capital in the two years to mid-2018 required by the Nepal Rastra Bank (NRB), have fueled a strong credit expansion. Private sector credit growth has averaged 22 percent (y/y) in the past two years, even as the NRB maintains ceilings on banks' loan-to-deposit ratio and the loan-to-value ratio on car loans. Rapid credit growth underscores the need to accelerate banking sector reforms. Building on the recent amendments to the regulatory framework, loan classification, provisioning, and banks' risk management practices should be upgraded.

Expansionary policies have fueled imports, leading to a marked deterioration in the current account of the balance of payments, to a deficit of 8.2 percent of GDP in FY2017/18. Imports expanded by 27 percent in FY2017/18, following a 30 percent surge in FY2016/17. The rise in imports more than offset the positive effect on the current account of the resilience of remittances—a key funding source for Nepal's financial sector and for imports of consumption goods—which increased by 10 percent in FY2017/18, notwithstanding a decline in the number of migrant workers going abroad. The large current account deficit in FY2017/18 was offset by positive errors and omissions and higher capital inflows. As a result, gross central bank reserves remain adequate, at US$ 8.9 billion in August 2018 (about 7 months of prospective imports of goods and services).

The fiscal deficit widened in excess of 6 percent of GDP in 2017/18. Large transfers to local governments and a further increase in capital spending pushed up government outlays. This more than offset the increase in government revenue. As a result, public debt rose for the first time in many years, to a still-manageable 29.7 percent of GDP. The fiscal deficit could widen further in FY2018/19 with the ongoing implementation of fiscal decentralization, unless the government continues the strong revenue collection effort seen in the first two months of the new fiscal year when revenues rose by 36 percent (y/y).

Nepal's near-term challenges are to maintain the recent growth momentum and create conditions for sustained high and inclusive growth. Efforts should focus on strengthening key institutions and administrative capacity to boost private investment and growth. Fiscal policy should focus on higher and better-quality public investment and prudent implementation of fiscal decentralization through sustainable intergovernmental fiscal arrangements and the need to build public financial management capacity at the sub-national level. Hasty implementation of fiscal decentralization could strain government finances and weaken fiscal policy's stabilization function. At the same time, with the fiscal stance having become more expansionary than in previous years, monetary policy needs to be tightened to keep inflation and balance of payments pressures in check. Structural reform will be key to unlock medium-term growth. Priorities include improving the business climate by fostering competition, reducing the regulatory burden for investment, including in hydropower, and upgrading transportation infrastructure.

Islamic Republic of Afghanistan

Constrained by weak confidence owing to difficult security conditions and political uncertainty—with parliamentary elections this October and presidential elections in April 2019—economic activity remains subdued. In 2017, real GDP growth of 2.7 percent exceeded 2016 growth of 2.2 percent but was too low to reduce unemployment and poverty. In 2018, growth is projected to be lower at 2.3 percent with downside risks due to a severe drought and deteriorating security conditions ahead of the parliamentary election. Inflation was low at 3 percent y/y at end-2017 and is projected to remain unchanged in 2018 mostly due to lower food prices, as imports have substituted for drought induced domestic food shortages, and the demand effect of lower rural incomes.

The overall fiscal balance including grants moved from a small surplus in 2016 to a deficit of 0.6 percent GDP in 2017. This was due to a decline in operating grants, which fell by 2.5 percentage points of GDP. Some offset was provided by higher domestic revenues—which grew by nearly 20 percent reflecting in part one-off gains but also improvements in collection efficiency—and lower operating expenditures. The treasury's discretionary cash balance was at a comfortable Af 24.2 billion at end-2017. In 2018, revenue growth has moderated in line with slower economic activity, but the budget is on track to meet the 0.4 percent of GDP deficit target in-line with the IMF program. With grant inflows exceeding projections and the expected under-execution of expenditures, the discretionary cash balance should be well above the program floor of Af 10 billion by end-2018.

The current account was in surplus in 2017 mostly due to inflows of foreign aid and is expected to remain broadly unchanged as grant inflows continue in 2018. International reserves should cover over 11 months of imports. The exchange rate has been volatile in 2018, with depreciation peaking at 9.4 percent against the U.S. dollar in mid-September versus end-2017 amid regional currency pressures. On a nominal trade-weighted basis, the Afghani has appreciated modestly reflecting the currency depreciations in Iran and Pakistan.

