South Asia

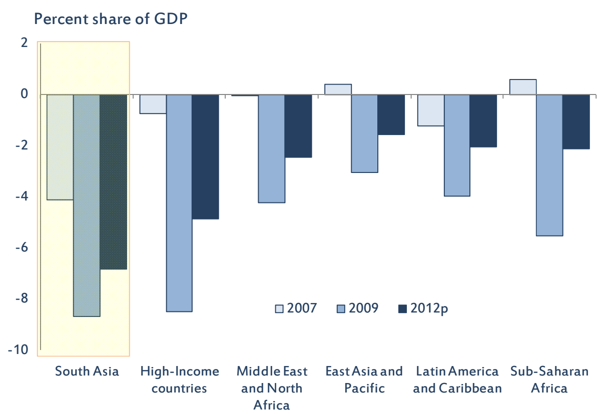
Recent developments

South Asia's real GDP growth accelerated to an estimated 8.7 percent in FY2010-11 from 7.0 percent in FY2009-10, buoyed by very strong growth in India, which represents 80 percent of regional GDP. Excluding India, regional GDP growth (on a fiscal year basis) firmed, but to a more modest 5.1 percent from 4.3 percent the year before. On a calendar year basis, GDP for the region as a whole is estimated to have expanded 8.4 percent in 2010 after 5.3 percent in 2009, and to 4.8 percent in 2010 from 3.8 percent in 2009 if India is excluded.

These strong growth rates mainly reflect robust domestic demand, supported by macroeconomic policy stimulus measures, and a revival in investor and consumer sentiment. Improved external demand and stronger private capital inflows have also played a role. At the country level, local factors—such as a good harvest and strong donor funding in Afghanistan; a favorable monsoon in India; recovery of tourism in the Maldives; rising capital expenditures for ongoing development of hydropower capacity in Bhutan; and the peace dividend in Sri Lanka—have also supported the rebound. In Pakistan, however, a standstill on policy implementation, severe disruption tied to massive flooding and continued security problems have constrained economic activity. Political stalemate has contributed to lackluster growth in Nepal. And, although growth was fairly strong in Bangladesh, continued power-supply bottlenecks have held back the expansion that could have been even stronger. (Table R5.1)

Macroeconomic policy in South Asia is accommodative, given the strength of regional economic activity and relative to other regions (where growth has generally not gained as strong of a footing). While policy interest-rates have been raised (beginning in mid-March 2010 in India, and, more recently, in Bangladesh and Pakistan), monetary policy normalization is incomplete and real interest rates remain negative. Moreover, despite some modest progress toward fiscal consolidation in 2010, South Asia has the largest fiscal deficit among developing countries with the region-wide deficit estimated at 8.2 percent in 2010. At the country-level, fiscal deficits as a share of GDP range significantly. For instance, Bangladesh's overall general government deficit is more manageable at an estimated 2.5 percent compared with the Maldives' deficit of 22.4 percent, and those in India (9.6 percent), Sri Lanka (8 percent), Pakistan (6.3 percent), and Bhutan (6.1 percent). (Figure R5.1)

Figure R5.1 General government deficit in South Asia is highest among developing regions



Source:World Bank Databases and DEC Prospects Group projections

The region's high fiscal deficits reflect a number of longstanding structural factors, with significant pressures emanating from both the revenue and expenditure sides. In particular, tax mobilization in the region is low. South Asia's general government tax revenues averaged 14.3 percent as a share of GDP in 2009—compared with Europe and Central Asia (21.4%), Sub-Saharan Africa (16.5%) and Latin America and Caribbean (16.4%)—and represented less than 12 percent of GDP in Pakistan (10.4 percent), Nepal (11.8 percent) and Afghanistan (7.2 percent). India's tax base is broader at 16.5 percent. On the expenditure side, the region carries a particularly heavy burden in the form of high interest payments. Relative to total expenditures, interest payments averaged 18.2 percent in 2009, by far the highest share among developing regions and at least twice the as high, with the exception of Latin America and the Caribbean (11%) (general government accounts). This reflects elevated interest payments as a share of total outlays in Bangladesh (17.3 percent, as of 2009) India (17.7 percent), Pakistan (25.5 percent), and Sri Lanka (25.8 percent). In comparison, government interest payments in Afghanistan and Nepal are more manageable at 4 percent or lower (as a share of general government outlays).(Figure R5.2)

