South Asia

Macro Poverty Outlook

Country-by-country Analysis and Projections for the Developing World

Annual Meetings 2024

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AFGHANISTAN

Afghanistan's economy grew by 2.7 percent in FY2023-24, partially recovering from a 27 percent contraction following the Taliban's takeover. Growth in agriculture, industry, and services contributed to the recovery. Humanitarian aid and inward remittances supported aggregate demand. However, the outlook remains subdued, with high downside risks due to persistent deflation, a trade deficit, and restrictive laws, particularly affecting women's rights. Afghanistan's long-term economic prospects depend on internal policy reforms and external aid.

Key conditions and challenges

Afghanistan faces numerous socio-economic challenges since the Taliban's return to power, including a sharp decline in international aid, frozen foreign reserves, persistent deflation, growing trade deficit, restrictive laws particularly affecting women's rights, and persistently low levels of human capital. Private consumption remains constrained, and nearly half of the population lives in poverty with fewer quality jobs and increased unemployment, particularly affecting youth and women. The Interim Taliban Administration (ITA) has strengthened domestic revenue mobilization efforts, but progress is insufficient to offset the reduction in external support. Afghanistan's underdeveloped infrastructure, particularly in energy and transportation, hinders industrial and commercial productivity, especially in rural areas.

Recent developments

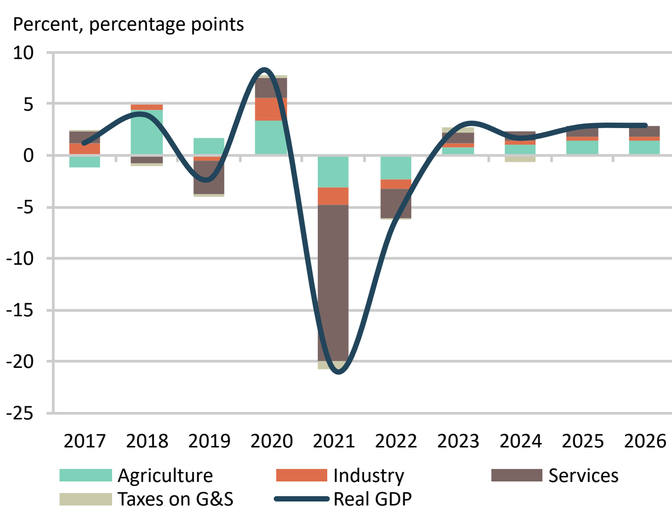
In FY2023-24, Afghanistan's GDP began to expand. Agriculture expanded by 2.1 percent and the industrial sector by 2.6 percent, supported by a halving of the business receipt tax (BRT) for industries and lower tariffs on raw and semi-raw materials. The services sector grew by 2.3 percent, with notable contributions from wholesale and retail trade and transportation. However, the education sub-sector declined by 9.4 percent, and the health and social services sub-sector declined by 3.1 percent. On the demand side, private consumption increased by 6.2 percent, with government consumption contributing modestly at 1.1 percent. However, overall growth in aggregate demand was constrained by the decline in investment and exports.

Headline inflation fell in April 2023 and remained negative throughout the Afghan fiscal year. Domestic prices declined by 7.7 percent on average in FY2023-24. Core inflation, excluding volatile food and energy prices, was also negative, falling by about 3 percent by the end of the FY in March 2024.

Declining prices, notably in food, have supported a progressive improvement in Afghan households' self-reported welfare. According to the latest estimates (Spring 2023), monetary poverty is at 48.3 percent, a 4-percentage point decline compared to the same period in 2020. Poverty in urban areas remains on an upward trend, reflecting the lack of quality job opportunities while improvement in the security situation, better access to markets, and a good agriculture season supported a decline in poverty in rural areas. Afghan households have coped with the crisis by increasing their labor supply. However, a weak labor demand has caused a doubling of unemployment and a 25 percent increase in underemployment between 2020 and 2023.