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 should focus on domestic resource mobilization, to prepare for a normalization of foreign aid inflows, mostly through a broadening of the tax base, and raising the efficiency of spending through reforms in public financial and investment management. Structural reform priorities include boosting anti-corruption efforts, accelerating financial sector reforms, and strengthening the business climate to create a supportive environment for private sector activity.

Bhutan

Bhutan's GDP grew at 7.3 percent during FY2015–16, driven by the hydropower sector, and is estimated to have maintained momentum at 7.4 percent in FY2017, with strong growth in services and manufacturing offsetting a tapering in hydropower construction.

Headline inflation increased from a historic low of 3.2 percent in December 2016 to 4.3 percent in December 2017, with both food and non-food inflation rising. Over the medium term, inflation is projected to remain in line with price developments in India, Bhutan's key trade partner and import source, and given the ngultrum's peg to the rupee.

After recording overall surpluses in the first two years of the 11th Five-Year Plan, fiscal policy became expansionary in FY2016/17. Although lower than budgeted (at 5.3 percent of GDP), the deficit widened to 3.3 percent of GDP in FY2016/17 from 1.1 percent of GDP in FY2015/16, driven largely by a sizable expansion of capital expenditure, while domestic direct tax revenues declined, in part due to weaker hydropower-related revenues. The estimated FY2017/18 budget outcome is a deficit of 1 percent of GDP, with the improvement led by higher hydropower revenues and excise duty refunds from India.

The current account deficit averaged 26 percent of GDP during FY2011/12–15/16 reflecting investments in the hydropower sector and is estimated to have narrowed to 22.8 percent in FY2016/17 due to lower hydropower-related imports and increased electricity exports. Bhutan's current account imbalances are expected to decline over the medium term as hydropower exports to India expand further. Reserve coverage is adequate at nearly 13 months of imports of goods and services. In the past, a low share of rupee reserves in total reserves resulted in a drying up of rupee liquidity. This has improved, with rupee reserves constituting 36 percent of total reserves in September 2017, up from 16 percent in July 2015.

The banking sector is nascent and suffers from low profitability. The return on assets dropped from 1.8 percent in 2016 to just 0.7 percent in 2017, while the return on equity declined from 11.3 percent to 4.8 percent. The system-wide non-performing loan (NPL) ratio was at 8.4 percent in December 2017, up from 7.2 percent in December 2016. On the positive side, provisions are high and required provisions are calculated on a (conservative) gross basis. The sector's liquidity levels are high, above the already demanding regulatory requirements.

Risks to the outlook are skewed to the downside in the baseline, but active policies could lead to higher growth outcomes. On the domestic side, delays in implementing the GST and completing hydropower projects could lead to lower electricity exports and larger fiscal deficits. Vulnerabilities exist in the financial sector due to the quality of banks' lending and weak profitability. However, avoidance of a sharp spending cliff in FY2018/19 and more gradual fiscal consolidation in the medium term, coupled with higher domestic revenue mobilization, could lift growth above the baseline forecast. External risks stem from the possibility that Indian growth, Indian inflation, or global oil prices could deviate from baseline assumptions as these variables have substantial effects on the Bhutanese economy.

The most immediate policy challenge is to limit the sharp fiscal withdrawal programmed for FY18/19. Medium-term challenges include mobilizing domestic revenues and prudently managing rising hydro revenues against the background of declining grants and enhancing competitiveness to diversify the sources of growth and employment.

Maldives

Real GDP growth is estimated to have risen to 4.8 percent in 2017 from 4.5 percent in 2016 on a recovery in tourism and construction. Tourist arrivals picked up with the increase in tourists from Europe offsetting the decline in arrivals of Chinese tourists. Consumer price inflation in Malé rose from 0.8 percent in 2016 to 2.3 percent in 2017, mainly due to temporary effects of subsidy reforms and increased duties on some imports, but fell to below 1 percent by mid-2018.

The fiscal deficit (excluding grants) declined to 3.5 percent of GDP in 2017, well below the 2016 deficit of around 10 percent of GDP. To some extent, the deficit reduction reflects increased revenue collection, but mainly lower recurrent and capital expenditures. The 2018 Budget envisages a deficit of 3.9 percent of GDP, below staff projections of around 6 percent of GDP. At current staff projections, public debt continues to increase in the next few years, approaching 70 percent of GDP and raising concerns about fiscal sustainability.

