



South Asia: Consolidating Gains in the Post-Crisis Era

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Outline

1. World Economic Outlook

- WEO, GFSR, Fiscal Monitor

2. Developments in South Asia*









- Regional Economic Outlook Updates:
Asia-Pacific and Middle East & Central Asia

3. Conclusion and issues for discussion

* Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan

World Economic Outlook

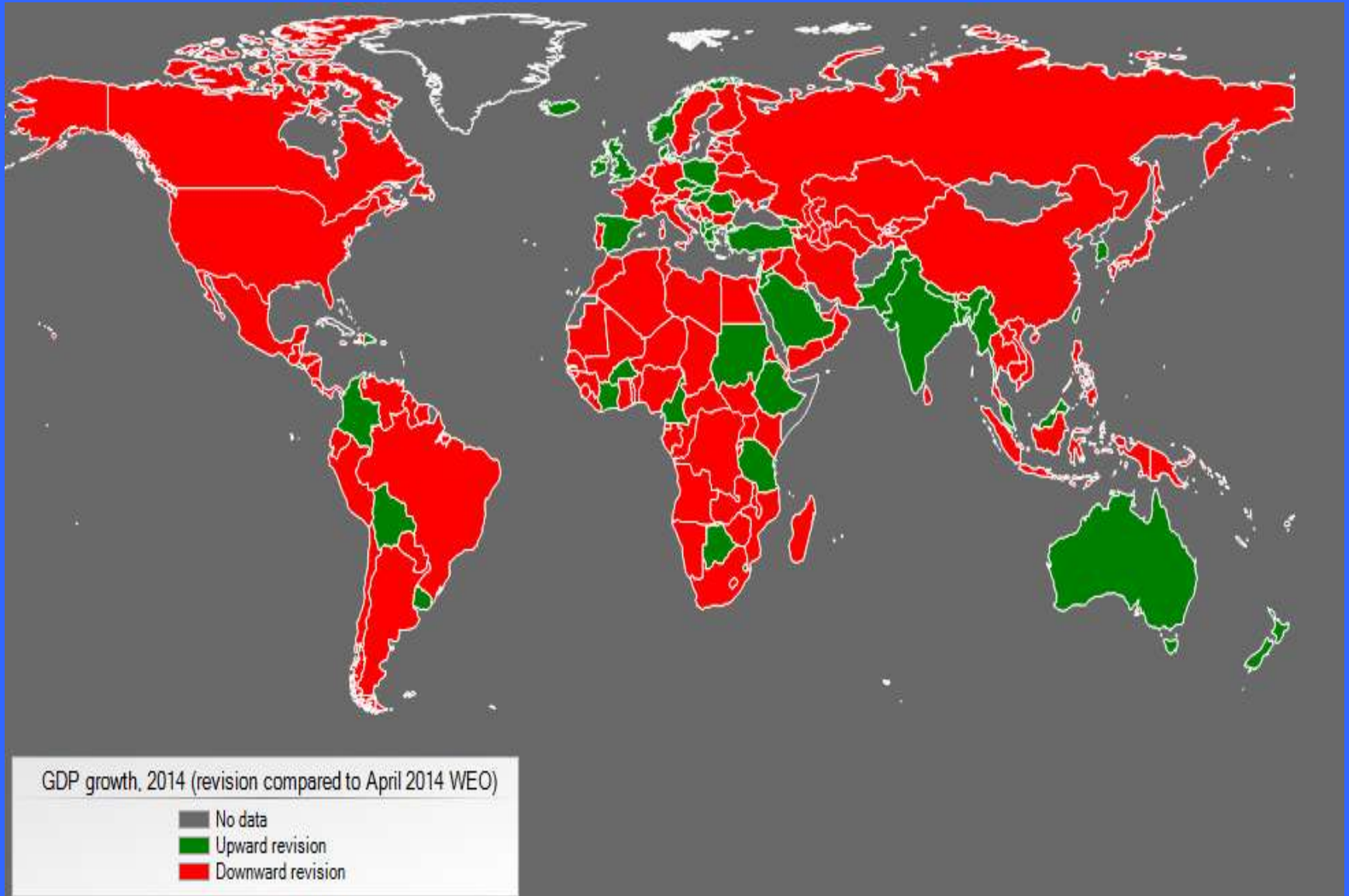
October 2014 WEO Real GDP Growth Projections *(percent change from a year earlier)*

								
	World	U.S.	Euro Area	Japan	Brazil	Russia	India*	China
2014 (Oct 2014)	3.3	2.2	0.8	0.9	0.3	0.2	5.6	7.4
2014 (July 2014)	3.4	1.7	1.1	1.6	1.3	0.2	5.4	7.4
2015 (Oct 2014)	3.8	3.1	1.3	0.8	1.4	0.5	6.4	7.1
2015 (July 2014)	4.0	3.0	1.5	1.1	2.0	1.0	6.4	7.1

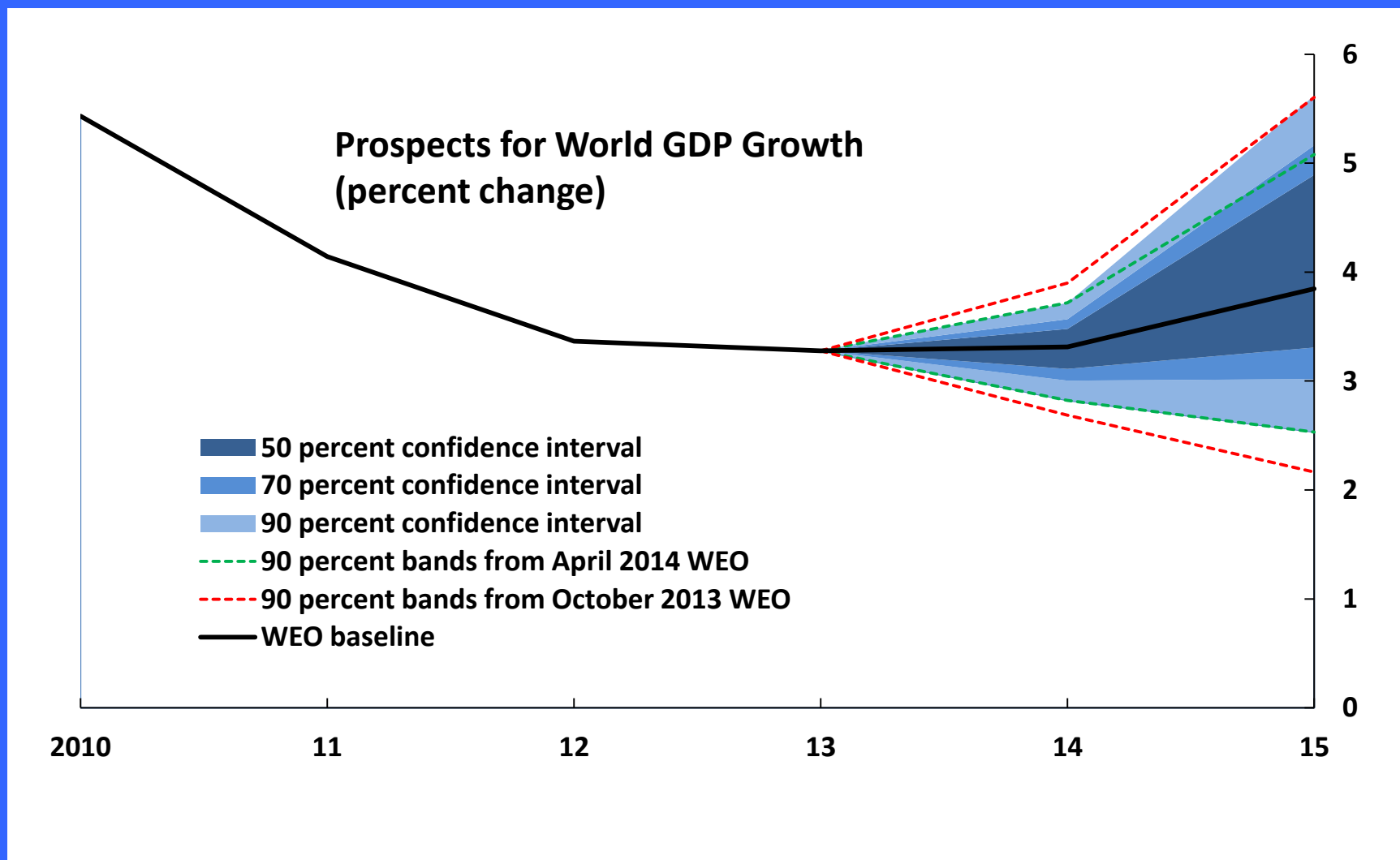
*For India 2014 is FY2014/15, and 2015 is FY2015/16. Data are at market prices (Factor cost estimates are 5.4% for 2014/15 and 6.4% for 2015/16)

We have downgraded growth for most countries

Real GDP Growth 2014 (percent)