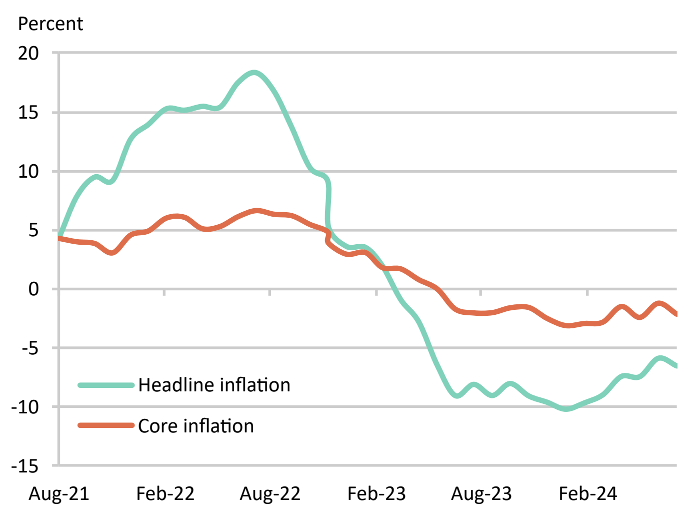
Afghan women continue to suffer the consequences of restrictive policies. Between 2022 and 2023, girls' secondary school enrollment collapsed from 14 percent to 3 percent

FIGURE 1 Afghanistan / Real GDP growth and contributions to real GDP growth



Sources: National Statistic and Information Authority (NSIA) and World Bank staff.

FIGURE 2 Afghanistan / The country is facing deflation



Sources: NSIA and World Bank staff projections.

due to the ban on secondary education. While more women have entered the labor force to support their households' livelihoods compared to 2020, limited mobility and other restrictions largely reduce their employment opportunities to home production in the manufacturing sector. The Morality Law recently promulgated, if fully enforced, could further restrict women's socio-economic inclusion and the country's development prospects.

Afghanistan's current account deficit increased to 13.5 percent of GDP in FY2023-24, driven by a growing trade deficit and declining foreign aid. Despite increased remittance inflows, total income from abroad declined by approximately two percentage points of GDP, falling to 33.7 percent. Financing the current account deficit has been challenging due to limited foreign direct investment and limited borrowing capacity.

Despite improvements in domestic revenue mobilization, the fiscal deficit (cash-basis) widened to 1.4 percent of GDP in FY2023-24. Operating expenditures increased by 0.3 percentage points to 15.6 percent of GDP, while development expenditures grew from 0.8 percent of GDP in FY2022-23 to 1.3 percent in FY2023-24. The fiscal deficit was potentially financed by a reduction in deposits at the central bank.

Outlook

Economic activity is expected to grow modestly over the medium term, averaging 2.75 percent annually from 2024 to 2026, with agriculture growing faster than the rest of the economy Domestic prices are expected to stabilize in the second half of FY2023-24, with inflation turning positive.

With projected GDP growth barely at par with that of the population, per capita GDP is expected to stagnate and poverty to remain above 40 percent. Moreover, vulnerability to falling into poverty because of shocks remains a concern, as does unemployment and job quality challenges.

The current account deficit in Afghanistan is projected to increase to 17.7 percent of GDP in the forecast period, up from 13.5 percent in FY2023-24 driven by a high trade deficit accounting for 40 percent of GDP. Exports of goods and services are expected to decline by two percentage points, stabilizing around 10 percent of GDP, while imports are expected to slightly exceed 50 percent of GDP. Total income from abroad is expected to decline to around 22 percent of GDP, and financing of the current account deficit will remain a challenge, even more so in a context of declining aid.

The fiscal deficit is expected to narrow to 0.7 percent in FY2024-25, with a balanced budget projected for FY2025-26 and FY2026-27. Revenue collection has improved during the first four months of FY2024-25, totaling AFN 69.7 billion, marking an 11 percent increase from the previous year, primarily driven by higher non-tax revenues. With borrowing constraints, the revenue increase is expected to be matched by a corresponding rise in expenditure.

Afghanistan's economic outlook faces major risks, including political instability that weakens investor confidence and long-term planning. The country's isolation and lack of international recognition limit access to foreign aid, investment, and trade, slowing its economic recovery. A high current account deficit strains foreign reserves, and with limited financial options, the central bank struggles to manage currency stability, which could lead to inflation. The ITA relies heavily on customs duties and non-tax revenues but falling exports and lower tax income make it harder to balance the budget. The agriculture sector, which provides a livelihood for 40 percent of the population, remains vulnerable to climate change and weather shocks, leading to potentially severe impacts on poverty and food security.