The current account (CA) deficit declined to 19.5 percent of GDP in 2017 from 24.5 percent of GDP in 2016 as export growth accelerated significantly, receipts from tourism picked up and import growth slowed. The 2017 CA deficit was financed by FDI inflow and portfolio investment (first issuance of an international sovereign bond in the amount of $250 million). Gross international reserves increased from US$586 million at the end of 2017 to US$822 million at the end of May 2018, before falling to US$681 million (2.2 months of imports) at the end of August 2018 (with usable reserves at US$291 million or 1 month of imports). The real effective exchange rate has appreciated by 8.5 percent since 2014, reflecting the U.S. dollar peg, and is assessed to be about 30 percent above the norm. With the overvalued exchange rate and the high current account deficit and external debt, Maldives' external position remains fragile.

In the near term, growth is projected to continue its recovery, supported by investment-driven construction activity and favorable external conditions, and to stabilize at a higher level over the medium term. Downside risks to the outlook in the near term include higher oil prices, dollar appreciation or tourism slowdown as a result of the adverse impact of trade tensions on global growth. In addition, tighter global financial conditions can potentially increase the cost of non-concessional borrowing and roll-over risks. On the other hand, with the presidential elections recently completed, domestic political uncertainty is now likely to dissipate, reducing the risk of an adverse impact on tourist arrivals and tourism-related tax collection and thus the risk of derailing the expected economic recovery. Both the fiscal and CA deficits are projected to gradually narrow over the medium term as infrastructure spending, which has the potential of transforming the economy, slows. In the meantime, though, the economy continues to be exposed to vulnerabilities from the wide CA deficit, overvalued currency, low international reserves, and fragile fiscal position.

Policy priorities should be to reduce fiscal and external deficits and public debt, build adequate foreign exchange reserves, develop the financial sector, and enhance longer-term growth potential through structural reforms. Tight fiscal policy is required to restore fiscal sustainability and reduce external imbalances. Fiscal policy should focus on implementing revenue measures, containing current spending, and prioritizing investment projects. Monetary policy should be tightened to support the buildup of reserves and the stabilized exchange rate arrangement, while the modernization of the monetary policy framework should improve monetary policy transmission. A gradual move toward more exchange rate flexibility, within a pegged regime, would improve external competitiveness.