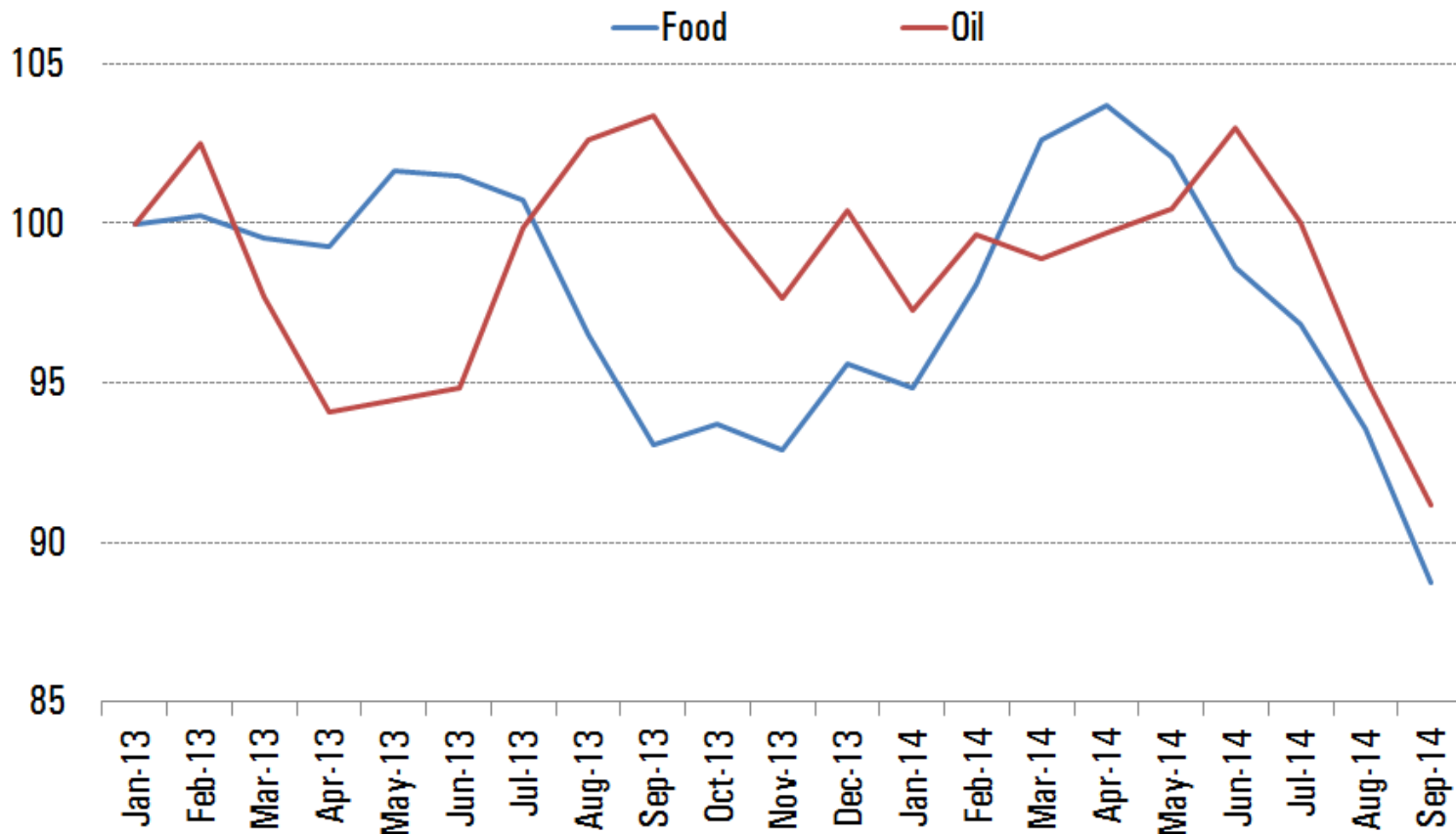
Although growth to improve next year, risks are tilted to the downside



One spot of good news: commodity prices are down...

Global Food and Oil Prices

(2013 January = 100)

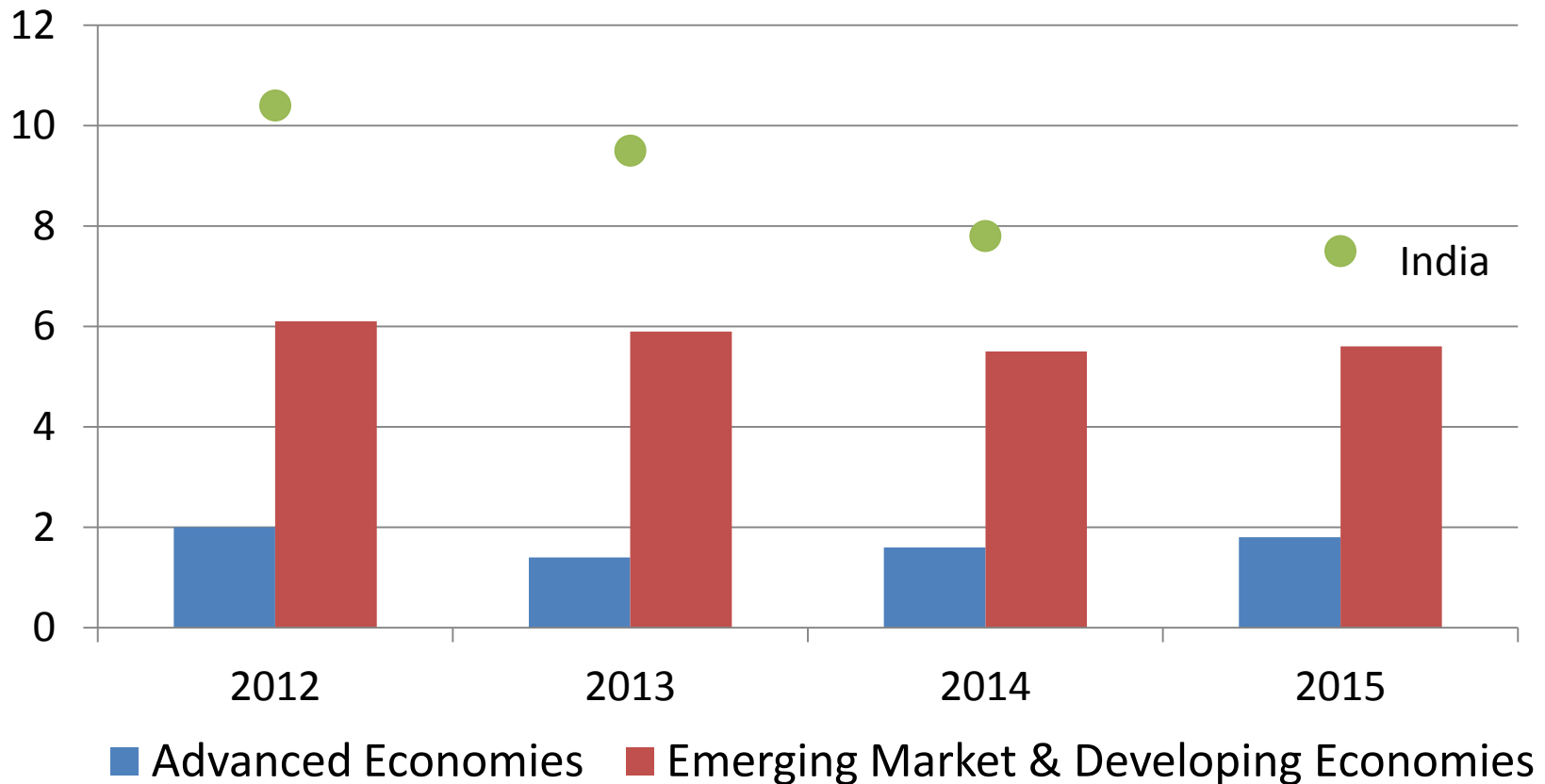


Source: IMF, *Global Data Source* database.

... contributing to lower inflationary pressures

Consumer Price Inflation

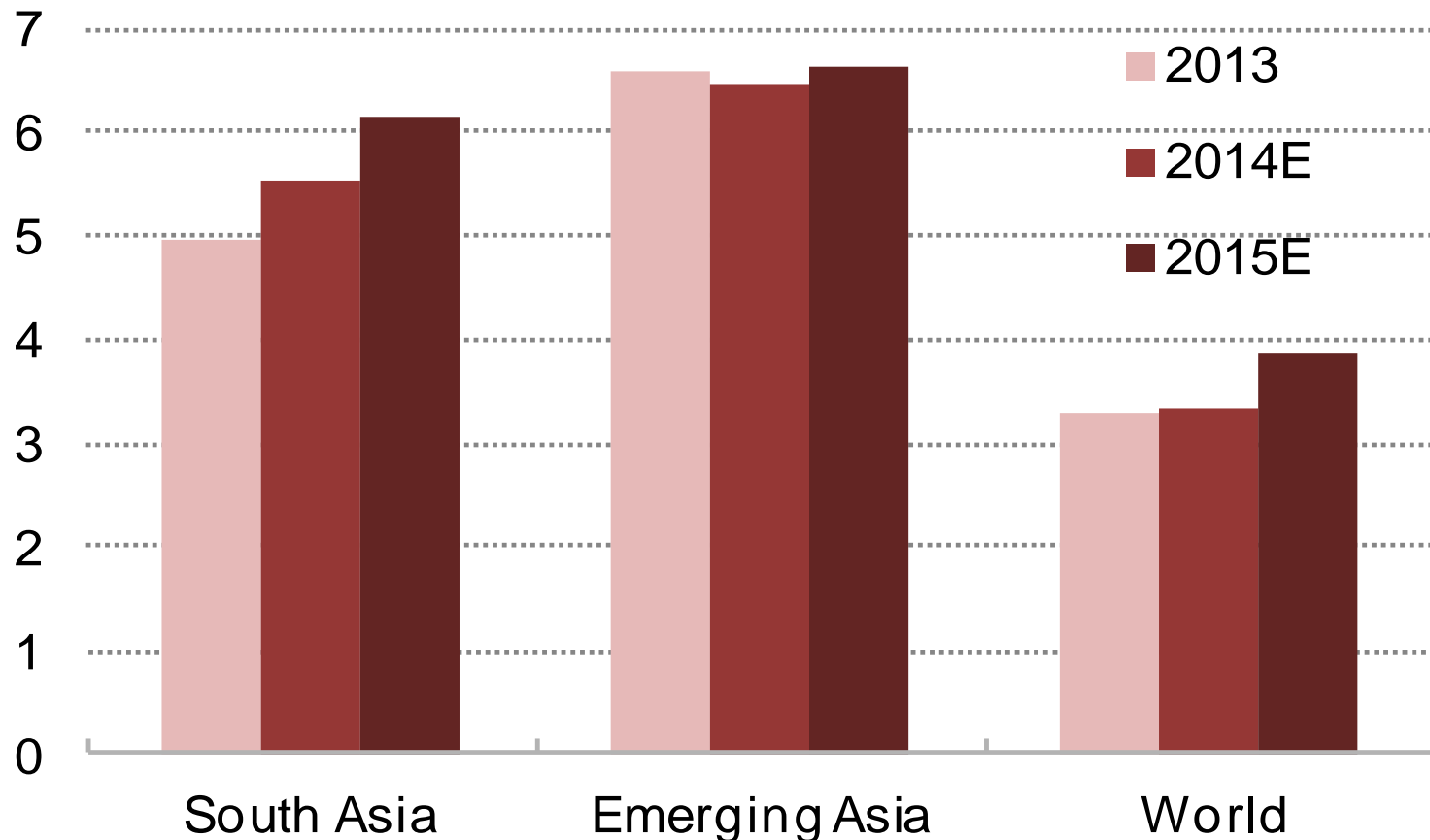
(%, Year on Year)



