

A stylized map of South Asia and Southeast Asia in white outline, set against a dark blue background with a subtle grid pattern.

# SOUTH ASIA: PROFILE OF A GROWTH REGION

**Dr Bandi Ram Prasad**

President

Financial Technologies Knowledge Management Company

*South Asia is experiencing rapid economic growth. Financial sector in the South Asia region has expanded contributing significantly to the real economic growth. Financial markets witnessed emergence of multi asset classes leading diversification of investments as also investor base. However, while growth is buoyant and financial markets are growing both in size and significance, the South Asia region faces daunting challenges to ensure further momentum in development as also economic and financial stability. An important concern in the South Asian economies is the spectre of inflation that could be a major impediment for economic growth...*

— **KNOWLEDGE *for* MARKETS** —

*A Financial Technologies Group Initiative*



## SOUTH ASIA: PROFILE OF A GROWTH REGION

**Dr Bandi Ram Prasad**

President  
Financial Technologies Knowledge Management Company

Dr Bandi Ram Prasad has over 25 years of professional experience in banking and securities markets and earlier held senior management positions with Indian Banks' Association, Bombay Stock Exchange, and Dun and Bradstreet (D&B) Information Services India Pvt. Ltd. Consulting experience with Food & Agriculture Organisation of the UN and Asia Pacific Rural & Agricultural Credit Association, Bangkok. Chaired a forum on India's Service Sector in the World Knowledge Forum held in Seoul in October 2006. Coordinated and organized the India events of the World Federation of Exchanges and South Asia Federation of Exchanges.

“

*While growth is buoyant and financial markets are growing both in size and significance, the South Asia region faces daunting challenges to ensure further momentum in development as also economic and financial stability. An important concern in the South Asian economies is the spectre of inflation that could be a major impediment for economic growth...*

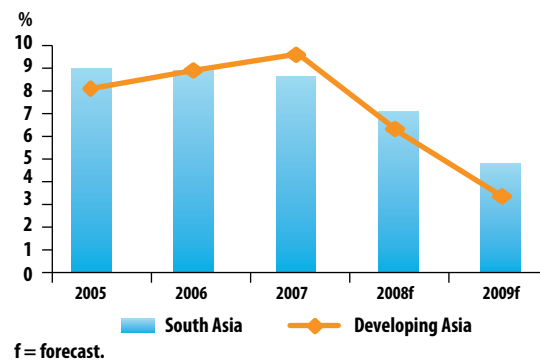
The South Asia region gained prominence in the recent period on the back of strong and sustained growth. The region has shown great progress in domestic economic growth as also external strength due to the rapid improvements made in financial markets. Growth and success are evident in overall economic management.

In 2011, South Asia is likely show highest growth among all the other regions, except East and South-East Asia. With a likely growth of real GDP at 7.4 percent, economic growth of South Asia is expected to be a clear two percentage points higher than the average of the developing countries and almost two percent higher than that of the Latin American region. The growth process in South Asia has been building over a long period and the quality and sustainability of growth make this region an important destination for international investment. Three of the eight countries in the region—India, Bangladesh and Bhutan—had over five percent growth consistently throughout the decade. Maldives had high growth for several years as also Sri Lanka.

The external indicators too have greatly improved. During the 1990-2008 period, external debt as a percent of Gross National Income declined from 31.6 percent to 21.3 percent; debt service to exports from 27.4 percent to 8.4 percent; reserves to external debt stocks rose from 6.5 percent to 84.6 percent; reserves to imports rose from 1.9 months to 6.7 months. In the background of liberalization of the financial flows, short term to external debt stocks during this period rose from 9.8 percent to 15.7 percent, whereas multilateral to external debt stocks declined from 32.4 percent to 27.6 percent.

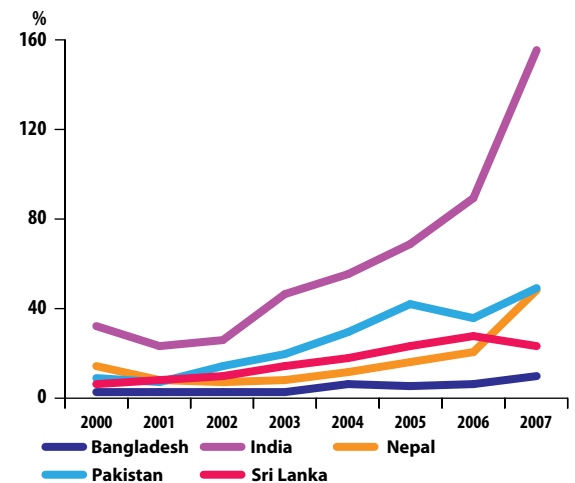
An important outcome of the continued growth is the dramatic decline in the poverty ratio. Though South Asia is likely to continue to be the home of the largest number of people living below poverty line, even ten years ahead, dramatic reductions in the number of people living on less than \$1.25 per day were evident in the last two decades. In 1990 more than 50 percent of population in this region was living below the poverty line, which fell to about 40 percent by 2005 and is expected to make a steep climb down to 22.8 percent by the next five years. Higher economic growth, rising opportunities for jobs and income, progress made in the deepening of the financial markets and promotion of financial inclusion are expected to have strong and positive impact in reduction of people living below the poverty line. In the ten-year-period of 2005-15, over 200 million people are estimated to have come out of the poverty line in the South Asia region.

### Gross Domestic Product Growth in Developing Asia and South Asia (% annual change)



Source: ADB, 2009, *Asian Development Outlook 2009*.

