



# South Asia Emerges Stronger

"The South Asia region is showing great promise and progress in terms of economic fundamentals and expansion of financial markets. In respect of domestic economics and external finance, the region is making rapid strides. South Asia stands out as the region that posted biggest gains in stock market capitalization in the last decade."

**Jignesh Shah, Chairman and Group CEO, Financial Technologies (India) Ltd**

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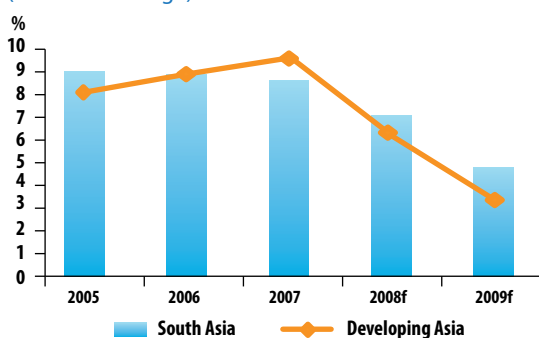
South Asia is emerging as the most promising and energetic region in the global economy. Expansion of domestic economies, growing depth of financial markets, rising opportunities for incomes and investments, greater pursuit of peace and stability are the major factors that drive the current pace of growth in South Asia.

### Stronger Economic Growth

The economic growth rate in South Asia, which was lagging behind the average for developing Asia two years ago, reversed the trend with the former now showing sizeably higher growth. Seven out of eight countries (Bangladesh, Bhutan, Maldives, Nepal, Pakistan, Sri Lanka, Afghanistan and India) constituting the South Asia region have growth rates over six percent a year, making it one of the dynamic regions in the world. According to Global Economic Prospects of the World Bank, real GDP growth in South Asia that was at 5.7 percent in 2009 is poised to reach 6.9 percent in 2010 and 7.4 percent in 2011. South Asia's economic growth in 2011 is expected to be five percentage points higher than that of the world average and nearly two percentage points more than developing countries.

South Asia also came out strongly in terms of pursuing aspects of domestic macroeconomic stability and external strength. It has displayed better Gross Domestic Product Growth than the developing Asia region as shown below.

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



Source: ADB 2009 Asian Development Outlook 2009

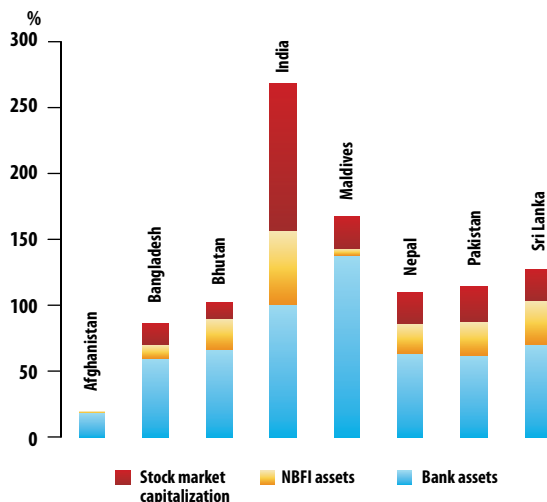
### Growing Financial Sector

The financial systems in various countries of the South Asia region are progressing at a rapid pace. Except Afghanistan, which is recouping from the long years of strife and instability, the size of the financial system in other countries is equal to the size of the domestic economy or even more, like in India where it is several times higher. All the countries of the region have experienced significant surge in market capitalization as also value of share trading in stock markets. Rapid developments have taken place or are taking

place in regard to development of other exchange-traded asset markets such as currencies, commodities and bonds.

An important aspect of the financial sector growth in South Asia has been its positive and strong contribution to the economic output. According to World Bank estimates, 78.5 percent of the change in the growth rate of potential output during 2003-10 as compared to 1995-2003 was contributed by deepening of the financial markets.

### 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

### Future Prospects

In the last two decades, the exchange industry in South Asia experienced rapid growth and diversity, emerging as one of the strong and significant and reaching to the top league in terms of business carried out in equities derivatives, commodities futures, and currency derivatives. South Asia also is home for a large number of intermediaries and financial institutions. South Asian Federation of Exchanges (SAFE) has a large role to play in terms of harnessing cross-border cooperation to further the regional business interests.

Growth is expected to pick up in most of South Asian economies in 2010 with India leading the group with a good economic performance. Sri Lanka is expected to see an uptick of 6.0 percent, boosted by stronger investor confidence. Improved domestic economic fundamentals would allow Pakistan to attain higher growth of 3.0 percent. Bangladesh and Nepal are also projected to turn out a better performance.

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