Source: October 2014 WEO

Developments in South Asia

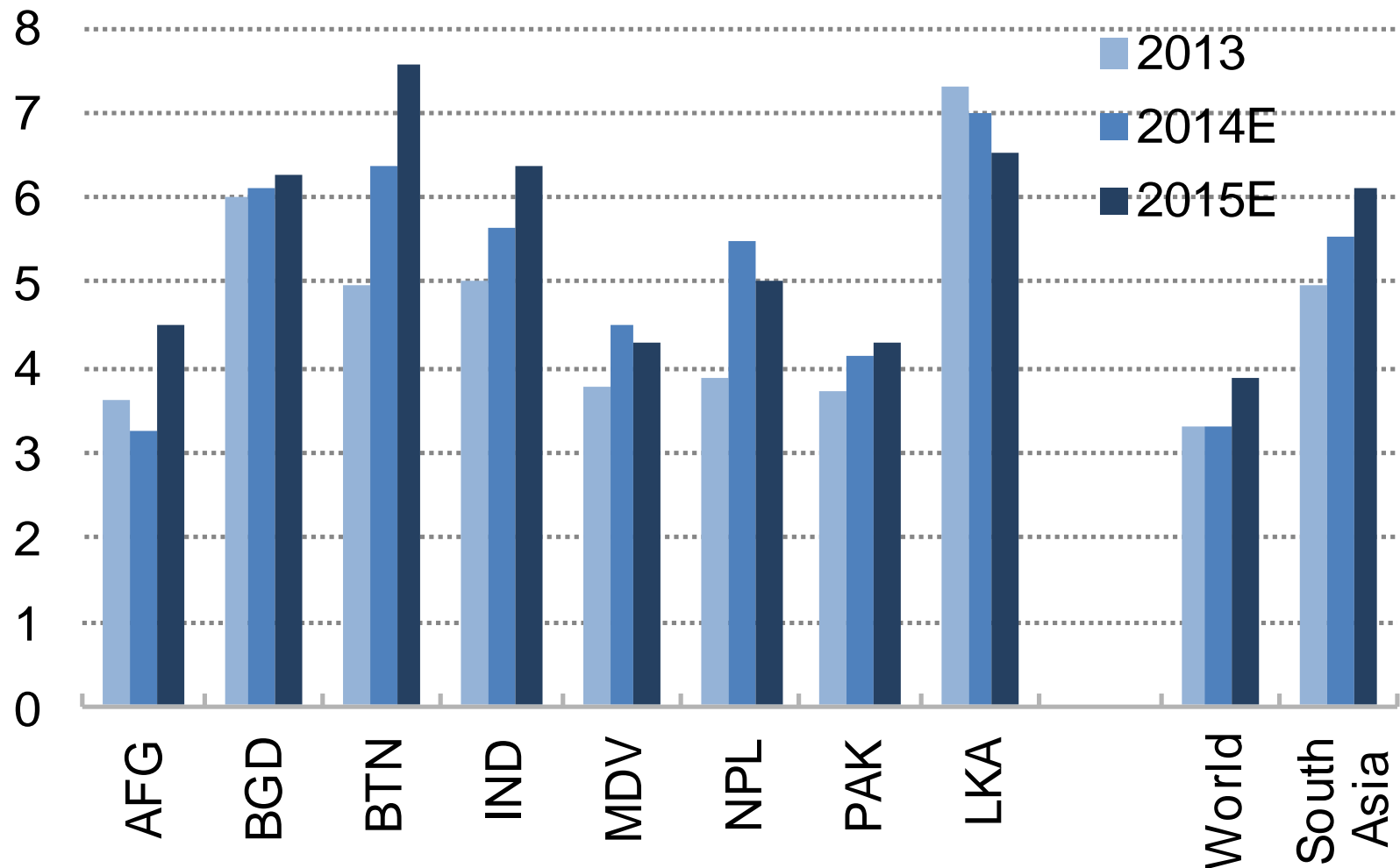
Real GDP Growth (In percent, YoY)



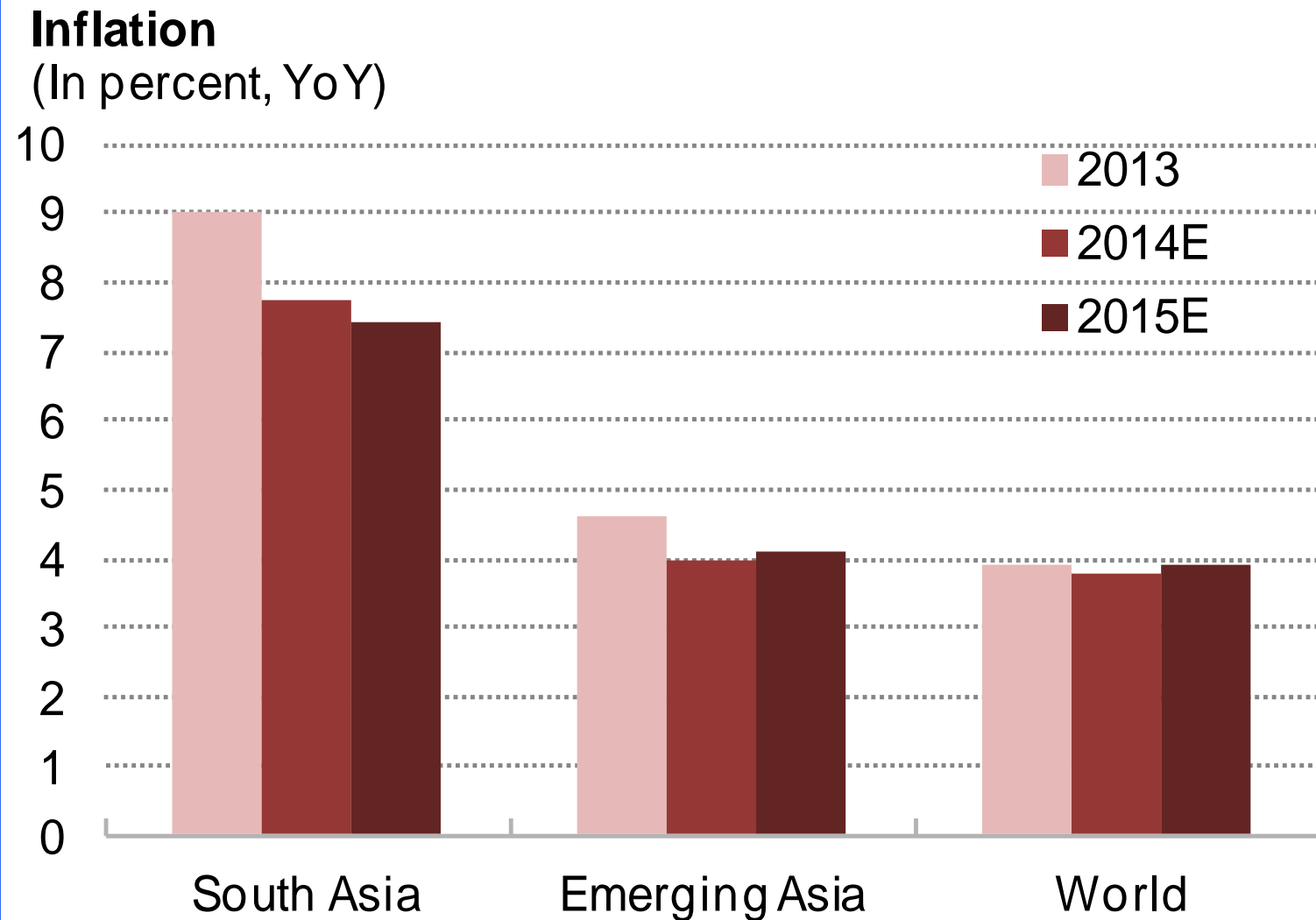
Source: IMF, *World Economic Outlook*.