BANGLADESH

Table 1	2023
Population, million	169.4
GDP, current US$ billion	414.4
GDP per capita, current US$	2445.6
International poverty rate ($2.15)[a]	5.0
Lower middle-income poverty rate ($3.65)[a]	30.0
Upper middle-income poverty rate ($6.85)[a]	74.1
Gini index[a]	33.4
School enrollment, primary (% gross)[b]	117.7
Life expectancy at birth, years[b]	73.7
Total GHG emissions (mtCO2e)	260.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

Real GDP growth is expected to slow from 5.2 percent in FY24 to 4.0 percent in FY25, driven by subdued investment and industrial growth in the aftermath of student-led protests and persistent social grievances. Extreme poverty is projected to have increased to 6.1 percent in FY24, and inequality to increase over one Gini index point. Job creation, revenue mobilization, and financial sector reforms are key priorities for robust growth in the medium to long term and to support the new poor to improve their welfare and be lifted out of poverty.

Key conditions and challenges

On August 8, 2024, an interim government took office following the resignation of the former Prime Minister. The timing of the next election remains uncertain. The interim government will need to address persistent high inflation, declining reserves, and elevated financial sector vulnerabilities to stabilize the economy. Despite disruptions in economic activity, the transition is an opportunity to implement a wide-ranging reform agenda.

Deterioration in labor market conditions may have contributed to people's discontent. Labor force participation declined from 61.2 in 2022 to 60.9 in 2023 and reached 59.9 percent in the first half of 2024. Employment has also reduced, particularly in 2024 (1.2 percentage points variation), and the unemployment rate remained almost stagnant at around 3.5 percent. This dynamic is mainly driven by discouraged workers leaving the market as they cannot find jobs.

Comprehensive reforms to create more jobs, address financial sector vulnerabilities, strengthen public sector performance, and improve revenue mobilization will be critical to support growth. In the medium term, Bangladesh will need to improve governance, boost human capital, address climate risks and diversify exports to counter reduced market access following the graduation from UN Least Developed Country (LDC) status in 2026.

Recent developments

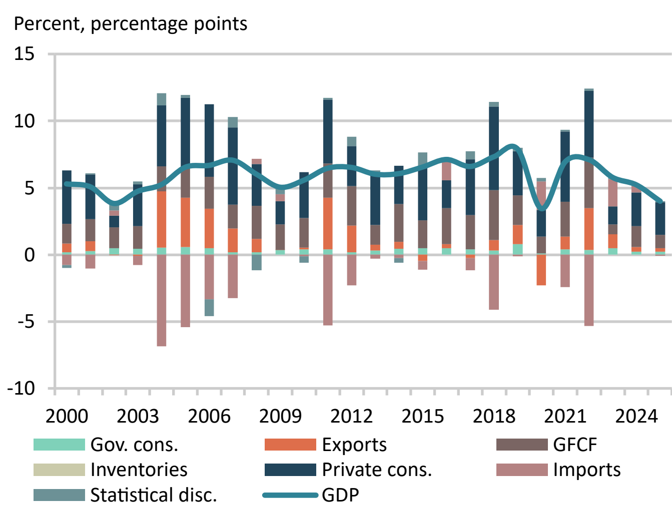
Prior to the interim government taking office, the turmoil disrupted economic activity, particularly in the industrial and service sectors.

Before the transition, real GDP grew by 5.2 percent in FY24. On the supply side, GDP growth was primarily driven by industry, which expanded by 5.8 percent—lower than the decadal average of 9.5 percent, impacted by energy shortages, import restrictions, and monetary tightening. Services growth also slowed to 5.3 percent as domestic purchasing power declined due to persistent inflation. Agricultural growth remained modest at 3.3 percent.

The current account deficit almost halved to US$6.5 billion (1.4 percent of GDP) in FY24 from US$11.6 billion in FY23, as the trade deficit improved, and remittance inflows grew by 10.7 percent. In May 2024, Bangladesh Bank adopted a crawling peg exchange rate system and devalued the exchange rate. As of September 8, foreign exchange reserves declined by US$2.3 billion since June 2024 to reach US$19.4 billion, (3.2 months of import coverage).