Other factors have contributed to the region's

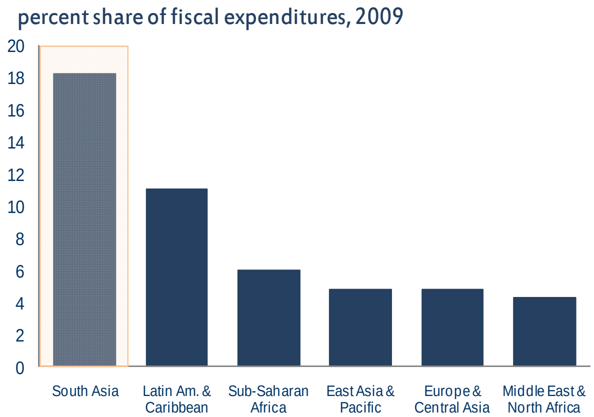
Table R5.1 South Asia forecast summary
(annual percent change unless indicated otherwise)

					Est.	Forecast	
	95-06 [a]	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
GDP at market prices (2005 US$) [b,f]	6.0	8.9	4.8	7.0	8.7	7.7	8.1
GDP in Calendar year basis [c]	6.1	9.2	6.1	5.3	8.3	7.8	7.9
GDP per capita (units in US$)	4.1	7.3	3.4	5.6	7.3	6.3	6.7
PPP GDP [d]	6.0	8.9	4.8	7.0	8.7	7.7	8.1
Private consumption	4.8	8.7	5.6	5.1	7.5	5.2	5.7
Public consumption	5.2	7.3	18.1	6.1	9.1	8.4	7.0
Fixed investment	7.8	14.6	4.1	5.7	10.3	13.2	13.3
Exports, GNFS [e]	11.9	5.4	16.0	-6.1	7.4	8.8	10.3
Imports, GNFS [e]	9.8	8.8	19.0	-7.4	6.2	9.4	10.3
Net exports, contribution to growth	-0.2	-1.0	-1.5	0.7	-0.1	-0.5	-0.5
Current account bal/GDP (%)	-0.7	-1.2	-3.3	-1.7	-3.4	-2.9	-2.9
GDP deflator (median, LCU)	6.1	7.7	8.8	6.5	11.5	8.7	6.9
Fiscal balance/GDP (%)	-7.4	-4.2	-7.2	-8.8	-8.3	-7.5	-6.9
Memo items: GDP at market prices [f]							
South Asia excluding India	4.5	5.9	3.7	4.3	5.1	4.3	5.0
India	6.4	9.6	5.1	7.7	9.5	8.4	8.7
at factor cost	-	9.2	6.7	7.7	8.7	9.0	8.5
Pakistan	4.1	5.7	1.6	3.6	4.4	2.6	3.8
Bangladesh	5.3	6.4	6.2	5.7	5.8	6.1	6.3

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. GDP figures are presented in calendar years (CY) based on quarterly history for India. For Bangladesh, Nepal and Pakistan, CY data is calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity.
d. GDP measured at PPP exchange rates.
e. Exports and imports of goods and non-factor services (GNFS).
f. National income and product account data refer to fiscal years (FY) for the South Asian countries with the exception of Sri Lanka, which reports in calendar year (CY). The fiscal year runs from July 1 through June 30 in Bangladesh and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Nepal, and Pakistan report FY2007/08 data in CY2008, while India reports FY2007/08 in CY2007.

Source: World Bank.

Figure R5.2 Interest payments weigh on South Asia's fiscal coffers and constrain policy options

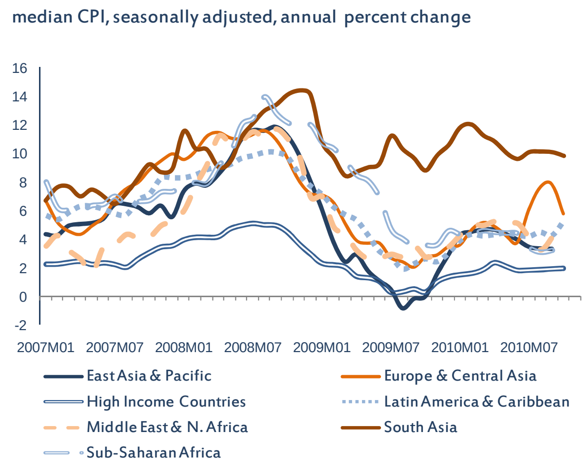


Sources: World Bank and International Monetary Fund, 2010

large deficits, including in the case of India, for example, elevated countercyclical spending that has yet to be fully unwound. Recent efforts at budget consolidation have been missed in Pakistan, because of revenue shortfalls, overrun on power sector subsidies and elevated security expenditures, as well as flood-related expenditures; and in the Maldives and Nepal, due to political stalemates that have undermined progress on budget agreements.