Growth is set to accelerate in almost all countries of SA

Real GDP Growth
(In percent, YoY)



Inflation, while declining, is still way too high

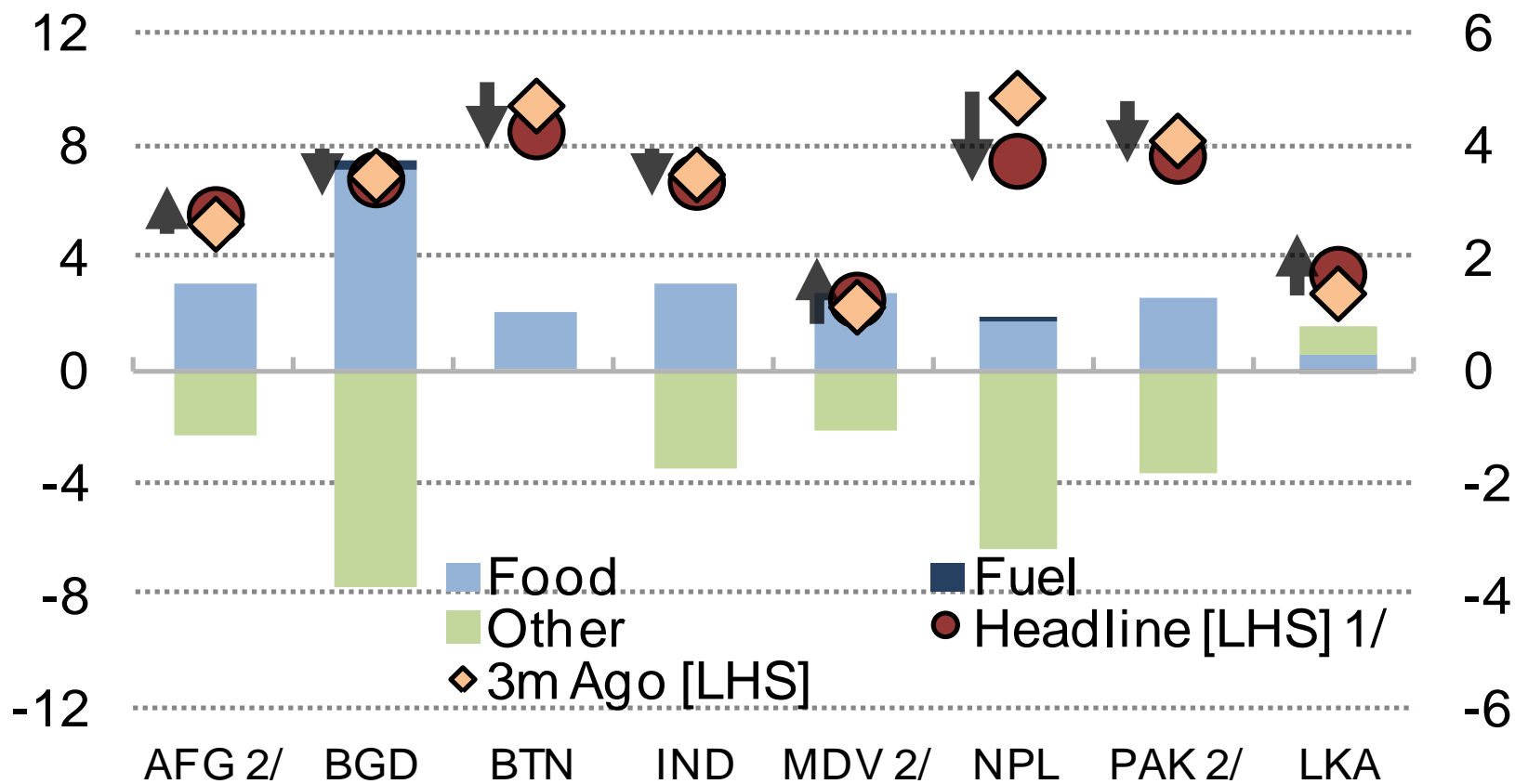


Source: IMF, *World Economic Outlook*.

Food remains a major driver of inflation in the region

Contribution to Change in Headline Inflation

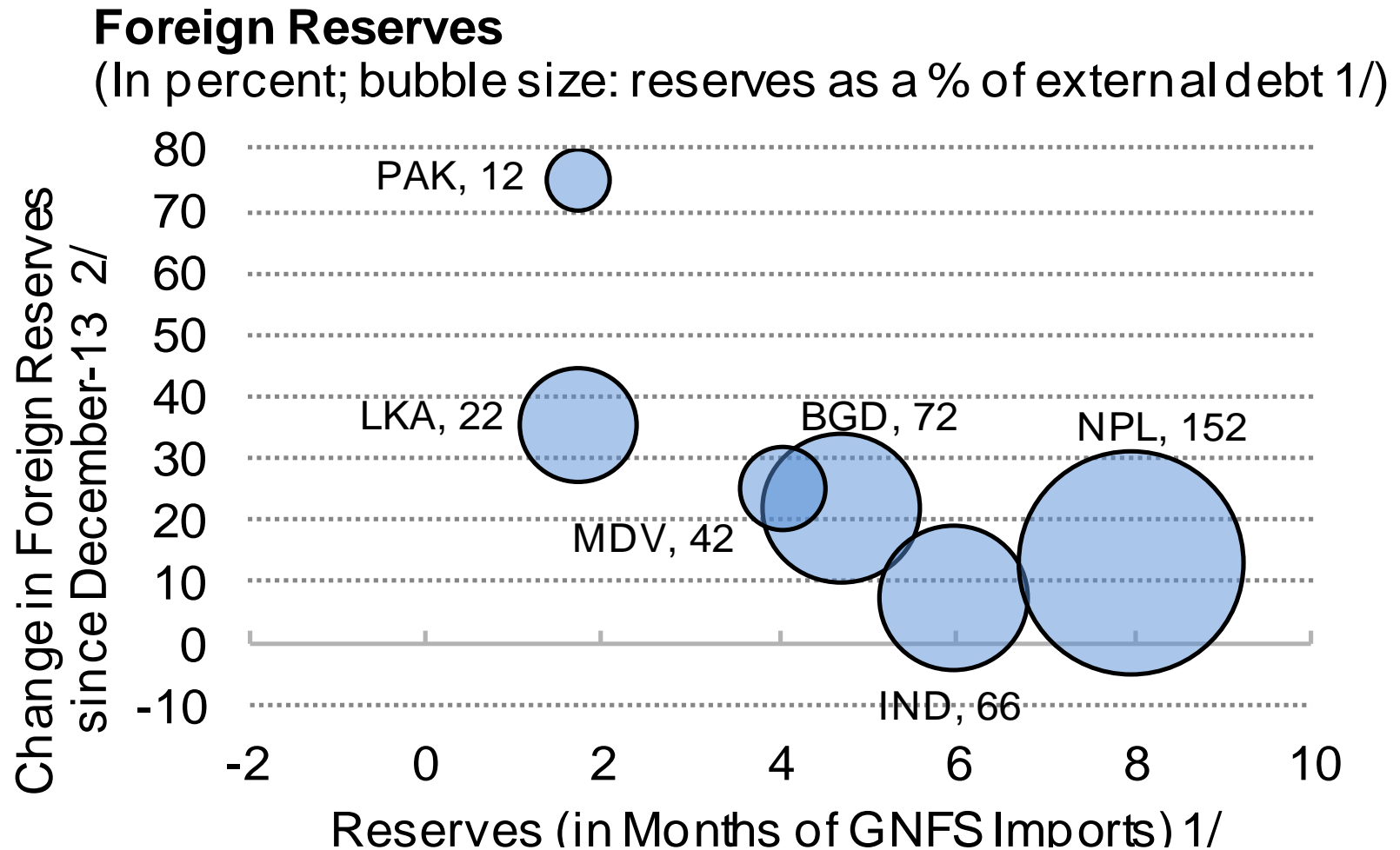
(In percent, YoY)



1/ PAK, LKA (Sep-14); IND, NPL (Aug-14); MDV (Jul-14); BTN (Jun-14); AFG (May-14).

2/ Fuel series unavailable.

Reserve buffers have grown rapidly for some countries



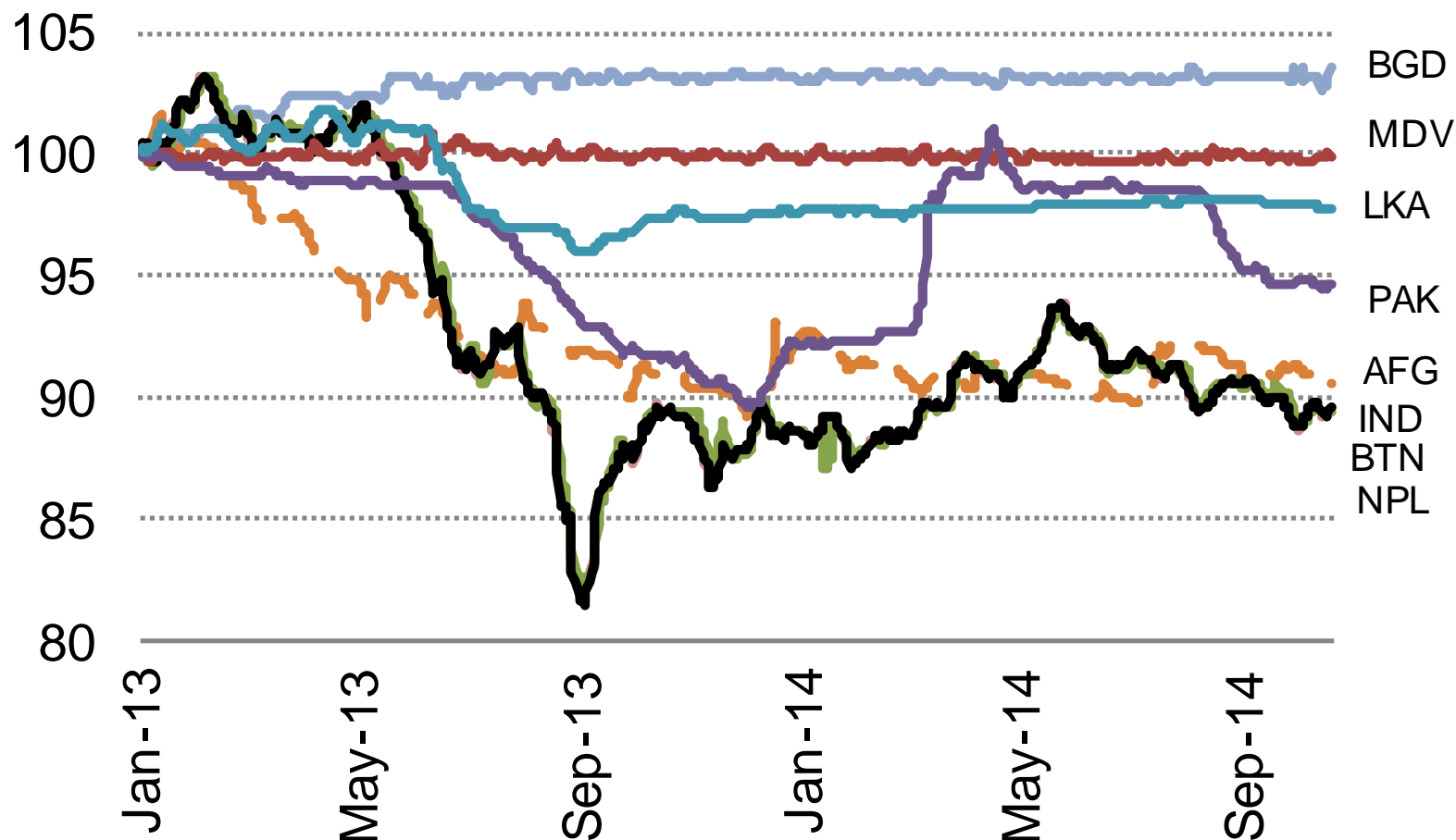
1/ As of end-2013.