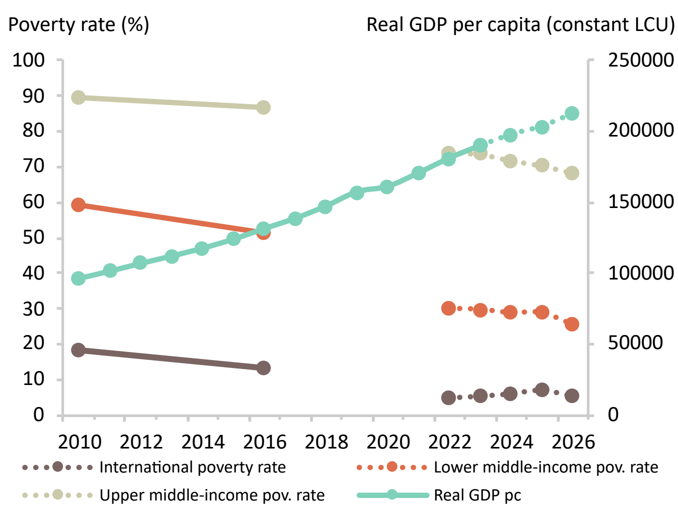
Inflation remained elevated, averaging 9.7 percent in FY24, due to high food and import prices. In response, the policy rate was raised by 100 basis points in FY25 to 9.5 percent (cumulatively by 425 basis points

FIGURE 1 Bangladesh / Real GDP growth and contributions to real GDP growth



Sources: Bangladesh Bureau of Statistics and World Bank staff estimates.

FIGURE 2 Bangladesh / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

since May 2022). The cap on bank lending rates was abolished to improve monetary transmission. The financial sector remains vulnerable to high non-performing loans.

Higher inflation and reduced employment opportunities impacted families' welfare, who consume a much higher percentage of income in food and goods affected by inflation. Workers in industry and services were especially affected, facing job losses of around 4.8 percent and wage reductions (by 2.3 and 0.7 percent), likely pushing their families into extreme poverty. Consequently, extreme poverty at the USD 2.15 (2017 PPP) threshold is projected to increase by 0.7 percentage points (or affect 1.2 million people) in 2024. Some families—particularly in agriculture or receiving remittances—were able to maintain their welfare. The opposing trends have likely exacerbated inequality, with the Gini index increasing by 1.1 points over the year.

The fiscal deficit was 4.5 percent of GDP in FY24. Revenue growth was robust but remained one of the lowest globally at 8.5 percent of GDP. Expenditure is estimated to have increased modestly to 13.0 percent of GDP, driven by current expenditure. The public debt to GDP ratio increased to 38.8 percent but remained sustainable.

Outlook

Real GDP growth is projected to decline to 4.0 percent in FY25 but could range between 3.2 and 5.2 percent. The wide range of the projection reflects the unavailability of credible data in recent months and significant uncertainties around the outlook. These uncertainties are expected to keep investment and industrial growth subdued in the short term. Recent floods are expected to moderate agriculture growth. Growth is expected to rise gradually, benefiting from critical financial sector reforms, increased revenue mobilization, improved business climate, and trade.

Export growth is anticipated to remain positive, despite short-term challenges due to high input costs, weak global demand, and uncertainties within the manufacturing sector. Remittances are projected to stay robust in FY25, supported by the adoption of the crawling peg exchange rate regime. The financial account will likely remain in surplus, supported by budget assistance from development partners. Foreign exchange reserves are expected to stabilize in FY25, albeit with some downward pressure due to external payment requirements to foreign energy suppliers.

The growth slowdown in FY25 will exacerbate the situation for the most disadvantaged populations and increase disparities. Extreme poverty is expected to rise to 7.0 percent, pushing an additional 1.7 million people into extreme poverty. According to the upcoming Poverty Assessment, about 6 out of 10 individuals are estimated to have used their savings to maintain household consumption. Conversely, households benefitting from robust remittance inflows will improve their welfare, but the contrasting effect will widen inequality by 1.4 Gini points.

The fiscal deficit is projected to remain below 5.0 percent of GDP over the medium term. In the short term, total expenditure as a share of GDP is expected to decline due to contractionary fiscal policy. Over the medium- to long-term, strengthening revenue performance will be crucial to expand investments in infrastructure and human capital.

Downside risks to the outlook have increased substantially. Increased political instability, poor corporate governance, and the potential insolvency of some banks could worsen an already weak financial sector. Persistently elevated inflation, weak global demand, energy shortages, and climate shocks could lower the growth outlook further and exacerbate vulnerability to falling into poverty.