India: High-Frequency Economic Activity Indicators

% y-o-y	2015		2016				2017												2018								
	H1	H2	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep
Consumption																											
Domestic passenger vehicle sales	5.0	10.4	2.5	6.7	17.8	1.8	14.4	9.1	10.0	14.7	8.7	-10.9	15.1	13.8	11.4	-0.3	14.3	5.2	7.6	7.8	6.4	7.5	19.7	37.5	-2.7	-2.5	-5.6
Aviation: Passenger traffic	19.8	20.9	24.3	20.4	24.5	23.2	25.6	15.4	14.4	14.8	17.4	20.0	12.2	15.6	16.3	19.9	16.5	17.4	18.2	23.3	26.9	25.0	16.1	17.8	21.6	16.9	
Cellular subscribers	12.9	11.4	10.4	9.1	8.8	8.2	20.0	20.8	19.1	22.1	22.2	22.7	22.6	21.4	20.9	22.2	22.4	22.2	9.1	10.3	13.9	12.7	4.4	5.2	5.1		
Consumer credit	16.4	17.6	18.9	19.1	18.9	15.2	12.9	12.0	16.4	14.4	13.7	14.1	15.0	15.7	16.8	16.0	17.3	18.9	20.0	20.4	17.8	19.1	18.6	17.9	16.7	18.2	
Rural wages (male)	7.0	6.1	5.9	6.3	5.6	5.9	6.2	6.2	5.8	6.1	5.7	5.4	6.2	5.9	6.1	5.7	5.3	5.1	4.8	5.1	5.1	4.6	4.7	4.6	4.3		
Domestic two-wheeler sales	0.2	1.5	8.6	14.3	20.6	-4.6	-7.4	0.0	0.3	7.3	11.9	4.0	13.8	14.7	9.1	-2.8	23.5	41.5	33.4	23.8	18.3	16.9	9.2	22.3	8.2	2.9	4.1
Investment																											
Railway traffic: Net tonne km	2.2	-4.9	-8.4	-8.6	-8.0	-4.7	-3.4	-0.7	3.4	3.1	4.5	2.5	4.0	6.1	4.9	6.8	6.6	12.3	8.7	5.9	7.5	11.8	7.5	5.5	5.7	8.7	6.5
Government Capex (YTD)	45.1	42.1	16.5	-16.4	23.5	-23.1	7.2	12.8	62.0	56.1	60.7	52.3	47.1	37.5	25.9	41.1	39.6	39.0	22.3	78.4	-74.3	-45.0	-42.4	-34.3	-31.0	-25.9	
External sector																											
Visitor arrivals	3.7	5.3	9.7	6.6	12.6	9.5	14.2	9.7	9.5	21.3	18.0	21.3	6.2	10.3	18.4	16.9	13.6	14.3	8.7	13.1	15.8	4.4	-2.6	2.7	3.5	9.1	-0.1
Exports value	-15.3	-18.6	-7.8	-1.6	-1.0	6.1	5.5	18.6	27.9	17.8	6.9	1.6	2.8	8.1	25.5	-2.0	31.0	15.7	13.6	5.3	-0.5	4.3	21.1	18.7	16.4	19.3	-2.2
Export (ex-oil) value	-7.3	-10.9	-5.6	0.9	0.5	5.7	2.6	17.3	23.3	15.5	6.1	3.9	2.6	7.1	24.3	-3.6	28.7	13.9	9.3	2.3	1.2	4.7	10.4	11.7	11.9	17.2	-6.2
Imports (ex-oil, gold) value	3.9	-5.9	-3.8	-8.2	-4.4	7.2	5.5	8.7	20.9	47.0	22.8	17.9	13.3	23.3	21.4	6.5	28.8	13.4	24.1	7.5	12.2	-3.7	12.8	12.2	17.4	12.8	1.2
Industry																											
Industrial production	1.8	3.3	5.4	7.1	4.5	3.8	3.5	1.2	4.4	3.2	2.9	-0.3	1.0	4.8	4.1	1.8	8.5	7.3	7.5	6.9	5.3	4.5	3.8	6.9	6.5	4.3	
Manufacturing PMI*	52.1	50.2	51.9	51.1	52.3	51.7	49.8	50.7	54.0	52.5	51.9	50.3	46.8	52.3	51.6	50.5	53.1	54.5	50.0	52.0	51.6	52.2	51.7	52.7	51.7	52.2	52.9
Corporate (industry) credit	6.1	5.5	6.1	3.8	5.1	0.9	-0.4	-0.7	4.9	0.6	0.2	1.1	1.6	1.7	2.4	3.4	5.9	6.9	5.7	6.0	6.0	8.6	9.3	9.5	9.0	11.5	
Coal output	5.6	4.4	4.6	5.3	-4.2	2.8	3.5	6.6	10.6	-3.3	-3.2	-6.7	0.6	15.4	10.4	3.9	0.7	0.4	3.8	1.3	9.1	15.2	12.0	11.8	9.8	2.4	
Steel output	-1.9	-3.6	4.5	9.0	10.8	12.9	11.3	8.7	11.0	9.0	3.8	6.0	9.4	2.2	3.7	8.6	14.5	0.4	1.7	5.0	4.7	3.0	-0.1	3.4	6.9	3.9	
Cement output	-0.2	3.2	11.8	5.8	3.4	-0.8	-13.3	-15.8	-6.8	-5.2	-1.4	-3.3	1.0	0.7	0.1	-1.3	16.9	17.7	19.6	23.0	13.5	21.9	13.0	13.2	11.1	14.3	
Electricity generation	5.7	5.5	9.2	10.0	3.1	6.1	5.2	1.2	6.2	5.3	8.2	2.2	6.6	8.3	3.4	3.2	3.9	4.4	7.7	4.6	6.0	2.1	4.1	8.4	6.7	5.4	
Services																											
Services PMI*	50.9	52.5	53.0	52.0	52.6	48.1	49.4	53.1	51.8	50.8	53.1	53.8	43.5	46.4	51.9	52.9	45.4	50.9	51.4	46.8	51.8	52.7	49.9	55.8	53.0	48.6	51.5
Light commercial vehicles	-3.1	1.3	13.9	12.6	8.1	-0.6	0.0	-0.6	3.6	-7.9	1.0	1.0	20.3	5.8	10.3	10.9	26.1	34.0	44.9	33.9	31.9	62.7	34.9	42.9	28.3	42.4	31.8
Medium & heavy commercial vehicles	24.7	31.6	27.7	21.6	-16.7	4.3	-1.2	-9.9	1.7	-55.9	-58.0	-20.8	1.3	11.1	23.9	16.5	3.4	49.9	11.9	26.3	15.7	180.0	176.3	45.9	27.8	33.8	54.6
Railway traffic: passenger	-6.6	1.9	2.0	0.0	0.6	1.5	1.4	-0.7	2.2	2.4	3.2	1.4	1.7	-2.1	-1.4	4.6	-4.6	1.4	1.0	1.0	2.1	1.2	-1.2	0.1	0.9	4.6	4.5
Airline: cargo traffic	7.8	4.8	10.2	7.0	8.4	11.1	13.7	9.4	18.3	17.4	17.2	13.9	10.9	16.3	18.6	5.2	19.6	13.8	9.7	9.6	3.9	6.1	6.8	6.8	10.6	7.2	
Deposits	11.1	10.5	9.1	9.2	10.1	13.6	12.8	12.0	15.4	10.9	10.3	12.7	9.5	8.9	8.2	8.7	2.9	3.6	4.5	5.4	6.2	7.7	8.1	6.8	8.6	9.7	8.0
Bank Credit	9.4	9.3	10.4	9.5	9.7	6.9	4.3	3.7	8.2	4.9	4.8	8.1	5.6	6.3	6.6	6.8	9.3	10.5	10.2	10.8	9.9	12.2	12.7	10.9	12.3	13.9	12.4
Other indicators																											
Gross tax (ex-service tax) (YTD)	15.8	21.3	6.9	30.9	7.1	19.8	11.2	15.4	17.9	19.7	20.0	16.6	17.8	21.5	23.0	24.9	24.6	25.6	47.5	33.6	19.3	26.3	26.4	27.5	24.5	21.5	
OECD Composite leading indicators*	100.0	100.0	99.7	99.5	99.2	98.9	98.8	98.8	98.8	98.9	98.9	99.0	99.1	99.3	99.4	99.6	99.7	99.9	100.1	100.3	100.5	100.7	100.9	101.1	101.3	101.5	

