Recent developments: The disruptions to commodity markets and international trade resulting from the conflict in the Middle East have led to shortages of energy and agricultural products and put upward pressure on energy and food prices in South Asia (SAR). Inflation has still generally remained within or below central banks’ target ranges. In Bangladesh, however, inflation has stayed elevated, alongside tight monetary policy. In addition, monetary policy in Sri Lanka was tightened at the end of May to tame inflationary pressures.

Although financial conditions in the region eased somewhat following the de-escalation in hostilities, they remain tighter than before the conflict in several countries, with some currencies under pressure. Receipts of remittances have declined, particularly from Gulf Cooperation Council countries, and disruptions to tourism have also worsened fiscal and external imbalances, including in Maldives.

Despite heightened uncertainty related to the conflict, economic activity in India remained robust early this year, supported by resilient domestic demand. Private consumption, particularly in rural areas, has been strong, with urban demand recovering. Collections of taxes from domestic sales have also increased steadily. To mitigate the price pressures arising from higher energy costs, as well as shortages of agricultural products, especially fertilizers, several measures have been implemented in India, including a reduction in fuel taxes.

In Bangladesh and Nepal, domestic political uncertainties have waned, but private activity has been constrained by increased input costs and weaker investor sentiment. In these economies, the financial sector remains fragile, with subdued credit growth and deteriorating asset quality. In contrast, activity has recovered in Sri Lanka after the disruptions caused in late 2025 by Cyclone Ditwah, alongside a rise in private sector credit. Credit growth has also increased modestly in Bhutan, with enhanced regulatory frameworks and measures to support financial stability.

Outlook: Growth in SAR is expected to soften to 6.3 percent in 2026, mainly reflecting the adverse impact of the conflict in the Middle East, including higher energy prices, reduced supplies of oil and natural gas, and disruptions to remittances and tourism. Nevertheless, the growth forecast has been marginally upgraded since January, primarily because of more robust domestic demand and stronger export growth in several economies than previously expected. Improved access to major trading partners, as well as lower U.S. tariffs, is anticipated to contribute to the stronger export performance. With conflict-related disruptions assumed to wane by the end of the year, growth in SAR is set to pick up to an average rate of 7 percent per year in 2027–28.

Growth in India is projected to moderate to 6.6 percent in FY2026/27 (April 2026 to March 2027), reflecting a slowdown in private demand growth owing to higher energy prices and other input costs, though a reduction in Goods and Services Tax rates should somewhat support consumer demand. Reduced U.S. tariffs and the expected implementation of free trade agreements will likely mitigate the impact of weaker external demand due to the conflict, particularly on merchandise exports. Growth is then anticipated to rebound over the next two fiscal years, driven by firming domestic demand and a pickup in export growth.

Excluding India, growth in the region is forecast to increase to 4 percent in 2026 from 3.9 percent in 2025, reflecting some acceleration of growth in Bangladesh, driven by a gradual recovery in investment. However, the growth projection has been downgraded by 1 percentage point since January, partly because of the weaker expansion of consumption and exports and a rise in import costs. A recovery in external demand is expected to support growth in 2027–28.

In SAR, excluding Bangladesh and India, the projected softening of growth in 2026 partly reflects heightened uncertainty and higher input costs, which will weigh on investment, including in Nepal and Sri Lanka. Disruptions to tourism and higher energy prices are expected to contribute to a slowdown in Bhutan and Maldives. Over 2027–28, a rebound in growth is projected, supported by a return of tourist flows, increased remittances, and expansion of hydropower activity, including the construction of plants and electricity exports in Bhutan and Nepal.

Fiscal balances in the region are set to deteriorate in 2026. In several economies, including Bangladesh, Bhutan, India, and Maldives, fiscal deficits are anticipated to rise, partly owing to increases in subsidies intended to counteract the surges in energy prices. Weaker revenues stemming from tax cuts and subdued tourism activity are also projected to erode fiscal balances, including in Bhutan and Maldives. In India, reduced revenues due to tax reforms are forecast to be partly offset by slower capital expenditure growth and reductions in non-essential current spending. Revenue collection will likely remain strong in Sri Lanka, maintaining a primary surplus.

External balances are also forecast to weaken in the region this year due to the impact of the conflict, including higher costs of energy imports, as well as declines in tourism revenues and remittances. Over 2027–28, current account balances are projected to improve, on aggregate, supported by higher exports, reflecting a rebound in external demand. However, in Bhutan and Nepal, the worsening of current account balances will partly reflect increased imports for the construction of hydropower projects. Over the forecast horizon, trade agreements and structural reforms undertaken to improve the business environment are anticipated to support foreign direct investment inflows in India. In contrast, despite the reform implementation, a tight business environment is expected to weigh on foreign investment inflows in Nepal.

Inflation in the region is projected to rise in 2026, driven mainly by increases in energy and transport costs, though monetary policies are set to remain stable. Over 2027–28, inflation is expected to soften in most countries, leading to monetary policy easing, which should boost demand.

With continuing per capita income growth, poverty in the region is anticipated to decline further. However, the pace of decline will be slower than expected in January, mainly reflecting the adverse effects of higher energy and food prices on household welfare, agricultural income, and food security, as well as reduced remittances. In addition, job creation will remain subdued in the region, partly due to regulatory and structural barriers, widespread informality, and skill mismatches.

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South Asia Economy Forecasts
(Annual percent change unless indicated otherwise)

	2023	2024	2025e	2026f	2027f	2028f
GDP at market prices (average 2010–19 US$)						
Calendar year basis						
Maldives	4.9	3.5	5.7	0.7	7.2	4.0
Sri Lanka	-2.0	5.0	5.0	3.6	3.8	3.9
Fiscal year basis [a]	**2023/24**	**2024/25**	**2025/26e**	**2026/27f**	**2027/28f**	**2028/29f**
India	7.2	7.1	7.7	6.6	7.2	7.0
	2022/23	**2023/24**	**2024/25**	**2025/26e**	**2026/27f**	**2027/28f**
Bangladesh	5.8	4.2	3.5	3.8	4.6	5.5
Bhutan	4.9	6.1	8.1	7.1	6.4	6.8
Nepal	2.0	3.7	4.6	2.3	4.2	4.6

Source: World Bank.
Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing global circumstances. Consequently, projections presented here may differ from those in other World Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
a. Please see regional annex for details on fiscal year reporting.