TABLE 2 Bangladesh / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices[a]	6.9	7.1	5.8	5.2	4.0	5.5
Private consumption	8.0	7.5	2.0	3.9	3.8	4.8
Government consumption	6.9	6.2	8.5	3.5	3.5	9.2
Gross fixed capital investment	8.1	11.7	2.2	4.8	3.1	6.4
Exports, goods and services	9.2	29.4	8.0	2.7	2.1	4.5
Imports, goods and services	15.3	31.2	-9.8	-2.5	0.4	5.1
Real GDP growth, at constant factor prices[a]	7.0	7.2	6.2	5.3	4.0	5.5
Agriculture	3.2	3.1	3.4	3.3	3.0	3.1
Industry	10.3	9.9	8.4	5.8	3.3	5.4
Services	5.7	6.3	5.4	5.3	4.7	6.0
Inflation (consumer price index)	5.6	6.1	9.0	9.7	9.5	9.0
Current account balance (% of GDP)	-1.1	-4.2	-2.8	-1.4	-0.9	-0.5
Net foreign direct investment inflow (% of GDP)	0.3	0.4	0.4	0.4	0.3	0.4
Fiscal balance (% of GDP)	-3.7	-4.6	-4.6	-4.5	-4.3	-4.6
Revenues (% of GDP)	9.4	8.5	8.2	8.5	8.3	8.7
Debt (% of GDP)	32.4	33.8	37.0	38.8	40.6	41.8
Primary balance (% of GDP)	-1.7	-2.6	-2.5	-1.9	-1.4	-1.6
International poverty rate ($2.15 in 2017 PPP)[b,c]	..	5.0	5.4	6.1	7.0	5.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	..	30.0	29.8	29.0	29.0	25.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	..	74.1	73.7	71.8	70.2	68.0
GHG emissions growth (mtCO2e)	7.3	5.0	2.7	1.8	2.0	2.6
Energy related GHG emissions (% of total)	42.3	44.1	44.6	44.7	44.9	45.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ FY23 estimates based on BBS provisional estimates.
b/ Calculations based on SAR-POV harmonization, using 2022-HIES. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
c/ Projections using microsimulation methodology.

BHUTAN

Table 1	2023
Population, million	0.8
GDP, current US$ billion	2.9
GDP per capita, current US$	3717.8
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.5
Upper middle-income poverty rate ($6.85)[a]	8.4
Gini index[a]	28.5
School enrollment, primary (% gross)[b]	103.8
Life expectancy at birth, years[b]	72.2
Total GHG emissions (mtCO2e)	-5.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

Economic growth rose to 5.3 percent in FY23/24 and is projected to increase further in the short to medium term due to the commissioning of new hydropower plants and recovery of the tourism sector. Fiscal performance improved with a series of consolidation measures. The current account deficit (CAD) is expected to improve with increased hydropower, non-hydropower (mining and forestry), and tourism exports and reduced cryptocurrency equipment imports. Despite significant progress, 19 percent of Bhutanese remain vulnerable to falling into poverty.

Key conditions and challenges

Bhutan's real GDP growth is driven by the public-led hydropower sector, resulting in growth spikes during the construction and completion of hydropower plants. However, the hydropower sector employs less than one percent of the labor force while the subsistence agriculture sector employs over 40 percent. High youth unemployment rate (19.2 percent in 2024) and limited labor opportunities, especially for skilled workers, increased emigration, with 9 percent of Bhutanese living abroad. Generous provision of public services and low tax revenue have led to persistent fiscal deficits. Major national investment in cryptocurrency mining has further pressured international reserves and worsened CAD since FY21/22, already strained by import reliance. The new government aims to transform its economy through the 13th Five-Year Plan (FYP) launched in July 2024 focusing on private sector development, job creation, infrastructure investments, and public sector reforms.