South Asia posted the highest median inflation rate among developing regions in the second-half of 2010. Inflationary pressures were up across most economies in the region in 2010, with the exceptions of Afghanistan and the Maldives, where they remained more stable. In part rising inflationary pressures stem from recent firming in international fuel and food prices. However, domestic drivers also contributed to higher prices, including elevated capacity utilization rates, accommodative macro-policy stances and increased inflationary expectations following several years of rising inflation. The rise in headline prices in Bangladesh, Bhutan and Nepal also partly reflects spillover from India, a key trade partner, through higher imported prices. Temporary price shocks have also been a factor, such as the disruption of flooding in Pakistan and some liberalization of fuel-price subsidies in India. More recently, inflationary pressures have been partly offset by falling local food prices, due to improved harvests following a good 2010

Figure R5.3 Inflation in South Asia has not eased as much as in other regions



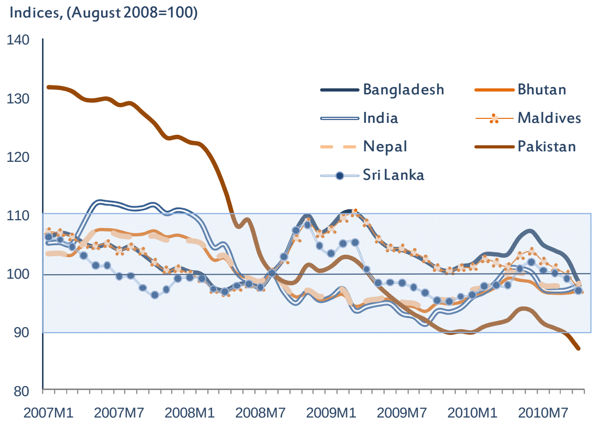
Source: Thomson Datastream and World Bank

monsoon, particularly in Afghanistan and India. (Figure R5.3)

The significant inflation differential between many South Asian countries and their trade partners has contributed to a real appreciation of their currencies in 2010. Notably, much of the appreciation during the year represents a reversal of depreciation in the aftermath of the global financial crisis. And, since January 2007 regional currencies have remained broadly stable, trading within a plus/minus 10 percent band—with the exceptions of Afghanistan and Pakistan. Over the same period, Afghanistan's currency has appreciated by 17 percent, supported by massive foreign aid inflows. In contrast, Pakistan's currency real effective exchange rate depreciated by 34 percent since January 2007, partly tied to large and persistent structural macroeconomic imbalances. (Figure R5.4)

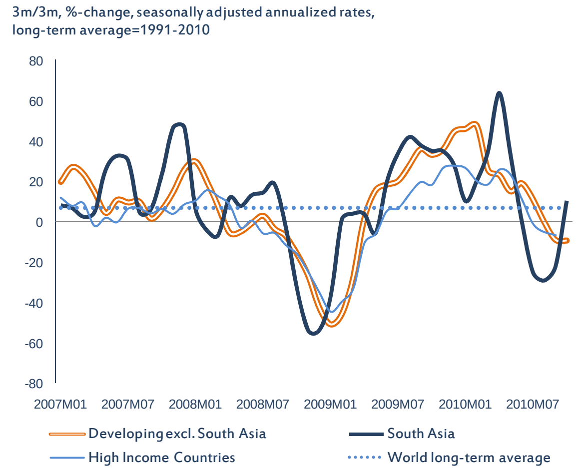
The pace of growth in merchandise exports and imports moderated sharply in mid-2010 following several months of double-digit growth

Figure R5.4 Real effective exchange rates in South Asia generally remain within plus/minus 10 percent band since 2007

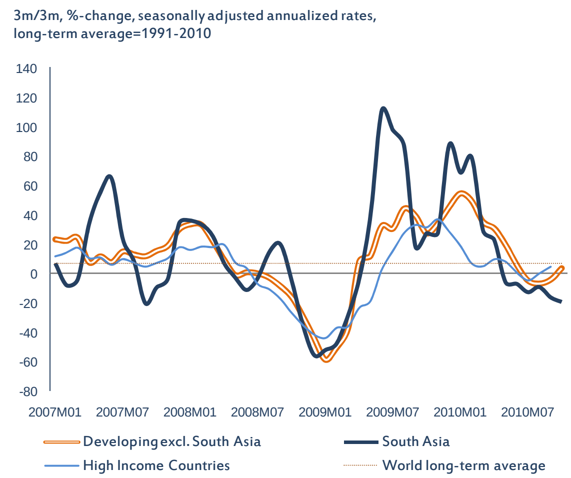


Source: International Monetary Fund and World Bank

Figure R5.5 South Asia's merchandise goods exports recover following sharp deceleration in mid-2010