2/ IND (Sep-14); BGD, LKA (Aug-14); MDV (Jul-14); BTN, PAK (May-14); NPL (Apr-14).

Exchange rate flexibility is part of the toolkit to manage volatility,
at least for some countries

Exchange Rates

(USD/LCU, Index, Jan 1 2013 = 100, 5-day moving average) 1/ 2/

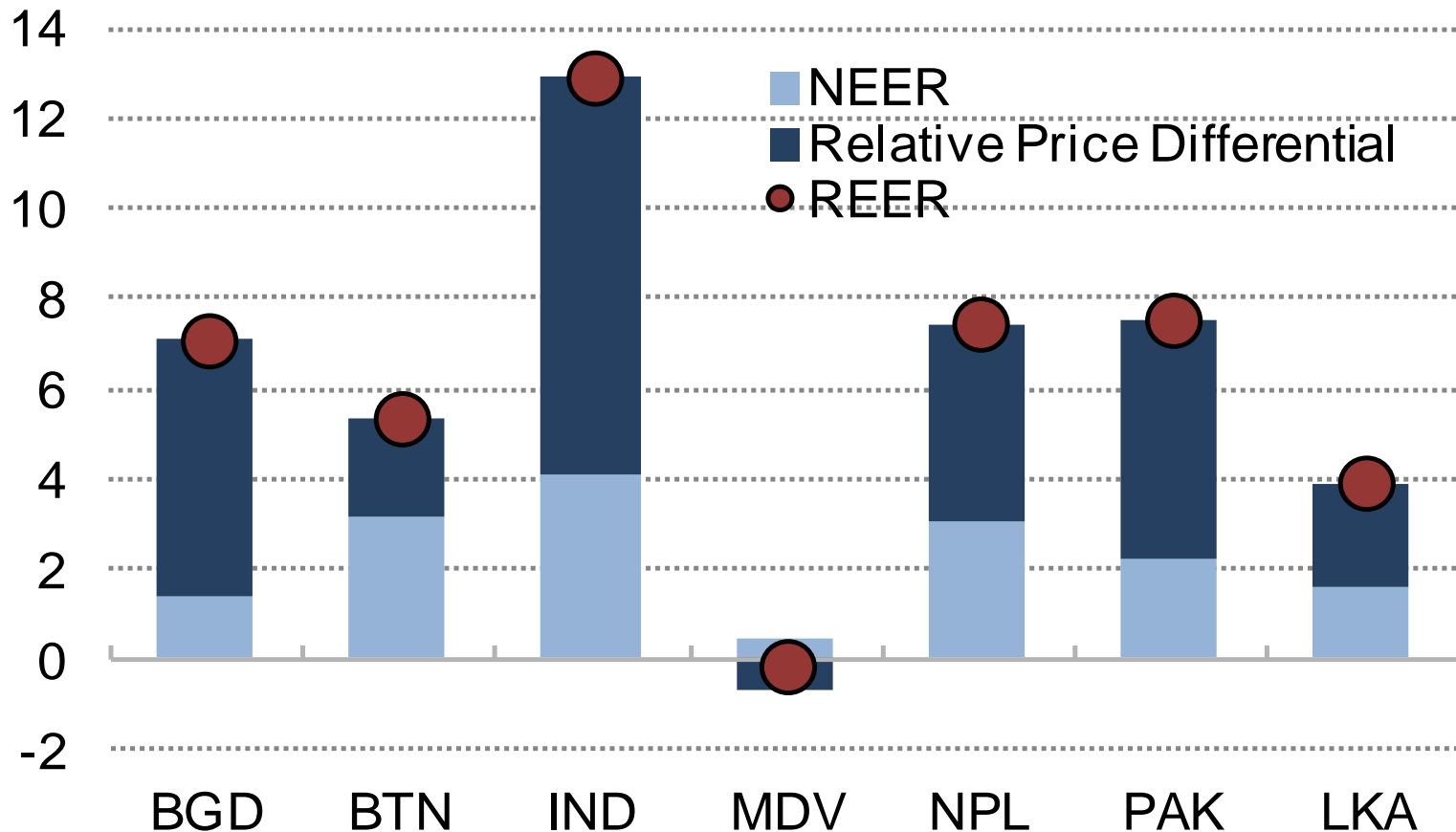


1/ LCU = Local currency unit.

2/ BTN and NPL have pegs with the Indian rupee.

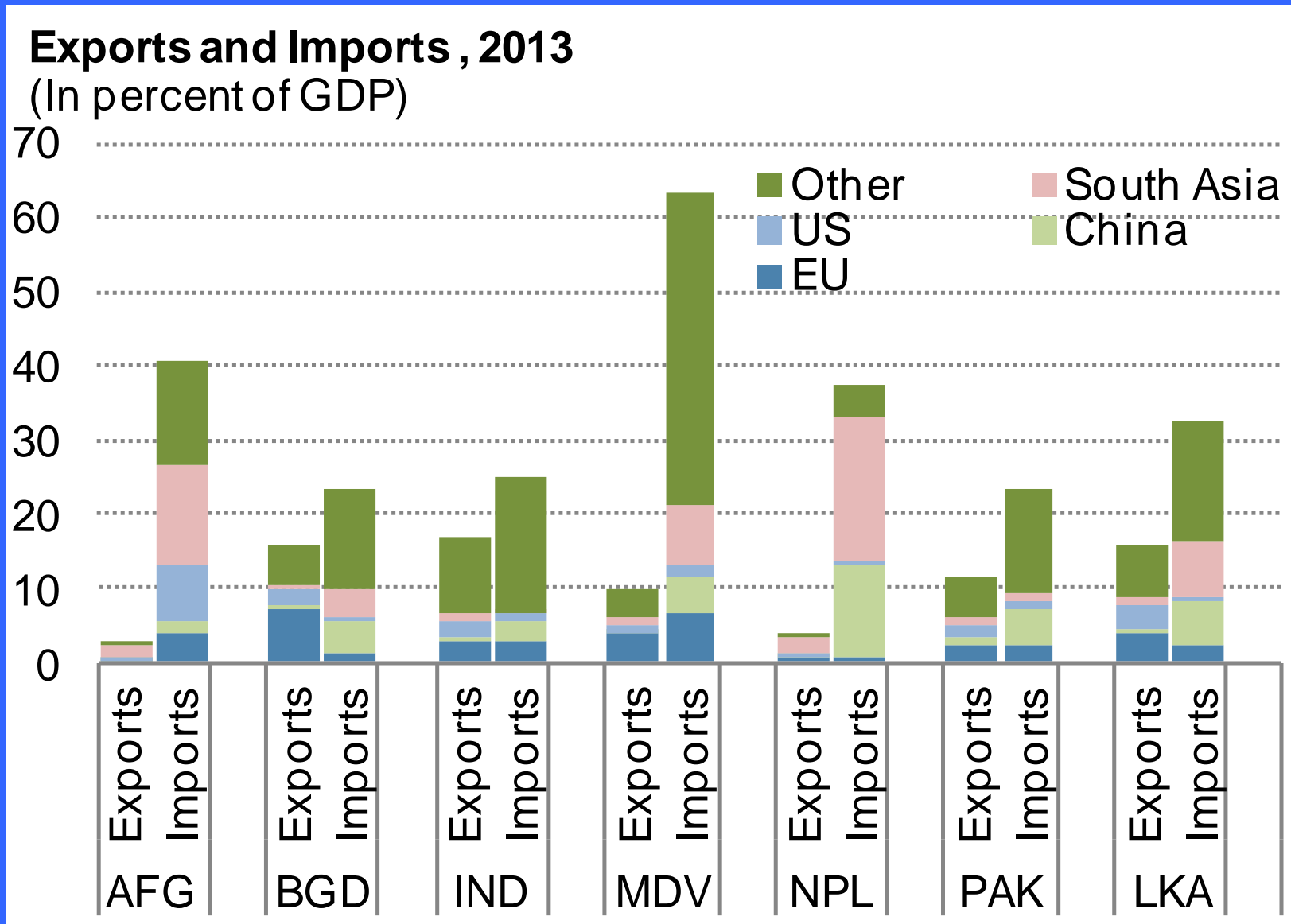
Inflation wedge drives much of the movement of real exchange rates