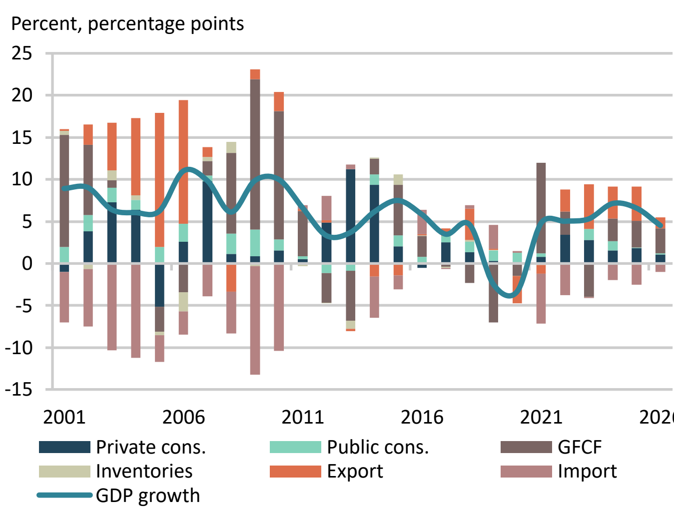
Economic growth contributed to poverty reduction during 2017-2022. Extreme poverty ($2.15/day) was nearly eliminated, and those living below $3.65/day and $6.85/day dropped sharply. Remittances were crucial to improving welfare among recipient households. Without remittances, the poverty rate would be substantially higher with an estimated 24,000 more people (3 percent of Bhutanese) classified as poor. Poverty reduction was more salient in rural areas. Non-monetary well-being dimensions such as education and sanitation also improved. However, vulnerability to climate shocks and spatial inequalities persist, with the poverty rate ranging from 1.5 percent in Thimphu to 41 percent in Zhemgang. As measured by the Gini index, monetary inequality improved from 37 to 28, yet spatial disparities persist.

Downside risks to the economic outlook persist. Domestic risks include delays in hydropower projects, which affect growth, and fiscal and external balances. Delayed fiscal consolidation and materialization of financial sector contingent liabilities could further erode fiscal buffers. External risks include rising and volatile commodity prices due to geopolitical tensions, natural disasters, and climate-related hazards, which could impact livelihoods and infrastructure development. Continued emigration of skilled labor continues to weigh on the economy and is likely to have a negative effect in the medium term.

Recent developments

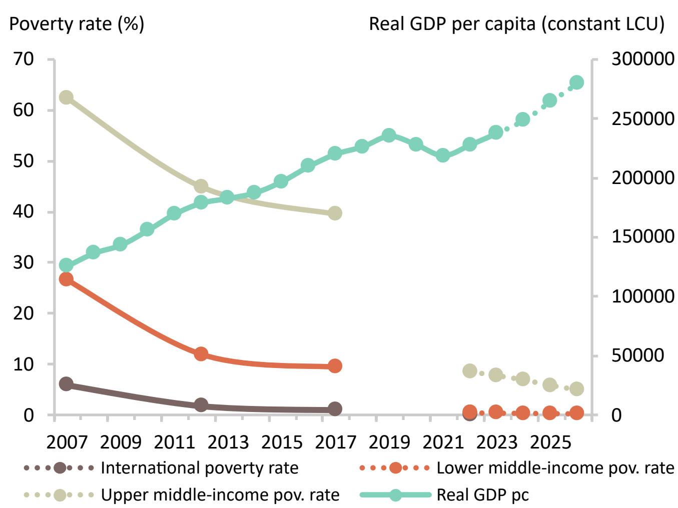
Real GDP grew by 5.3 percent in FY23/24 (July 2023 to June 2024), supported by the recovery of the tourism sector and growth of the non-hydropower industry (base metals and ferro-silicon). The agriculture sector returned to the pre-pandemic growth rate of 3.4 percent after stagnating in previous years. Industry growth stalled at 0.2 percent, due to contraction in the hydropower and construction sectors,

FIGURE 1 Bhutan / Real GDP growth and contributions to real GDP growth



Sources: National Account Statistics and National Statistics Bureau (NSB).

FIGURE 2 Bhutan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2

accounting for 72 percent of the industry sector, despite strong growth in mining and quarrying. The services sector grew by a robust 8.7 percent, led by tourism-related services. Demand side growth was driven by non-hydropower exports and consumption. Headline inflation decelerated from 4.6 to 4.3 percent, due to lower food and non-food inflation.

The fiscal deficit narrowed by 3.9 percentage points in FY23/24 to 0.8 percent of GDP, driven by improved domestic revenue and reduced capital expenditures despite major increase in public sector wages. Current expenditures increased due to a major salary hike for public servants ranging from 55 to 74 percent, aimed at curbing the high attrition rate of public servants. Capital expenditure remained low in FY23/24, as most of the capital spending of the 12th FYP was frontloaded in FY20/21 to support pandemic recovery.