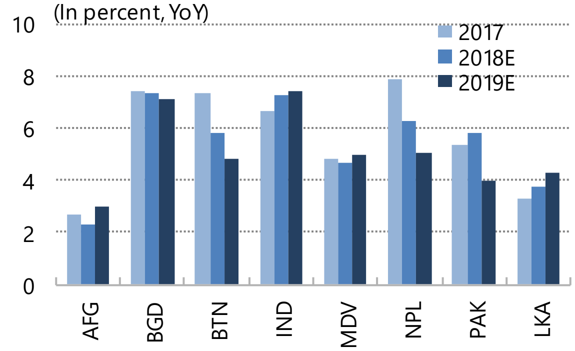
Sources: CEIC Data Company Ltd., Haver, OECD, and IMF staff estimates.

* 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

South Asia: Recent Economic Developments and Outlook

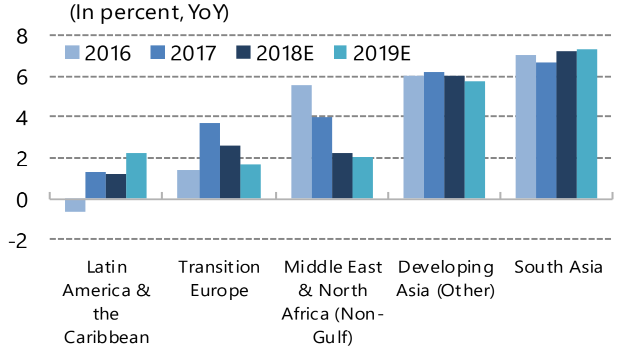
Economic growth is expected to remain strong in 2018 in key South Asia countries

Real GDP Growth
(In percent, YoY)



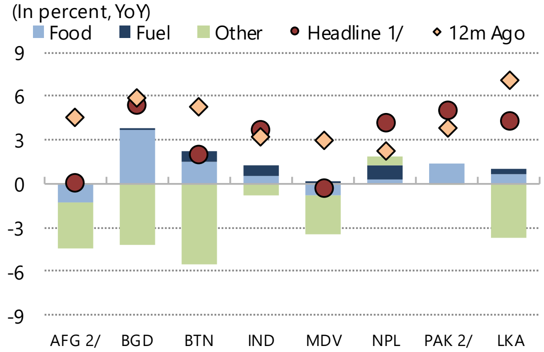
South Asia's growth exceeds growth in comparator regions