South Asia's merchandise goods volume imports loose steam from mid-2010



Source: Thomson Datastream and World Bank

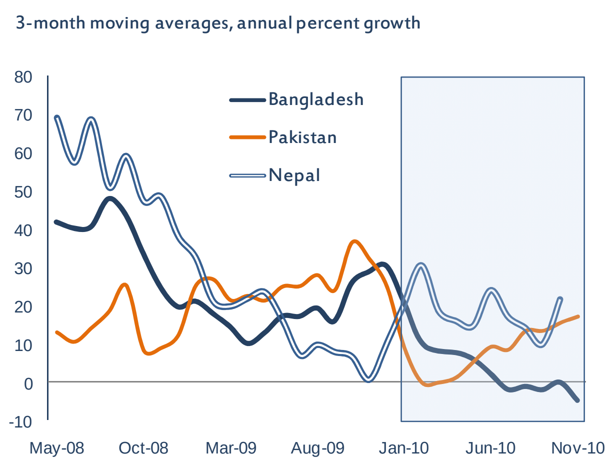
(3m/3m, seasonally adjusted, annualized rates). This basic pattern was observed across the world, and coincided with the recovery of pre-crisis trade levels (see main text), and partly reflects an overshooting of activity levels and a coming-to-an-end of the global inventory restocking phase of the global recovery. However, in South Asia, the slowdown in trade activity also stems from country-specific factors. For example, merchandise export volumes have been adversely impacted by power outages in Bangladesh that disrupted ready-made garment production, which represents over 75 percent of merchandise exports. In Pakistan, floods led to an estimated 20 percent reduction in cotton harvest and sharp fall-off in cotton exports and textiles (with the latter representing two-thirds of total merchandise exports). The pace of growth of regional merchandise import volumes has slowed markedly compared with other regions, and could reflect a recent moderation in the pace of growth of remittances inflows—a key driver of regional private consumption. (Figure R5.5)

Remittances are a main source of foreign exchange for the region, and are an important driver of regional domestic demand. Official remittances inflows represent a significant share of GDP in Nepal (23 percent), Bangladesh (12 percent), Sri Lanka (9 percent), Pakistan (5.1 percent) and India (4 percent).[1] Remittances inflows to South Asia increased by an estimated 10.3 percent (in US-dollar value terms) in 2010, more than double the 4.5 percent growth rate in 2009—but well below the 19 percent average annual rate recorded between 1999 and 2009. However, because local currencies appreciated against the US-dollar, remittances inflows in real local currency-terms are estimated to have contracted in India (down 8.6 percent), Bangladesh (3.4 percent), Nepal (3.1 percent), Sri Lanka (1.7 percent) and Pakistan (1.4 percent). This compares with vibrant growth in real local currency-terms in the past, which over the previous five years (2004-2009) expanded by an average 17.6 percent (median growth rate across the five countries).

While remittances inflows in US-dollar terms rose for the regional aggregate in 2010, the growth trend varied at the country level, reflecting divergent economic trends in migrant destination countries and shifts in net emigration. In Bangladesh for example, net emigration slowed markedly in 2010, while it surged to the highest level on record in Nepal (reaching 300,000). The annual growth rate of remittances inflows slowed markedly in 2010 in Bangladesh, as the pace of expansion stalled at close to zero growth from June 2010 and shifted into contraction in November (4.6 percent over November 2009). As the stock of Bangladeshi migrants abroad continued to rise (albeit at a slower pace than in the past), the pronounced moderation in inflows (and recent decline in November) could reflect a variety of factors, including a fall in employment, decline in wages, or a decline in the propensity to remit. (Figure R5.6).

