

Executive Summary

South Asia's economy is maintaining strong momentum, on the back of robust domestic demand. On average during 2026-27, the region is projected to grow at 6.8 percent, retaining its status as the strongest-growing EMDE region. Growth could be slowed by a severe El Niño, by energy prices remaining persistently elevated, or by global financial market strains. Looking further ahead, the region is aging unusually rapidly, with limited financial security for older people. The creation of more and better jobs is therefore a priority for all age groups. One promising avenue for creating more, better jobs is the widespread deployment of AI. AI adoption in South Asia remains well behind that in advanced economies, but is catching up fast. Growing global value chain connections between U.S. customers and South Asian suppliers in AI-exposed sectors suggest that South Asian firms are using AI to find new market opportunities. AI adoption can be accelerated by strengthening the complementary conditions that foster firms' growth, above all workforce skills, a business-enabling environment, and reliable infrastructure, supported by measures to ease adoption barriers for small firms, foster local AI innovation, and provide a clear AI policy framework that reduces regulatory uncertainty while addressing risks.

Chapter 1. South Asia's High-Energy Growth. South Asia is suffering from high energy prices and has limited involvement in the AI-related supply chains that are currently underpinning global economic activity. Despite this, resilient domestic demand has supported rapid growth in the region and is expected to continue doing so. The region is projected to grow at 6.8 percent per year in 2026–27, on average. Growth in the region could be slowed by persistently elevated energy prices or damage caused by a severe El Niño. While a slowdown in AI investment and related financial turbulence would also weigh on growth in South Asia, the region is less exposed than other EMDE regions. Rising incomes, AI-driven energy demand, and recent oil price spikes make scaling up domestic generation capacity a priority; renewables offer the most cost-effective path for new capacity, and pricing and trade reforms can accelerate their deployment alongside reliable baseload sources. As adoption catches up to peers, AI can offer opportunities for productivity

gains and the creation of higher-paying jobs. Tourism and agribusiness offer opportunities to create jobs with low entry barriers at scale if major investment needs and improvements in regulatory environments are addressed.

Box 1.1. South Asia's Compressed Demographic Transition. South Asia's demographic transition is unusually compressed: the working-age share peaks around 2034 and the region turns “aged” by 2049. Currently, aging is often neither productive nor financially secure—longer lives come with more years in poor health, older workers stay in informal, low-productivity jobs, and pension coverage is among the lowest in the world. International experience suggests that older households use a smaller share of their spending on food and clothing and a larger share for services such as health care, hospitality, and communications. Seizing the opportunities offered by an aging society requires policy actions on all fronts at once: accelerating job creation

while building old-age income support and health systems before aging pressures peak.

Chapter 2. Delivering the Promise of AI in South Asia. Artificial intelligence (AI) can transform South Asia's development prospects through several channels, including by boosting the growth of labor productivity, by increasing export opportunities, and by improving the delivery of public services. AI adoption among the region's firms is rising fast but still trails the frontier: about 23 percent of Indian firms report using AI, against 43 percent in the United States, and the gap is wider for more sophisticated uses. Global value-chain links between South Asian suppliers and U.S. customers have grown faster when suppliers and customers are in sectors that are more exposed to AI, suggesting that AI is generating new global market opportunities for the region's firms.

Prospects for AI-enhanced public service delivery are mixed: evidence suggests that AI's success in this area depends on tailoring to local conditions. Access to computing power underpins AI, and local data center investment is one means to secure it. For most of the region, the greatest gains lie in adopting AI and adapting it to local conditions—including through small AI applications suited to low-resource settings. Realizing AI's promise will therefore depend on policy action to secure the analog foundations for success, by strengthening workforce skills, establishing a more business-enabling environment, and improving the physical and digital infrastructure. It will also depend on complementary measures to reduce barriers to AI adoption by small firms, foster local AI innovation, and establish a clear regulatory framework that reduces uncertainty and safeguards data security and privacy.