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



Inflation remains anchored, remaining between 3 and 6 percent in the larger countries

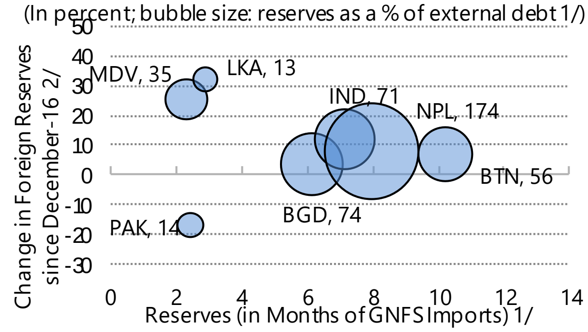
Inflation: Headline and Contributions to Change
(In percent, YoY)



1/ LKA, PAK, IND (Sep-18); NPL, AFG, BTN, BGD (Aug-18); MDV (Jul-18).
2/ Fuel series unavailable.

Foreign exchange reserves remain above the end-2016 level, except in Pakistan

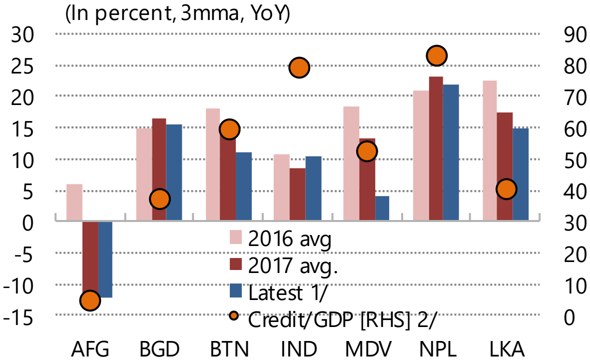
Foreign Reserves
(In percent; bubble size: reserves as a % of external debt 1/)



1/ IND, MDV, PAK, BGD, NPL,LKA (2018); BTN (2016).
2/IND, BGD, NPL, LKA (Sep-18); PAK (May-18); MDV (Feb-18); BTN (Jun-17).

Bank credit growth is decelerating in many South Asian economies, and remains in India

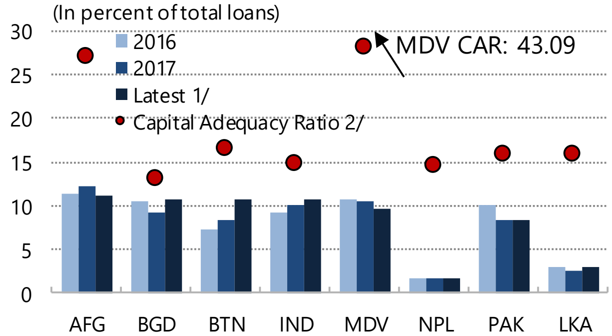
Credit to the Economy
(In percent, 3mma, YoY)



1/ LKA, IND, MDV, NPL (Aug-18); BTN, BGD (Jul-18); AFG (May-18).
2/ IND,NPL,AFG,BGD,BTN,LKA,MDV (2017).

Nonperforming loans are elevated in most countries, but capitalization seems adequate

Nonperforming Loans Ratio
(In percent of total loans)

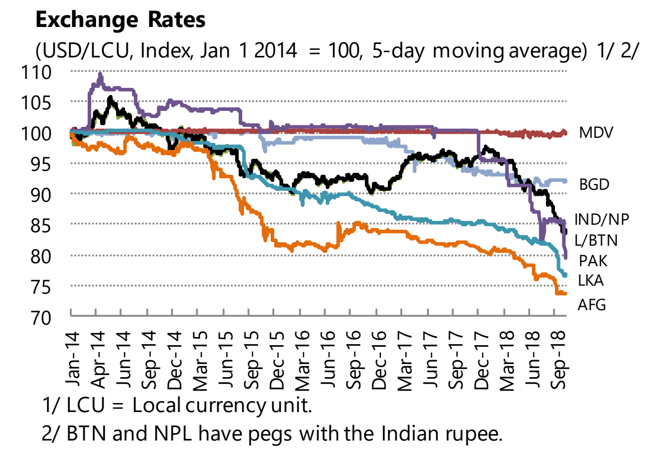


1/ AFG, BTN, IND, MDV (2018Q2); NPL, BGD, LKA (2018Q1); PAK (2017Q4).
2/ AFG, BTN, IND, MDV (2018Q2); NPL, BGD, LKA (2018Q1); PAK (2017Q4).