The regional current account deficit deteriorated in 2010, reflecting the relative strength of domestic demand, as growth of imports of goods outpaced that of exports and led to a sharp

Figure R5.6 Remittances inflows post tepid growth in some South Asian countries in 2010

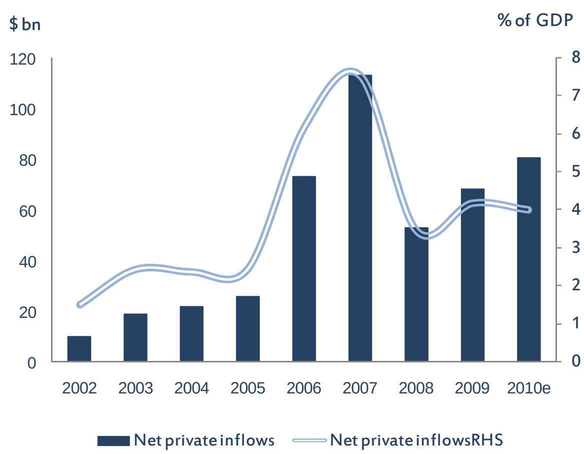


Source: Country central banks and World Bank

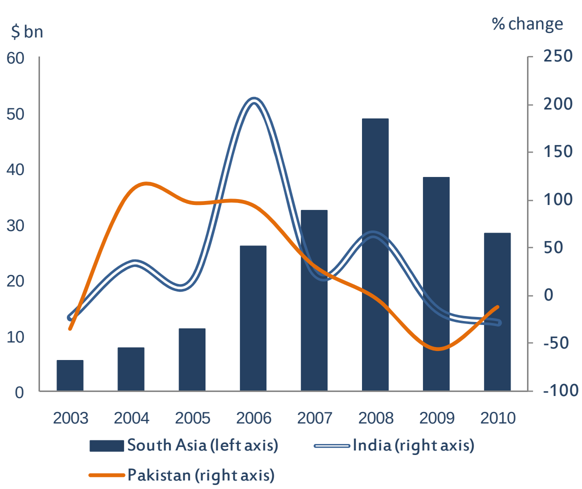
deterioration in merchandise trade balances. Partly as a result, India's current account deficit rose to a projected 3.7 percent of GDP in 2010, up from 2.0 percent in 2009. Current account deficits also rose significantly in Sri Lanka and Nepal. Strengthened remittances inflows (in US-dollar terms) have contained pressures on external balances and significantly offset sizeable trade deficits. Similarly, services receipts helped offset large trade deficits, given a rebound in tourism activity. In particular, the Maldives, Nepal and Sri Lanka witnessed a sharp upswing in tourist arrivals in 2010 of at least 12 percent over 2009. In the Maldives, the total number of arrivals for the first seven months of 2010 increased to a record of nearly 440,000—with arrivals up 29 percent over July 2009 in part due to a strengthening in arrivals from fast-growing emerging economies (with China surpassing the U.K. as the largest number of tourists). Bhutan and India also saw a pick-up in tourism activity, with arrivals for both countries projected to have risen by 6 percent in 2010. In India, the pace of growth of ICT-exports (internet, communication and technology) has decelerated markedly compared with vibrant growth rates posted in the past. This is largely attributed to a tepid recovery in external demand in the key export markets of the United States, United Kingdom and Europe, which comprise about 85 percent of Indian software and services exports.

Net private capital inflows (excluding official inflows) to South Asia strengthened by an estimated 18.4 percent in 2010 to $81 billion from 2009, and held fairly steady as a share of GDP at 4.0 percent in 2010 versus 4.3 percent in 2009. India and Sri Lanka account for the bulk of private capital inflows. While private capital inflows have nearly halved from the pre-crisis boom share of GDP of 7.8 percent recorded in 2007, at 4.0 percent it is roughly double the 2.0 percent share recorded during the period from 2000 through 2005. The recovery of inflows in 2010 over 2009 reflects a firming in portfolio equity and short-term debt flows, which increased to 2.1 percent as a share of GDP in 2010 from 1.2 percent in 2009. Compared with other developing regions, where portfolio inflows averaged 0.8 percent of GDP in 2010, portfolio inflows are relatively high in South Asia—and largely reflect record high foreign portfolio inflows into India during 2010. In contrast, net foreign direct investment inflows in South Asia continued to decline in level terms (and as a share of GDP) in 2010, albeit the pace of decline decelerated markedly compared with the sharp fall-off in 2009. Compared with other developing regions, where FDI inflows averaged 2.2 percent of GDP in 2010, FDI inflows are modestly lower at 1.4 percent of GDP in South Asia. (Figure R5.7).