The CAD remains elevated at 22.7 percent of GDP in FY23/24, albeit significantly narrowed from a peak of 34 percent in the previous year despite lower hydropower exports, due to a reduction in cryptocurrency mining related IT imports and continued recovery of the tourism sector. Hydropower exports declined, despite the commissioning of the Nikachhu hydropower plant, due to increased domestic consumption, reflecting the higher electricity needs for energy-intensive cryptocurrency mining operations. Gross international reserves increased modestly to US$624 million in June 2024 (4.7 months of imports).

Outlook

Real GDP growth is projected to rise to 7.2 percent in FY24/25, led by commissioning of Puna-II hydropower plant and growth in the non-hydropower industry and tourism sectors. On the demand side, growth is supported by non-hydropower exports and 13th FYP-related public investments. Medium-term growth will be driven by robust electricity production, construction, and services sectors on the supply side and growth of exports and public investment on the demand side. The lifting of housing construction loans moratorium and launching of the collateral-free concessional credit line in FY24/25 is expected to boost investments and growth.

Poverty reduction is expected to continue, with the $6.85/day poverty rate falling to 5.9 percent in FY24/25 and 5.0 percent in FY25/26. However, a substantial share of the population (19 percent of the total population or 200,000) remains vulnerable to poverty due to climate change hazards, with nearly half of the poor exposed to landslides (forthcoming Bhutan Poverty and Equity Assessment, 2024).

The fiscal deficit is expected to widen before improving in the medium term with consolidation and rising revenues. The fiscal deficit is projected to increase to 4.4 percent in FY24/25, driven by increase in capital expenditure for the 13th FYP. Goods and Services Tax implementation and one-off profit transfers from commissioning of Puna II in FY25/26, along with BTN 100 billion (US$1.2 billion) grant from the Indian government will boost revenue. Primary non-wage recurrent expenditure is expected to moderate. Public debt will remain elevated, rising to 122 percent of GDP in FY25/26 but considered sustainable as most of it is linked to hydropower loans. However, rising debt service may limit the fiscal space for social spending.

The CAD is projected to decline to 17.5 and 9.3 percent of GDP in FY24/25 and FY25/26, before moderating further in the medium term. This is driven by continued reduction of cryptocurrency and hydropower plants construction related imports. Export is projected to grow with higher hydropower exports from the commissioning of Puna-II, increased non-hydropower (mining and timber), and tourism exports. As a result, international reserves are projected to increase to US$717 million in FY24/25 (5.1 months of import coverage).

TABLE 2 Bhutan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	-3.3	4.8	5.0	5.3	7.2	6.6
Private consumption	0.3	1.5	6.9	5.6	3.1	3.7
Government consumption	5.4	1.9	-0.5	6.4	5.2	0.3
Gross fixed capital investment	-3.4	25.4	5.6	-7.6	5.9	7.3
Exports, goods and services	-10.4	-3.6	9.8	19.1	12.0	12.3
Imports, goods and services	-0.5	13.2	7.5	0.2	4.0	5.5
Real GDP growth, at constant factor prices	-2.3	4.9	4.8	5.2	7.2	6.6
Agriculture	2.7	0.1	0.1	3.4	5.3	5.0
Industry	-5.9	4.8	2.7	0.2	10.1	12.9
Services	-1.2	6.3	7.4	8.7	6.1	3.3
Inflation (consumer price index)	8.2	5.9	4.6	4.3	1.1	4.0
Current account balance (% of GDP)	-11.1	-28.1	-34.0	-22.7	-17.5	-9.3
Fiscal balance (% of GDP)	-5.8	-7.0	-4.7	-0.8	-4.4	-2.5
Revenues (% of GDP)	30.9	25.1	25.3	26.4	26.5	29.6
Debt (% of GDP)	123.3	118.8	116.1	110.7	104.8	121.6
Primary balance (% of GDP)	-4.8	-5.6	-3.0	1.1	-2.4	0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	0.0	..	..	..	..
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	0.5	0.4	0.3	0.3	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	8.4	7.7	6.9	5.9	5.0
GHG emissions growth (mtCO2e)	0.1	-1.7	-1.8	-1.6	-1.6	-1.5
Energy related GHG emissions (% of total)	-14.3	-15.6	-17.0	-18.3	-19.5	-20.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2022-BLSS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2022) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

INDIA

Table 1	2023
Population, million	1428.6
GDP, current US$ billion	3567.1
GDP per capita, current US$	2496.9
School enrollment, primary (% gross)[a]	112.0
Life expectancy at birth, years[a]	67.7
Total GHG emissions (mtCO2e)	3672.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2023); Life expectancy (2022).

