Growth in developing Asia remains robust despite expected moderation. A slowing trend continued in the first half of 2019 in most regional economies, especially the wealthier newly industrialized economies and the People’s Republic of China, as shrinking global trade and declining investment constrained growth. Inflation remains benign, but pressure is building slightly as food prices rise.

Downside risks to the outlook have intensified. Trade tensions between the United States and the People’s Republic of China could escalate further or even spread beyond trade and these two economies, the world’s largest. The risk of deeper malaise in the global economy, and uncertainty over how policy makers around the world will respond to weaker global growth, may stoke volatility in global financial markets. Proliferating private debt in some Asian economies could pose another challenge to financial stability.

Developing Asia is urbanizing rapidly. This Update highlights how urbanization can foster economic growth and inclusion in Asia’s cities. To enjoy the economic benefits of agglomeration, cities must function well as labor markets, which requires sound urban planning, efficient public transport, and affordable housing. As cities expand over municipal boundaries and become more connected with one another through flows of goods, services, and people, better planning coordination is needed at all levels of government.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.
South Asia

Subregional growth is expected to slow in 2019 before picking up in 2020. Projections for India are downgraded after growth fell to a 6-year low in the April–June quarter of 2019. The inflation projection is reduced for 2019 but retained for 2020. The current account deficit is forecast to narrow more than projected in April as domestic demand slows. Heavy dependence on energy imports leaves forecasts for South Asia vulnerable to oil price swings.

Subregional assessment and prospects

Growth in South Asia is projected to be 6.2% in 2019 and 6.7% in 2020, sharply lower than forecast in ADO 2019 mainly because India has slowed much more than expected (Figure 3.3.1). India’s GDP grew by only 5.0% in the first quarter of fiscal year 2019 (FY2019, ending 31 March 2020), with consumption, investment, and production lackluster. Industry growth slowed in the quarter to 2.7% year on year as manufacturing grew by a disappointing 0.6%. Expansion in services slipped to 6.9%, the lowest rate in 7 quarters. The government, re-elected in May 2019, announced various measures to boost investor and consumer confidence and acted to strengthen the ability of the financial sector to revive credit flows. The Reserve Bank of India has cut its policy rate by a total of 110 basis points since February 2019, with more cuts expected in the coming months. As monetary stimulus and government measures to support growth gain traction, growth in India is expected to recover to 6.5% in the whole of FY2019, still well below 7.2% forecast in ADO 2019. Growth in FY2020 is expected to strengthen to 7.2%, still marginally lower than projected in April.

This Update revises 2019 growth forecasts for every South Asian economy except Maldives. With stronger recovery in agriculture, growth projections for Afghanistan are revised

![Figure 3.3.1 GDP growth, South Asia](image)

Note: Lighter colored bars are ADO 2019 forecasts.
Source: Asian Development Outlook database.

The subregional assessment and prospects were written by Lei Lei Song. The section on Bangladesh was written by Jyotsana Varma, Soon Chan Hong, and Barun K. Dey; India by Abhijit Sen Gupta, Lei Lei Song, and Shalini Mittal, consultant; Pakistan by Farzana Noshab and Ali Khadija; and other economies by Eshini Ekanayake, Abdul Hares Halimi, Manbar Singh Khadka, Kanokpan Lao-Araya, Tshering Lhamo, and Masato Nakane, as well as consultants Abdulla Ali, Macrina Mallari, and Danileen Parrel. Authors are in the Central and West Asia and South Asia departments of ADB.
slightly upward for 2019 and 2020. In FY2019, Bangladesh (ended 30 June 2019) and Nepal (ended 16 July 2019) outperformed ADO 2019 projections, with Bangladesh accelerating to 8.1% on robust private consumption and exports, and Nepal expanding by 7.1% with production exceeding expectations in all sectors, most notably agriculture. As growth in these two economies will likely remain strong, forecasts for FY2020 are retained. Growth in Bhutan is estimated to have slowed to 5.3% in FY2019 (ended 30 June 2019), below the April forecast as hydroelectric generation declined from a year earlier. With more hydropower units commissioned, the 6.0% growth projection for FY2020 is retained.

Provisional estimates show growth in Pakistan in FY2019 (ended 30 June 2019) falling to 3.3%, reflecting lower investment amid persistent macroeconomic imbalances. Pakistan’s growth projection is lowered to 2.8% for FY2020, but a 3-year program of stabilization and structural reform with the International Monetary Fund since July 2019 promises to help address large macroeconomic imbalances. After Sri Lanka suffered terror attacks in April, this Update lowers its growth projections for 2019 and 2020. Growth forecasts for Maldives in 2019 and 2020 are retained as the mainstay of this island economy continues to perform strongly, with tourist arrivals expanding by 18.7% in the first half of 2019.

Inflation in South Asia remains benign, largely thanks to low food prices and moderate global oil prices, as well as watchful monetary policy making (Figure 3.3.2). The subregional inflation projection for 2019 is revised down to 4.0%, mainly reflecting a lower forecast for India with only modest food inflation, and then rise to 4.9% in 2020, as forecast in ADO 2019, in large part to reflect a steep rise expected in Pakistan. Inflation this year has been at least no higher than expected in Afghanistan, Bangladesh, Bhutan, India, Maldives, Pakistan, and Sri Lanka and only slightly higher than forecast in Nepal. This Update raises the 2020 inflation projection only for Nepal, revised up to 5.5% on a pickup in government expenditure, and Pakistan, markedly higher at 12.0% in anticipation of planned tariff hikes for domestic utilities, higher taxes, and especially the lagged impact of currency depreciation.

South Asia’s combined current account deficit is forecast to equal 2.5% of subregional GDP in both 2019 and 2020, or slightly smaller than in ADO 2019 (Figure 3.3.3). Individual forecasts for every economy except Bhutan are for smaller current account deficits in 2019 than were projected in ADO 2019, with Afghanistan now expected to post a small surplus. Both Bhutan and Maldives have large deficits reflecting externally financed investments.
Asian Development Outlook 2019 Update
Fostering Growth and Inclusion in Asia’s Cities

Growth in developing Asia remains robust despite expected moderation. A slowing trend continued in the first half of 2019 in most regional economies, especially the wealthier newly industrialized economies and the People’s Republic of China, as shrinking global trade and declining investment constrained growth. Inflation remains benign, but pressure is building slightly as food prices rise.

Downside risks to the outlook have intensified. Trade tensions between the United States and the People’s Republic of China could escalate further or even spread beyond trade and these two economies, the world’s largest. The risk of deeper malaise in the global economy, and uncertainty over how policy makers around the world will respond to weaker global growth, may stoke volatility in global financial markets. Proliferating private debt in some Asian economies could pose another challenge to financial stability.

Developing Asia is urbanizing rapidly. This Update highlights how urbanization can foster economic growth and inclusion in Asia’s cities. To enjoy the economic benefits of agglomeration, cities must function well as labor markets, which requires sound urban planning, efficient public transport, and affordable housing. As cities expand over municipal boundaries and become more connected with one another through flows of goods, services, and people, better planning coordination is needed at all levels of government.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.