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



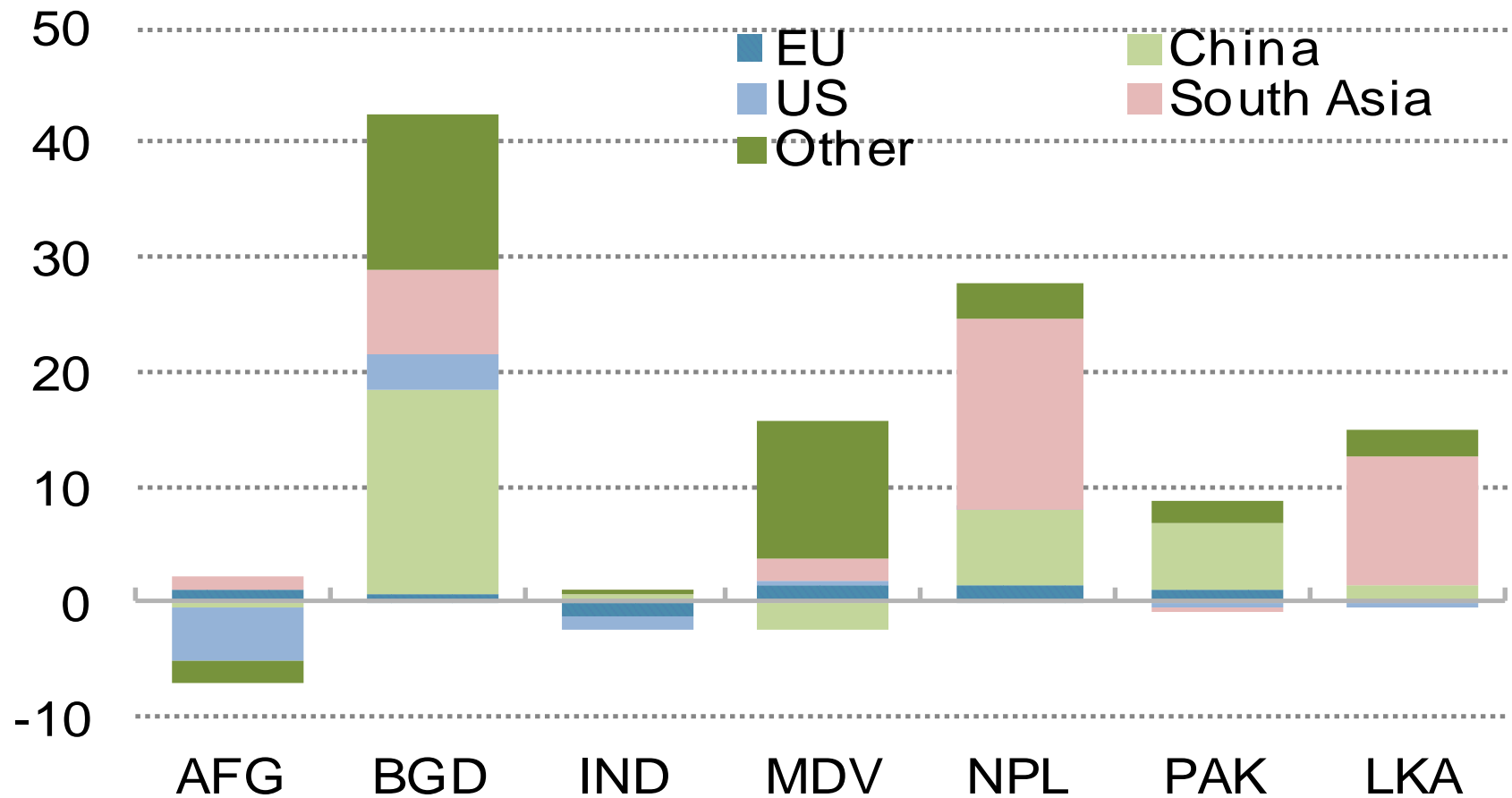
1/ As of September 2014 or latest.

Trade deficits are a feature of all SA countries



Intra-South Asian trade remains too small

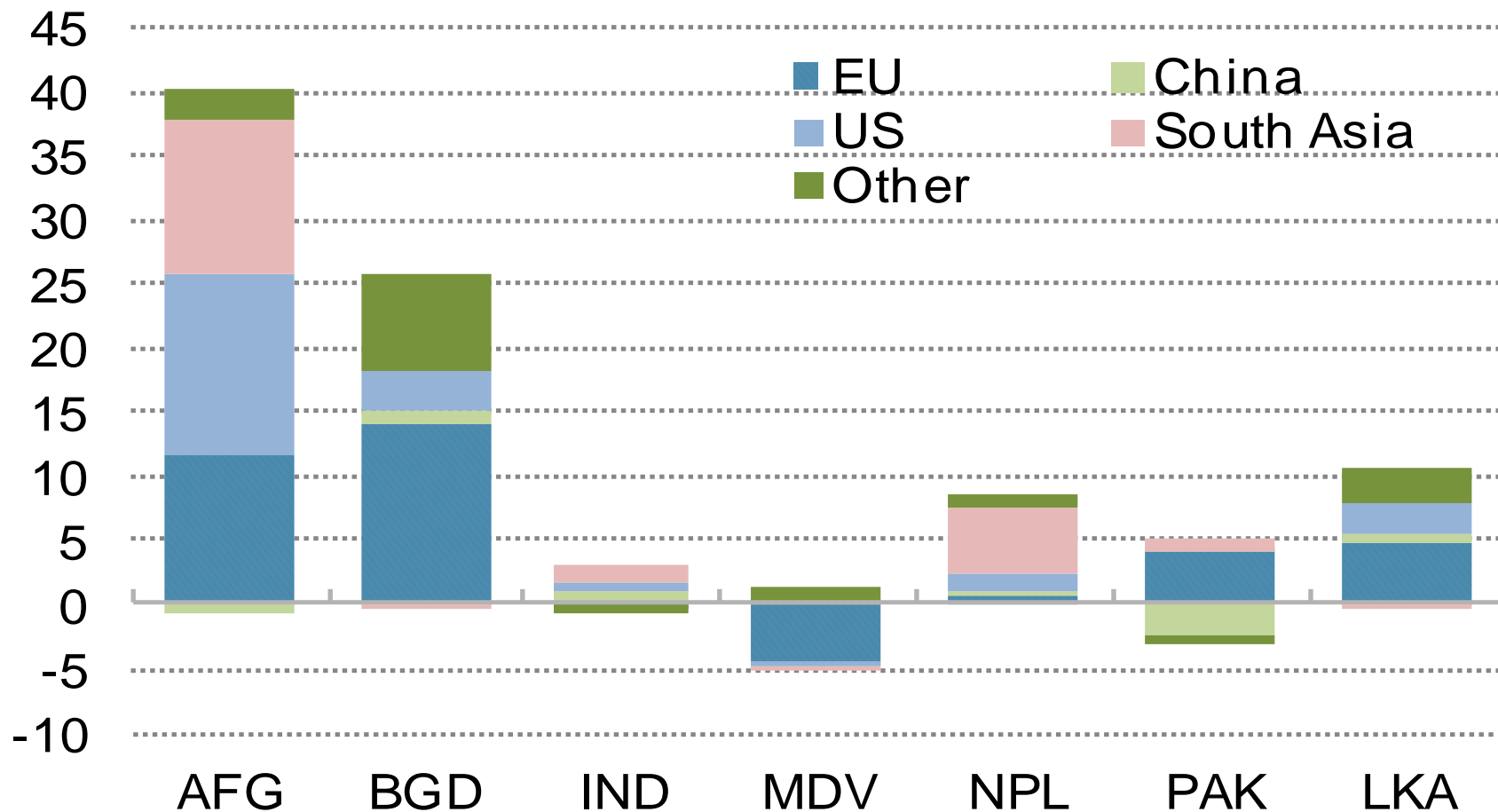
Contributions to Import Growth 1/ (In percent, 3mma, YoY)



1/ As of May 2014.

Exports are predominantly outside South Asia

Contributions to Export Growth 1/ (In percent, 3mma, YoY)

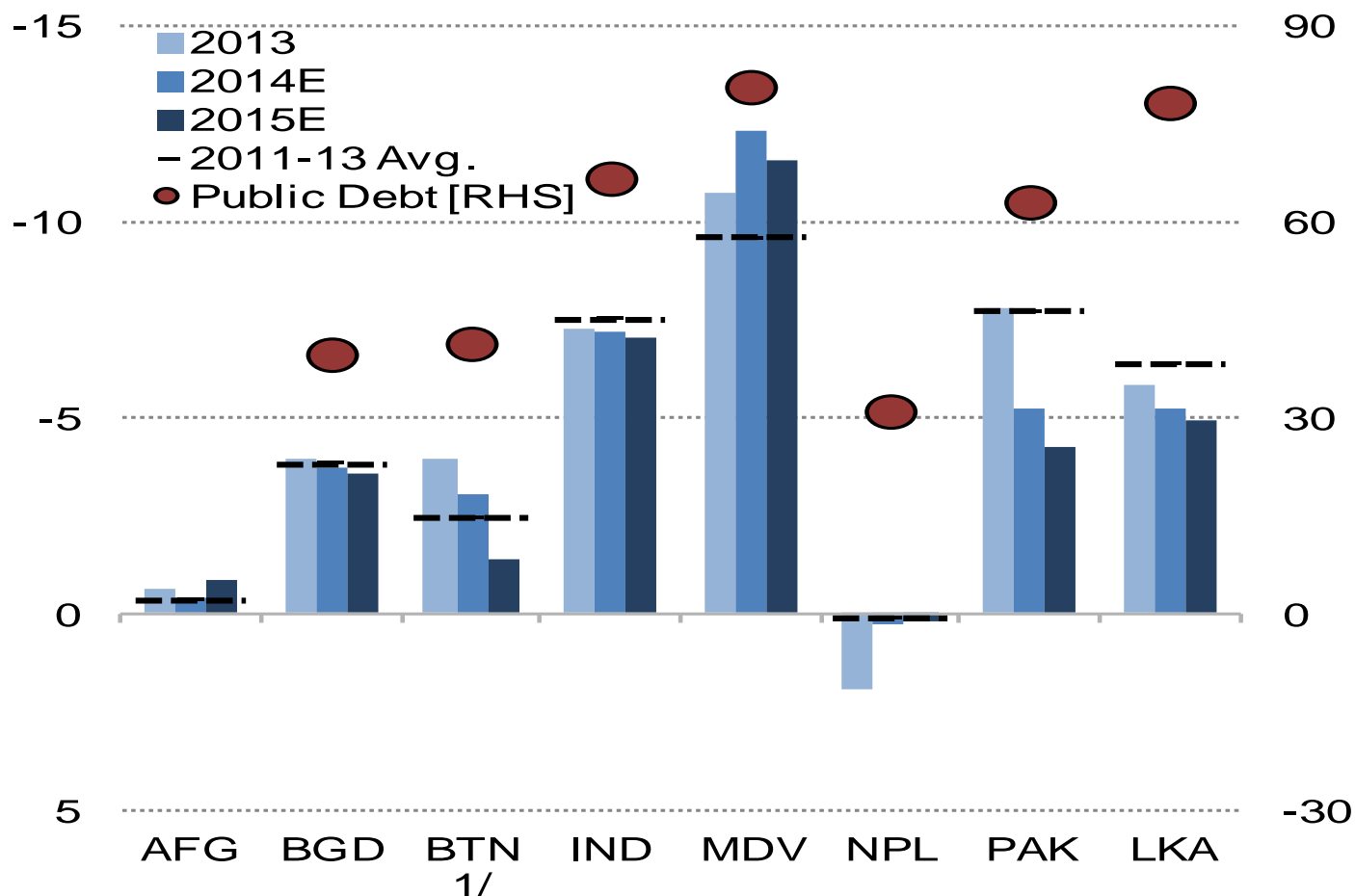


1/ As of May 2014.