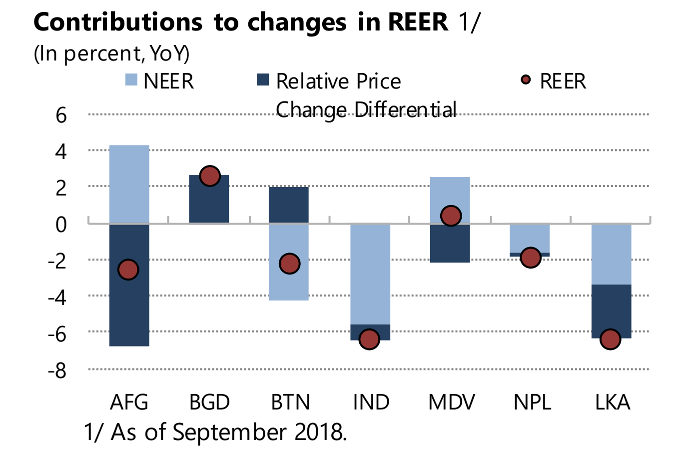
Sources: IMF, *International Financial Statistics*; IMF, *Financial Soundness Indicators;* IMF, *World Economic Outlook*; national monetary authorities; Haver Analytics; Bloomberg; and CEIC. Country acronyms denote: Islamic Republic of Afghanistan (AFG); Bangladesh (BGD); Bhutan (BTN); India (IND); Maldives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

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

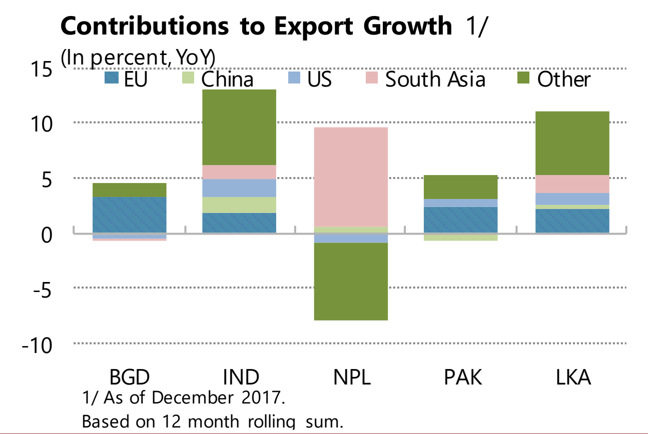
Nominal exchange rate flexibility is a policy feature in several South Asian economies



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

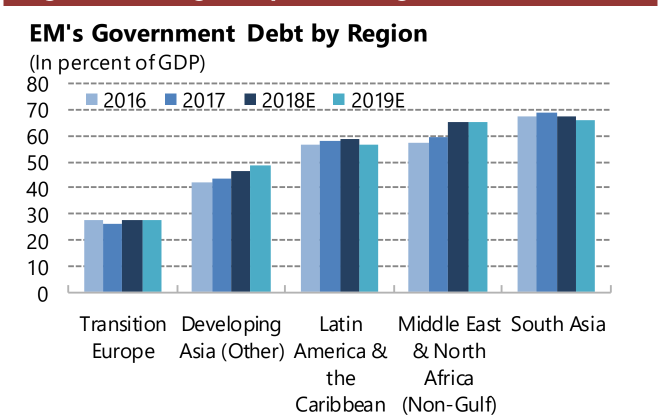


Intra-South Asian trade remains small—links to advanced economies and large EMs are key

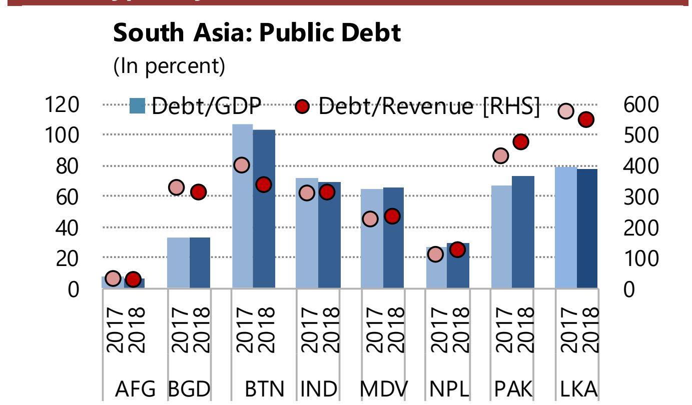


South Asia's share of world trade continues to grow, but remains relatively limited