Figure R5.7 Net private capital inflows to South Asia remains stable as a share of GDP at 4% in 2010



Pace of decline in FDI inflows slows



Source: World Bank

Medium-term outlook

South Asia is projected to continue to post robust growth of 7.7 percent and 8.1 percent over the forecast horizon in FY2011/12 and FY2012-13, respectively—albeit a deceleration from the 8.7 percent growth recorded in FY2010/11. The projected slowdown in growth partly reflects expected further tightening of fiscal and monetary policies, which are aimed at reducing inflationary pressures, bringing fiscal deficits down to sustainable levels, creating fiscal space, and avoiding the buildup of large external imbalances. India is targeting progressive reductions in the central government's fiscal deficit to 3.0 percent of GDP by end-FY2013-14 from 6.7 percent in FY2009-10, which will be supported by proceeds from divestment and reforms to fuel-subsidy programs. The Maldives and Sri Lanka are also pursuing fiscal deficit-reduction programs as part of their IMF stand-by agreements.

In combination with additional normalization of monetary policy in FY2011/12, fiscal consolidation is expected to lead to an easing of regional inflationary pressures over the forecast period. The median GDP deflator is projected to decline to 6.9 percent by the end of the forecast horizon from 11.5 percent in FY2010/2011. (Table R5.2).

Tighter macroeconomic policy conditions should be reflected in a deceleration in public sector consumption, which is expected to grow 7.0 percent in FY2012-13, down from 9.1 percent growth in FY2010-11. Given the expected less accommodative macro-policy environment and projected deceleration in the pace of growth of remittances inflows, private consumption growth is also projected to decelerate from 7.5 percent in 2010 to 5.7 percent over the same period. Regional fixed investment, however, is projected to strengthen over the forecast period to an average of 13.3 percent from 10.3 percent in 2010-11, supported by an expected continued firming of net private capital inflows to the region, buoyed by strong growth fundamentals, particularly in India, as well as continued strong investment growth tied to ongoing post-war reconstruction in Sri Lanka. Reconstruction activity should also support investment in flood-ravaged Pakistan.

A moderation in domestic demand growth—reflecting the impacts of projected fiscal consolidation (through, for example, cuts in government outlays and improved tax collection) and deceleration in the growth rate of remittances inflows—should be reflected in a deceleration of import growth. Nevertheless, the pace of growth of imports is expected to continue to outpace that of exports on average over the forecast period, and net exports are projected to continue to subtract from growth, albeit modestly.

Table R5.2 South Asia country forecasts
(annual percent change unless indicated otherwise)

					Est.	Forecast	
	95-06 [a]	2007	2008	2009	2010	2011	2012
Calendar year basis [b]							
Bangladesh							
GDP at market prices (2005 US$) [c]	5.4	6.5	6.3	6.0	5.8	5.9	6.2
Current account bal/GDP (%)	-0.7	1.2	1.4	3.5	2.4	1.6	0.7
India							
GDP at market prices (2005 US$) [c]	6.5	9.9	6.4	5.7	9.2	8.5	8.7
Memo: Real GDP at factor cost	-	9.5	7.3	6.8	8.8	8.9	8.5
Current account bal/GDP (%)	-0.5	-0.7	-2.5	-2.0	-3.7	-3.1	-3.0
Nepal							
GDP at market prices (2005 US$) [c]	4.0	3.5	4.3	5.0	4.0	3.5	3.8
Current account bal/GDP (%)	-3.5	-1.7	4.2	-2.1	-3.0	-2.9	-2.5
Pakistan							
GDP at market prices (2005 US$) [c]	4.2	5.9	3.6	2.6	2.8	3.5	3.2
Current account bal/GDP (%)	-1.1	-5.8	-9.6	-2.2	-3.1	-3.4	-3.9
Sri Lanka							
GDP at market prices (2005 US$) [c]	4.5	6.8	6.0	3.5	7.1	6.8	6.0
Current account bal/GDP (%)	-3.2	-4.6	-9.8	-0.7	-3.6	-3.3	-3.7
Fiscal year basis [b]							
Bangladesh							
Real GDP at market prices	5.3	6.4	6.2	5.7	5.8	6.1	6.3
Current account bal/GDP (%)	-0.9	1.4	0.9	2.7	3.7	2.0	1.2
India							
Real GDP at market prices	6.4	9.6	5.1	7.7	9.5	8.4	8.7
Memo: Real GDP at factor cost	-	9.2	6.7	7.7	8.7	9.0	8.5
Current account bal/GDP (%)	-0.5	-1.3	-2.4	-2.9	-3.6	-3.1	-3.0
Nepal							
Real GDP at market prices	4.1	3.3	5.3	4.7	3.3	3.7	4.0
Current account bal/GDP (%)	1.4	-0.1	2.9	4.3	-2.6	-3.0	-2.7
Pakistan							
Real GDP at market prices	4.1	5.7	1.6	3.6	4.4	2.6	3.8
Current account bal/GDP (%)	-1.7	-4.8	-8.5	-5.7	-2.0	-3.3	-3.6