Fiscal deficits are too high in some, not high enough in others

Fiscal Balance

(In percent of GDP)

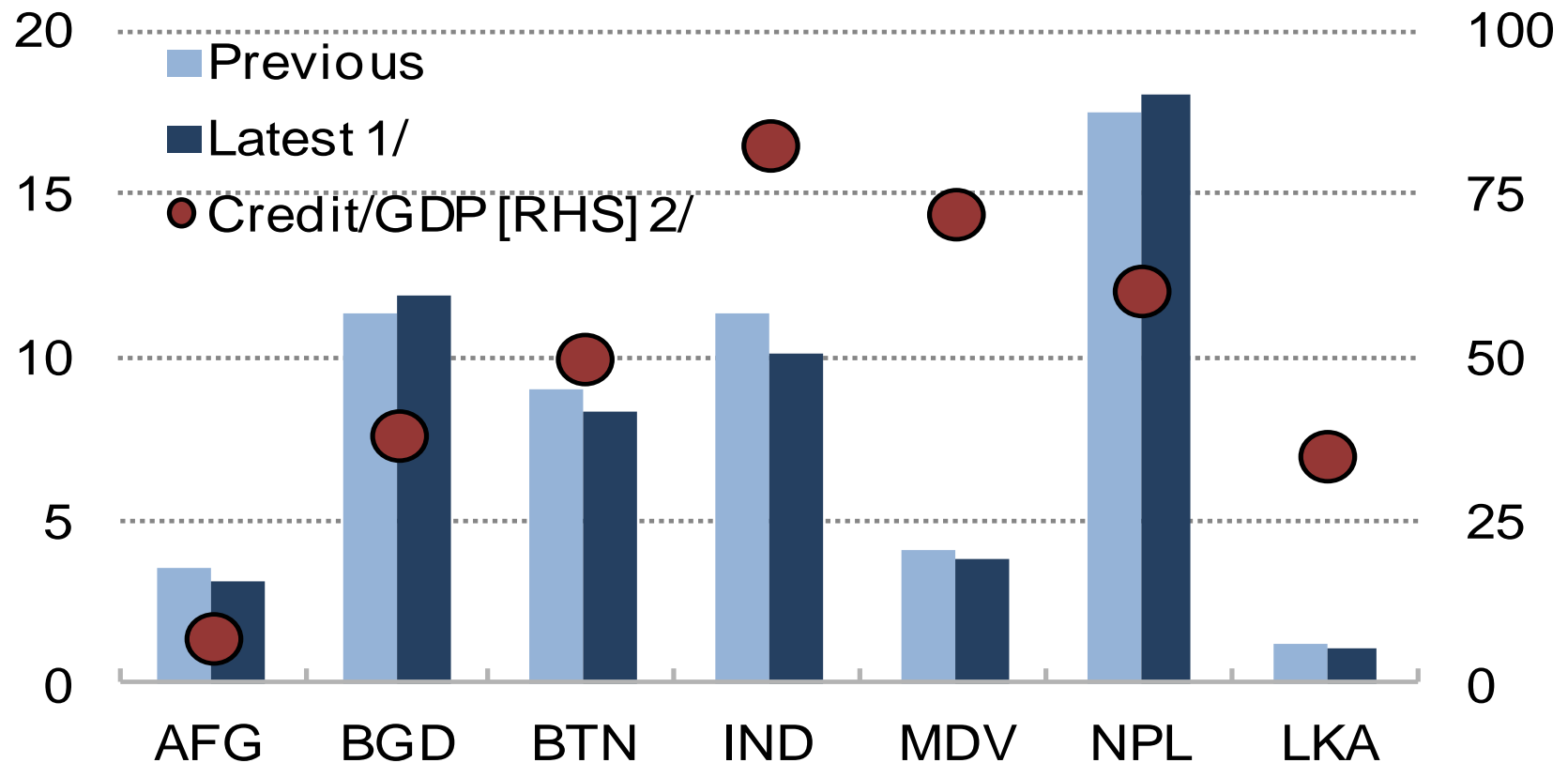


Sources: IMF, *World Economic Outlook*; and National monetary authorities.

1/ Non-hydro public debt.

Credit growth has slowed in several countries

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

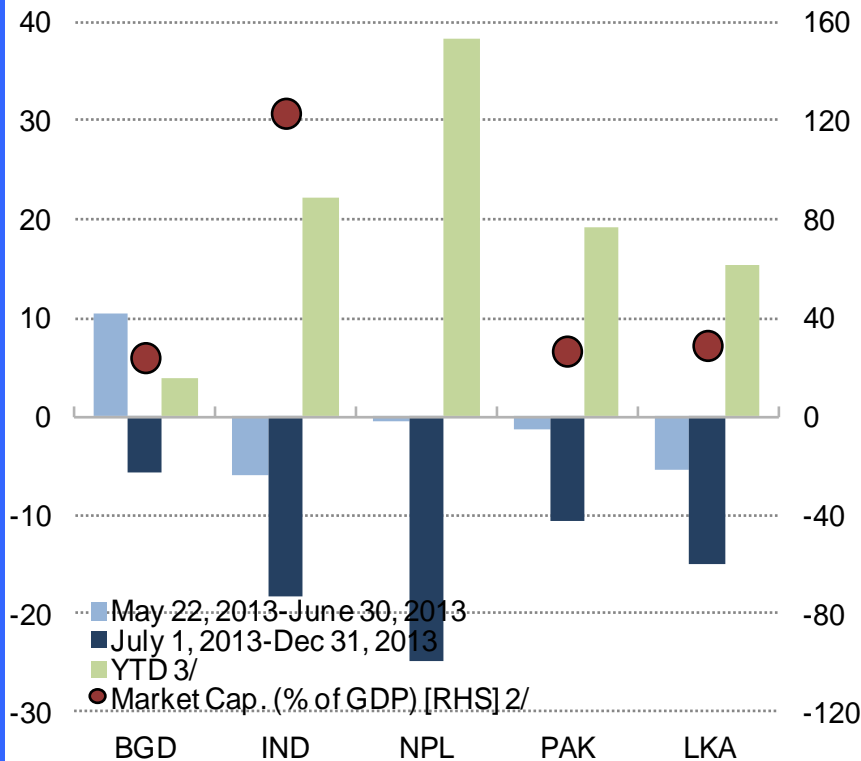


1/ BGD, IND, NPL (Jun-14); AFG, LKA (May-14); MDV (Apr-14); BTN (Mar-14).
2/ As of 2013.

Equity markets have improved but banking system asset quality is a concern in some countries

Stock Markets 1/

(Percent change of stock index)



Sources: CEIC; and Bloomberg.

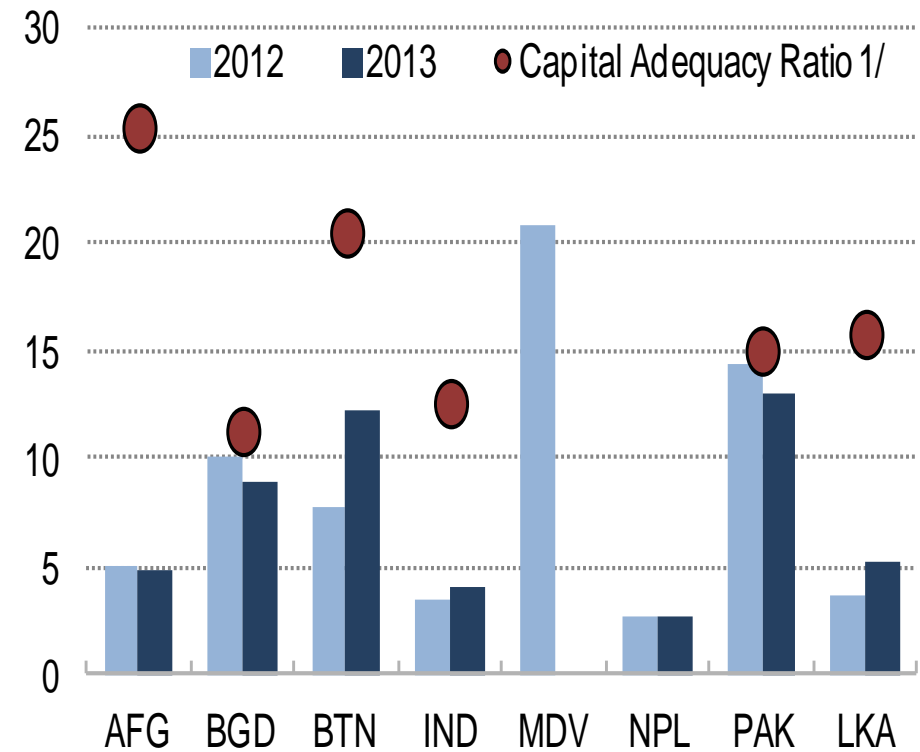
1/ IND: BSE Sensex; NPL: NEPSE; PAK: KSE All Share; LKA: CSE All Share; BGD: DSEX.

2/ As of end-2013.