### Stock Market Capitalization (percent of gross domestic product)



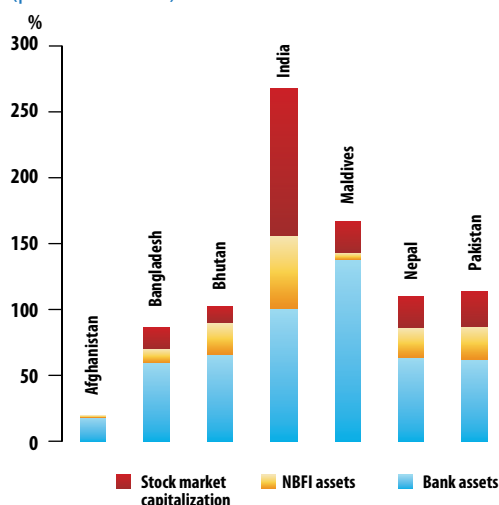
Source: World Bank (2008c)

Finance and investment have played a major role in economic growth and sustainability of the South Asia region. South Asia showed rapid strides in the development of the financial markets that enabled it to significantly step up investment rates. Between 2000 and 2007, capital inflows into South Asia rose at an average rate of seven percent, next only to that of Europe and the Middle East where capital inflows rose at an average annual rate of 12 percent during the period; stock market capitalization rose at an average annual rate of 107 percent, next only to East and South-East Asia at 118 percent; private credit by banks rose at 14.8 percent, next only to Europe and the Middle East at 15.7 percent; and investment at 8.1 percent, higher among all other regions.

Deepening of the financial markets was evident from the rapid growth of primary markets, in terms of resource mobilization, and surge in secondary markets, which was reflected through trading volumes. Before the market meltdown in 2008, the South Asia region was an important market for new capital issuance by companies. Trading volumes in exchanges witnessed huge growth on the back of the region emerging as an important destination for the foreign institutional investments. A plethora of products were introduced by the exchanges, including derivatives in commodities, currencies and bonds as also the emergence of exchange-traded funds. The growing interest in the region's financial markets was evident with Dow Jones coming out with a special SAFE Index, incorporating major stocks traded among the South Asian exchanges.

While growth is buoyant and financial markets are growing both in size and significance, the South Asia region faces daunting challenges to ensure further momentum in development as also economic and financial stability. An important concern in the South Asian economies is the spectre of inflation that could be a major impediment for economic growth. The South Asian countries exhibit higher inflationary conditions as compared to other countries in the Asia region. Inflation rates for major South Asian countries in 2010 are at higher levels—13 percent for Sri Lanka, 12 percent for Nepal, 10 percent for Pakistan, and 8.4 percent for India—as compared with much more manageable levels found in other Asian countries. Reigning in inflation without affecting economic growth will be a major challenge of macroeconomic policy since many of the countries in South Asia also have higher rates of fiscal deficits.

## South Asia's Financial Systems (percent of GDP)



GDP = gross domestic product, NBFI = nonbank financial institution.  
Notes: End 2007 data, except Bhutan stock market capitalization, 2005; India data end-March 2008; Nepal data July 2007

Average fiscal deficit for the South Asia region, which was at 5.7 percent of GDP, is expected to reach 8.6 percent in 2010, and it will marginally decline to 7.8 percent in 2011. For stable growth, containing fiscal deficit and inflation management continue to be major priorities for the South Asian countries. In addition to maintaining macroeconomic stability, both the aspects need to be firmly under control to ensure that poverty levels of people are not adversely affected. About 350 million people in South Asia are still expected to be living below \$1.25 per day in 2020. Unless inflation is brought under control and fiscal deficits are greatly reduced, reduction of poverty will be a big challenge.

The importance of developing and further deepening of financial markets could provide an important solution for sustaining growth and development. In South Asia, over 70 percent of the growth in the last two decades came from the financial sector development and it is important to step up this momentum. Financial inclusion has become a major policy

imperative for many governments where the challenge is to enhance people's access to financial services. Simultaneously, harmony and stability in regional politics as well as addressing the issues of civic strife and unrest prevalent in some parts of the region are important areas of focus. Stability and peace could play a pivotal role in promoting economic growth. Forums such as South Asian Capital Markets Conference could contribute to a great extent in this regard by bringing together professionals and practitioners to explore opportunities of mutual interest. Better functioning financial markets could provide greater impetus to domestic economic growth in the region. The next development agenda for South Asia should be designed in this direction.

### South Asian Countries: Real GDP Growth 1991-2014 (Annual Percent Change)

South Asia Countries	Average 1991–2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2014
Afghanistan, I.R. of . . .	..	..	..	15.1	8.8	16.1	8.2	12.1	3.4	15.7	8.6	8.9
Bangladesh	4.9	4.8	4.8	5.8	6.1	6.3	6.5	6.3	6	5.4	5.4	6.5
Bhutan	5	6.8	10.9	7.2	6.8	6.5	6.3	21.4	7.6	8.5	5.3	6.8
India	5.6	3.9	4.6	6.9	7.9	9.2	9.8	9.4	7.3	5.4	6.4	8.1
Maldives	7.5	0.1	6.5	8.5	9.5	-4.6	18	7.2	5.8	-4	3.4	4.2
Nepal	5	-0.2	0.1	3.9	4.7	3.1	3.7	3.2	4.7	4	4.1	5.5
Pakistan	3.9	4.4	3.2	4.9	7.4	7.7	6.1	5.6	2	2	3	5.5
Sri Lanka	5.2	-1.5	4	5.9	5.4	6.2	7.7	6.8	6	3	5	5.4

Source: World Economic Outlook, International Monetary Fund