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

Afghanistan, Bhutan, Maldives are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

b. National income and product account data refer to fiscal years (FY) for the South Asian countries with the exception of Sri Lanka, which reports in calendar year (CY). The fiscal year runs from July 1 through June 30 in Bangladesh and Pakistan, from July 16 through July 15 in Nepal, and April 1 through March 31 in India. Due to reporting practices, Bangladesh, Nepal and Pakistan report FY2007/08 data in CY2008, while India reports FY2007/08 in CY2007. GDP figures are presented in calendar years (CY) based on quarterly history for India. For Bangladesh, Nepal and Pakistan, CY data is calculated taking the average growth over the two fiscal year periods to provide an approximation of CY activity.

c. GDP measured in constant 2005 U.S. dollars.

Source: World Bank

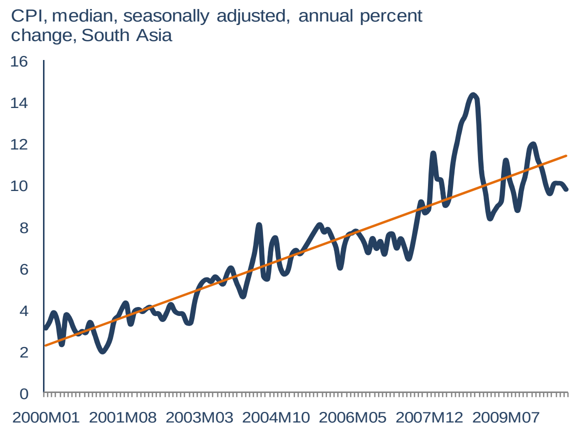
The growth rate of the dollar value of remittances inflows is projected to halve over the forecast horizon, from an estimated 10.3 percent rate of expansion in 2010 to 5.1 percent in 2011—reflecting a lagged impact of the crisis, as migrant deployments from the region have slowed sharply and demand for migrants from oil-rich Arabian Gulf countries (a key migrant destination countries for South Asia) is expected to plateau with the completion of several large construction projects.[2] In 2012, a projected strengthening in high-income country growth is expected to support a modest acceleration to 6.3 percent growth in remittances inflows to South Asia in FY2012-13—well below the 19 percent average annual rate recorded between 1999 and 2009.

Foreign private capital inflows (excluding official inflows) to South Asia are projected to show strong growth over the forecast period and reach $102 billion by 2012. In 2011 and 2012, net private inflows are projected to expand by 13 percent and 11 percent, respectively, largely due to rising net FDI inflows, led by inflows to India. As a share of GDP, net FDI inflows are expected represent 2.1 percent of GDP, firming from an estimated 1.4 percent in 2010. In contrast, net portfolio equity inflows to the region are projected to diminish to $37 billion by 2012 from an estimated $43 billion in 2010, and correspondingly decline as a share of GDP from 2.1 percent to 1.4 percent over the same period, largely led by a projected gradual moderation of portfolio inflows to India (the largest recipient in the region) following record inflows in 2010. This also reflects a projected unwinding of the extraordinary monetary stimulus in high-income countries that is expected to induce an easing of portfolio inflows to developing countries (Table R5.3).

Risks

A major domestic challenge facing policy makers in the region is bringing inflation back down to the low levels observed in the pre-boom period, when regional inflation averaged 3.3 percent from 2000 to 2003 (median CPI). This challenge is complicated by the fact that inflation has risen more or less steadily since 2000, contributing to rising inflation expectations, and because the process of deficit reduction poses real political challenges. Sharply higher than-projected international commodity prices would create additional pressures and challenges (Figure R5.8).

Figure R5.8 Inflationary pressures have trended upward in the last decade



Source: Thomson Datastream and World Bank

On the fiscal expenditure side, risks are tied to sharply higher-than-projected international commodity prices—particularly for hydrocarbons and grains—given large regional fiscal subsidies for food, fuel and fertilizers. Higher oil prices, in particular, would also lead to deterioration of current account positions for the energy-importing region. Further, presenting risks to fiscal consolidation efforts, a long-standing challenge for the region is raising fiscal revenue mobilization. Improving tax administration and enforcement would help diminish pressures on fiscal coffers.