3/ As of 13-Aug-2014.

Nonperforming Loans Ratio

(In percent)



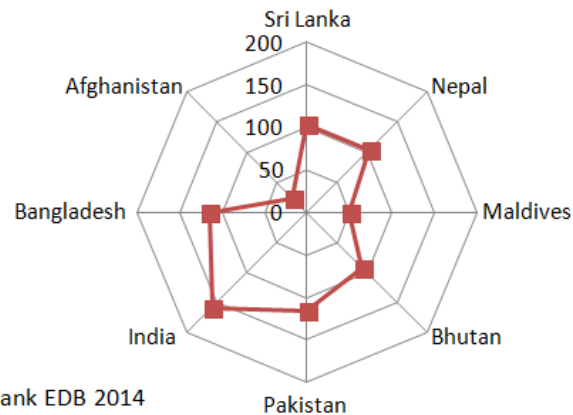
1/ 2014Q2 or latest available.

South Asia remains generally a difficult place to do business



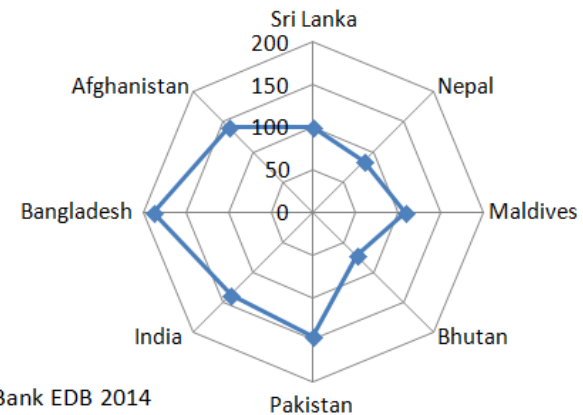
How to improve EDB ranking? Fix these (& related) things:

Starting a business



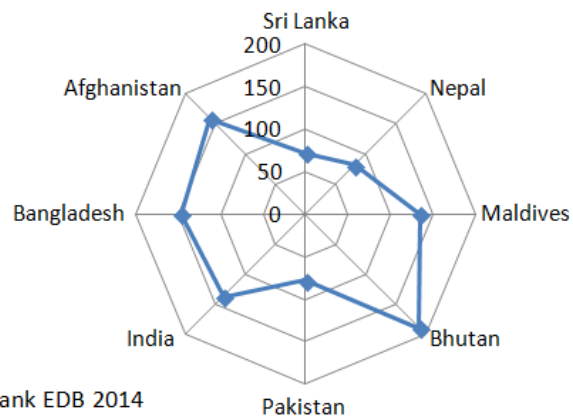
World Bank EDB 2014

Getting electricity



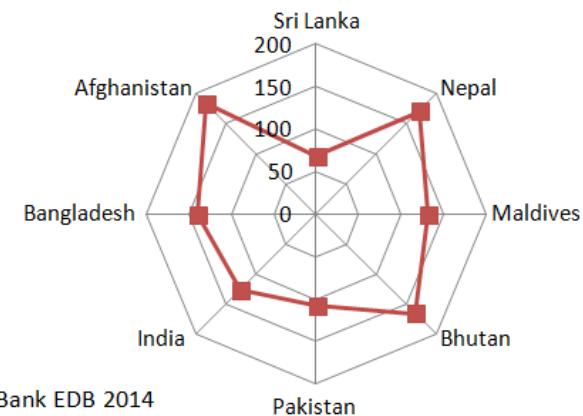
World Bank EDB 2014

Resolving insolvency



World Bank EDB 2014

Trading across borders



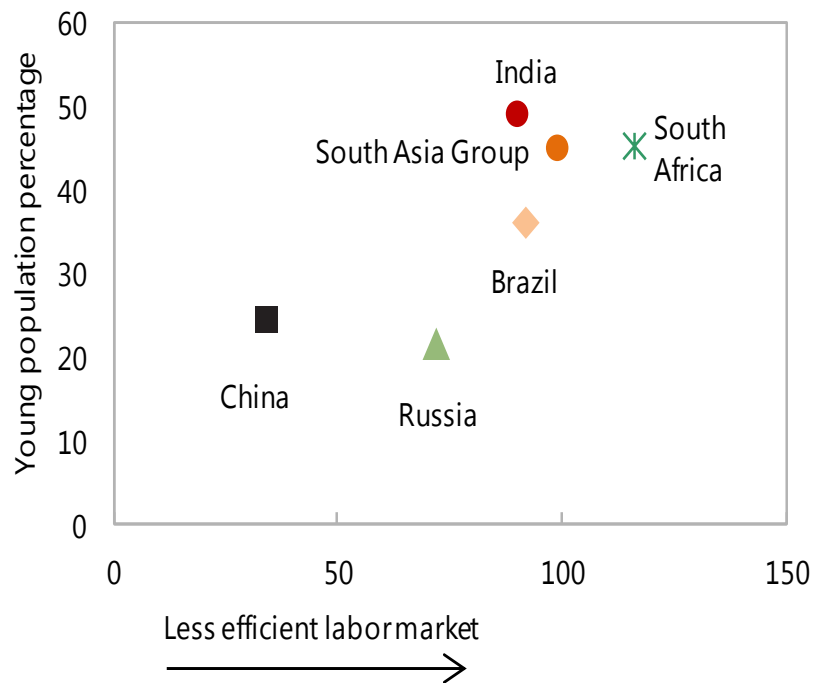
World Bank EDB 2014

Labor market: demographic dividend or demographic bomb?

Regulatory quality: there is room to catch up to comparators

Labor Market Efficiency Ranking and Young Population Ratio: BRICS and South Asia

(Young population ratio: in percent of working-age population)



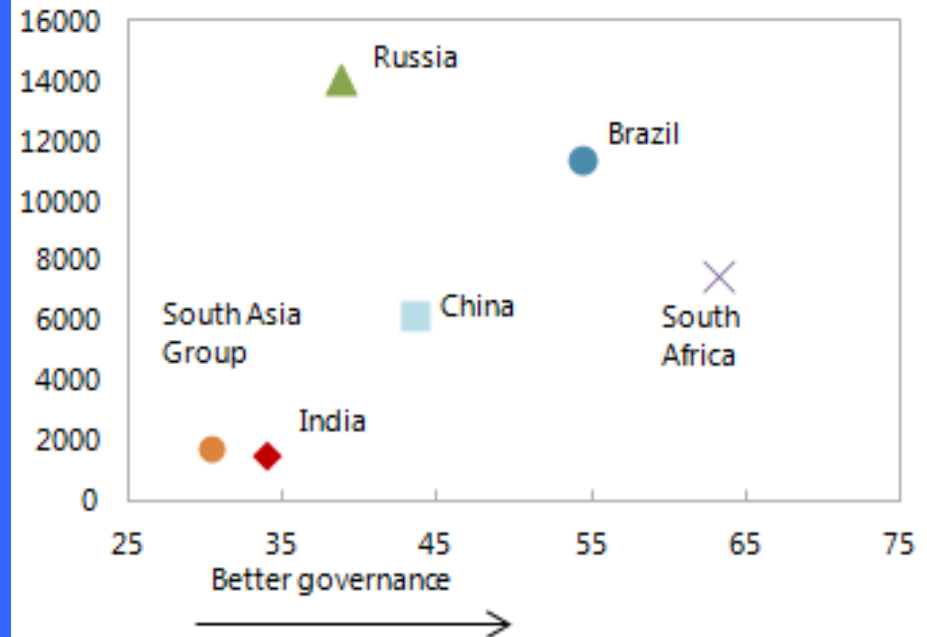
Sources: World Development Indicators (2012) and World Economic Forum Global Competitiveness Report (2013)

Note: 1/ Young, defined as people younger than 15; working-age population as 15-64.

2/ South Asia Group includes Bhutan, Nepal, Pakistan and Sri Lanka

Regulatory Quality and GDP Per Capita: BRICS and South Asia 2012

(Percentile rank; in US Dollars)



Sources: Worldwide Governance Indicators 2013 and World Development Indicators 2012

Note: 1/ Regulatory quality effects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector ;
2/ South Asia Group includes Bhutan, Maldives, Nepal, Pakistan and Sri Lanka.

Conclusions

Prospects are positive in South Asia

- Growth is picking up;
- It is above global average,
- But below that of dynamic East Asia

Inflation is too high

- Undermines competitiveness;
- Discourages investment; and
- Acts like a tax on the poor

Fiscal, structural, and (in some) financial sector reforms needed

- Advice varies country-by-country,
- But all need reforms to boost growth and promote resilience

Issues for Discussion

Global issues

- Is the IMF too optimistic about global growth?
- Is there scope for international monetary cooperation?

South Asia-specific concerns

- For some, spillovers from India
- Demographic dividend?
- Asian supply chains – can South Asia link up? Or trade with itself?

How should the IMF engage in South Asia?

- Program (lending) on the wane, ...
- ... so what next?

Thank you



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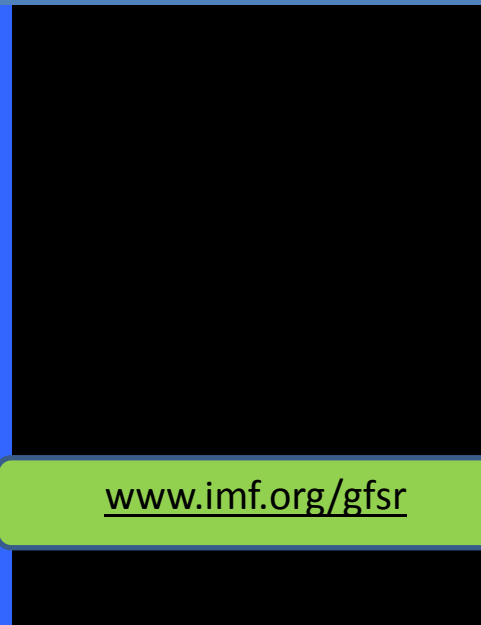
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