

South Asia's outlook is moderately favourable, but economic trends are highly divergent across countries

The downside risks have visibly increased in several economies

New Delhi, 23 January – The global economy will continue to grow at a steady pace of around 3 per cent in 2019 and 2020 amid signs that global growth has peaked. However, a worrisome combination of development challenges could further undermine growth, according to the United Nations World Economic Situation and Prospects (WESP) 2019, which was launched today.

UN Secretary-General António Guterres cautioned, “While global economic indicators remain largely favourable, they do not tell the whole story.” He said the World Economic Situation and Prospects 2019 “raises concerns over the sustainability of global economic growth in the face of rising financial, social and environmental challenges.”

Growth prospects in South Asia

The regional outlook for South Asia is moderately favourable. Regional GDP is expected to expand by 5.4 per cent 2019 and 5.9 per cent in 2020, after an estimated expansion of 5.6 per cent in 2018. Growth is expected to be supported by private consumption and, in some cases, investment demand, even as monetary policy stances tighten in some economies. But beyond these aggregate trends, the economic outlook is highly divergent across countries.

The Indian economy is expected to expand by 7.6 and 7.4 per cent in 2019 and 2020, respectively, after expanding by 7.4 per cent in 2018. Growth continues to be underpinned by robust private consumption, a more expansionary fiscal stance and benefits from previous reforms. Yet, a more robust and sustained recovery of private investment remains crucial to lift medium-term growth.

The Bangladesh economy is also set to continue expanding at a fast pace of above 7.0 per cent, amid strong fixed investment, vigorous private consumption and accommodative monetary policy.

In contrast, the outlook in the Islamic Republic of Iran has visibly deteriorated due to the re-imposition of trade, investment and financial sanctions by the United States, and structural domestic weaknesses. The Iranian economy is estimated to have entered into recession in 2018, which is projected to deepen throughout 2019.

Economic growth in Pakistan is projected to slow in 2019 and 2020 to below 4.0 per cent, after an estimated expansion of 5.4 per cent in 2018. Pakistan's economy is facing severe balance of payment difficulties, amid large twin fiscal and current account deficits, a visible decline in international reserves and mounting pressures on the domestic currency.

Risks and policy challenges

The world economy is faced with a confluence of risks with the potential to severely disrupt economic activity and inflict significant damage on longer-term development prospects. These risks include waning support for multilateral approaches; the escalation of trade policy disputes; financial instabilities linked to elevated levels of debt; and rising climate risks, as the world experiences an increasing number of extreme weather events.

South Asia faces several risks that could significantly alter the projected growth trajectory. On the domestic side, political uncertainties, setbacks in the implementation of reforms and, in some countries, security problems, may affect investment prospects. This is a crucial issue as the region needs to tackle infrastructure bottlenecks to promote productivity growth, encourage further poverty reductions and adjust to climate change.

On the external side, an abrupt tightening of global financial conditions and a further escalation of the ongoing trade disputes could pose risks to the regional outlook. More challenging external conditions can further expose macroeconomic imbalances and financial vulnerabilities associated with high fiscal and current account deficits and elevated levels of debt in some economies.

For more information, please visit: www.un.org/development/desa/dpad/wesp-report

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