The challenges that high-income European countries with large deficits and large debt-to-GDP ratios are encountering are an important reminder of the importance of maintaining fiscal sustainability. In South Asia, the policy measures that have been proposed will, if met, will help to achieve needed macroeconomic policy tightening. The task is, however, complicated by the desire to maintain the pace of

Table R5.3 Net capital flows to South Asia
$ billions

	2003	2004	2005	2006	2007	2008	2009	2010e	2011f	2012f
Current account balance	12.5	-1.2	-15.1	-16.8	-20.6	-55.1	-45.2	-46.9	-44.5	-51.6
as % of GDP	1.6	-0.1	-1.5	-1.5	-1.4	-3.8	-2.9	-2.3	-1.9	-2.0
Financial flows:										
Net private and official inflows	14.5	21.2	28.5	76.6	117.7	61.4	77.7	92.4		
Net private inflows (equity+debt)	18.6	21.5	25.6	73.1	113.3	52.8	68.2	80.7	91.5	101.9
..Net private inflows (% GDP)	2.4	2.4	2.5	6.4	7.8	3.6	4.3	4.0	3.9	3.9
Net equity inflows	13.5	16.8	23.6	36.4	68.4	32.9	58.8	71.3	83.5	93.3
..Net FDI inflows	5.4	7.8	11.2	26.0	32.3	48.7	38.3	28.3	44.5	56.3
..Net portfolio equity inflows	8.0	9.0	12.4	10.4	36.1	-15.8	20.5	43.0	39.0	37.0
Net debt flows	1.0	4.4	4.9	40.2	49.3	28.5	18.8	21.1		
..Official creditors	-4.1	-0.3	2.9	3.5	4.4	8.6	9.5	11.7		
....World Bank	-2.3	2.3	2.3	2.0	2.0	1.4	2.1	3.9		
....IMF	-0.1	-0.3	0.0	-0.1	-0.1	3.2	3.6	3.8		
....Other official	-1.8	-2.4	0.6	1.6	2.4	4.0	3.8	4.0		
..Private creditors	5.1	4.7	2.0	36.7	44.9	19.9	9.3	9.4	8.0	8.6
....Net M-L term debt flows	3.1	4.0	-0.2	19.9	32.0	12.0	10.3	3.2		
......Bonds	-3.7	3.9	-2.8	6.4	10.7	1.7	1.7	-2.6		
......Banks	6.8	0.5	2.8	13.5	21.3	10.3	8.6	5.8		
......Other private	0.0	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0		
....Net short-term debt flows	2.0	0.7	2.3	16.8	12.9	7.9	-1.0	6.2		
Balancing item /a	10.0	7.6	-6.6	-18.1	6.7	-32.6	6.2	-37.2		
Change in reserves (- = increase)	-36.9	-27.6	-6.8	-41.7	-103.8	26.3	-38.6	-8.3		
Memorandum items										
Workers' remittances	30.4	28.7	33.9	42.5	54.0	71.6	74.9	83.0	87.0	92.0

Source: World Bank
Note: Countries covered are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka
e = estimate, f = forecast
/a Combination of errors and omissions and transfers to and capital outflows from developing countries

growth-enhancing infrastructure investments, necessarily forcing a greater share of needed consolidation on other areas of government spending and points to risks of fiscal slippage. The policy challenge is to find politically acceptable areas for deficit cutting, while preserving growth enhancing investments—needed to address structural supply-side constraints and improve medium to long-term growth prospects and poverty reduction. Aside from supporting growth outturns, investment in physical and human capital—for which performance indicators generally lag in South Asia compared with most other developing regions—would also support international competitiveness.

Notes:

1 Remittances are particularly important to South Asia among developing regions, as for example, Nepal is among the top ten recipients in the world of remittances inflows measured as a share of GDP, (fifth), and both India and Bangladesh are among the top ten recipient countries in the world measured in U.S. dollar level-terms (estimated at $55 billion in 2010 for India, placing it as top recipient, and $11 billion for Bangladesh). Ratha, Dilip et al, "Migration and Development Brief (number 13)", November 8, 2010, The World Bank.

2 Ratha, Dilip et al, "Migration and Development Brief (number 13)", November 8, 2010, The World Bank.