While easing, South Asia public debt remains the highest among comparator regions



Public debt-to-GDP ratios and debt-to-revenue ratios typically move in the same direction



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	2013	2014	2015	2016	2017	Projections 2018	Projections 2019
Real GDP Growth	**7.0**	**6.0**	**6.9**	**7.5**	**6.7**	**6.5**	**7.0**	**7.0**
(Annual change; percent)								
Afghanistan	…	5.7	2.7	1.0	2.2	2.7	2.3	3.0
Bangladesh	5.8	6.0	6.3	6.8	7.2	7.4	7.3	7.1
Bhutan	8.4	3.6	4.0	6.2	7.3	7.4	5.8	4.8
India	7.6	6.4	7.4	8.2	7.1	6.7	7.3	7.4
Maldives	7.1	7.1	7.6	2.2	4.5	4.8	4.7	5.0
Nepal	4.0	4.1	6.0	3.3	0.6	7.9	6.3	5.0
Pakistan	4.6	3.7	4.1	4.1	4.6	5.4	5.8	4.0
Sri Lanka	5.1	3.4	5.0	5.0	4.5	3.3	3.7	4.3
Consumer Price Inflation	**6.7**	**9.0**	**6.1**	**4.9**	**4.4**	**3.9**	**4.7**	**5.2**
(Year average; percent)								
Afghanistan	…	7.4	4.7	-0.7	4.4	5.0	3.0	4.0
Bangladesh	6.3	7.5	7.0	6.2	5.7	5.6	6.0	6.1
Bhutan	4.6	11.3	9.5	7.6	7.6	5.8	4.6	4.9
India	6.4	9.4	5.8	4.9	4.5	3.6	4.7	4.9
Maldives	4.1	3.8	2.1	1.9	0.8	2.3	1.7	2.7
Nepal	6.2	9.9	9.0	7.2	9.9	4.5	4.2	5.0
Pakistan	8.2	7.4	8.6	4.5	2.9	4.1	3.9	7.5
Sri Lanka	9.8	6.9	2.8	2.2	4.0	6.5	4.8	4.8
General Gov. Overall Fiscal Bala	**-7.6**	**-6.8**	**-6.5**	**-6.7**	**-6.6**	**-6.7**	**-6.4**	**-6.3**
(Percent of GDP)								
Afghanistan[1]	…	-0.6	-1.7	-1.4	0.1	-0.6	-0.4	-0.8
Bangladesh[1]	-2.9	-3.4	-3.1	-4.0	-3.4	-3.3	-4.3	-4.5
Bhutan	-3.0	-4.2	3.8	1.5	-1.1	-3.3	-1.0	2.2
India	-8.7	-7.0	-7.1	-7.2	-7.2	-7.2	-6.6	-6.5
Maldives	-7.0	-6.8	-7.1	-7.0	-9.1	-3.3	-5.8	-6.1
Nepal	-1.6	1.3	0.8	-0.6	0.9	-4.2	-6.1	-5.8
Pakistan	-3.8	-8.4	-4.9	-5.3	-4.4	-5.7	-6.5	-6.9
Sri Lanka[1]	-6.9	-5.2	-6.2	-7.0	-5.4	-5.5	-4.6	-3.6
Current Account Balance	**-0.6**	**-1.5**	**-1.1**	**-0.9**	**-0.6**	**-2.1**	**-3.3**	**-2.8**
(Percent of GDP)								
Afghanistan	…	0.3	5.8	2.9	7.3	5.0	5.3	-0.9
Bangladesh	0.5	1.2	1.3	1.9	0.6	-2.0	-3.2	-2.7
Bhutan	-13.1	-25.4	-26.4	-28.3	-29.4	-22.8	-22.8	-15.0
India	-0.8	-1.7	-1.3	-1.1	-0.6	-1.9	-3.0	-2.5
Maldives	-12.6	-4.3	-3.2	-7.4	-24.5	-19.5	-18.2	-15.2
Nepal	2.5	3.3	4.5	5.0	6.3	-0.4	-8.2	-6.3
Pakistan	-1.5	-1.1	-1.3	-1.0	-1.7	-4.1	-5.9	-5.3
Sri Lanka	-2.7	-3.4	-2.5	-2.3	-2.1	-2.6	-2.9	-2.7

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.