Despite a subdued global backdrop, the Indian economy expanded by 8.2 percent in FY23/24, reflecting strong growth in manufacturing and construction. This strong momentum is projected to continue over the medium term as a nascent private investment cycle is expected to firm up. Employment and worker participation rates increased in 2022-23, but high rates of tertiary youth unemployment, low rates of paid employment for women, and poor job quality remain a concern.

Key conditions and challenges

Between 2000 and 2019, economic growth averaged 6.6 percent annually, per capita GDP grew more than two-fold, and extreme poverty was reduced by two-thirds. The strong performance coincided with deeper global integration and improvements in the business environment. The COVID shock caused a deep contraction (by 5.8 percent in FY20/21) but the economy rebounded swiftly, averaging 8 percent growth over the following three fiscal years. However, by the end of FY23/24, the economy was still 7 percent smaller than it would have been under its pre-pandemic growth trajectory.

Despite significant welfare gains, 44 percent of the population still lived below the lower middle-income poverty line and 12.9 percent below the extreme poverty line in FY21/22 (see footnote a/). Consumption-based inequality has remained steady but high (Gini index of 33). Access to services varies widely across states, with multidimensional poverty ranging from less than 1 percent in Kerala to 35 percent in Bihar. New data shows that the compound annual growth in real per capita consumption averaged 3 percent between 2011-12 and 2022-23 (Inflation-adjusted; Household Consumption and Expenditure Surveys), with wide variation within and across states (8.5 percent in Sikkim versus only 0.9 percent in rural Nagaland and 0.6 percent in urban West Bengal).

Risks to the medium-term outlook are manageable. Unexpected climatic shocks could delay agricultural recovery and heightened geopolitical tensions could affect commodity prices. However, India's large domestic market, diversified economy, and adequate foreign exchange reserves provide significant resilience against these shocks.

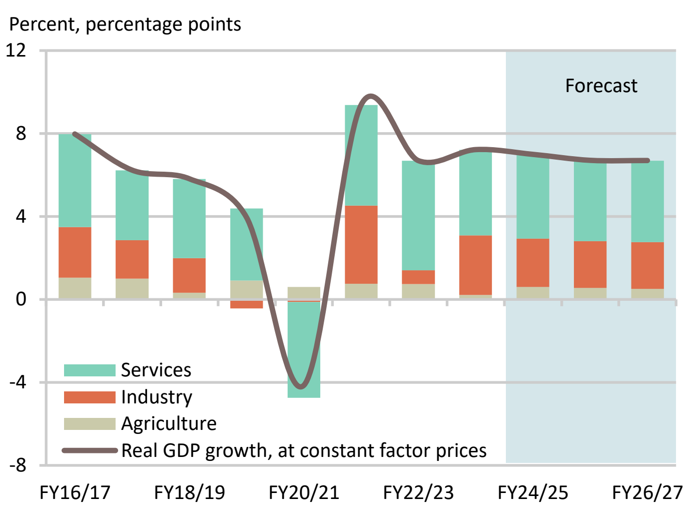
To sustain its robust growth trajectory, India should deepen factor market reforms and improve the business environment to stimulate private investment; focus on skill development and improving educational outcomes to maximize its demographic dividend; and leverage global markets by reducing trade barriers and costs.

Recent developments

India grew 8.2 percent in FY23/24, remaining the fastest-growing major economy. After contracting in FY22/23, manufacturing output expanded by 9.9 percent in FY23/24, reflecting increased demand from the construction sector. Service sector growth, while robust, moderated to 7.6 percent as the post-pandemic recovery slowed and unfavorable monsoons muted agricultural growth. On the demand side, increased investment, especially in public infrastructure and private real estate, offset a slowdown in private consumption as rural income growth moderated.

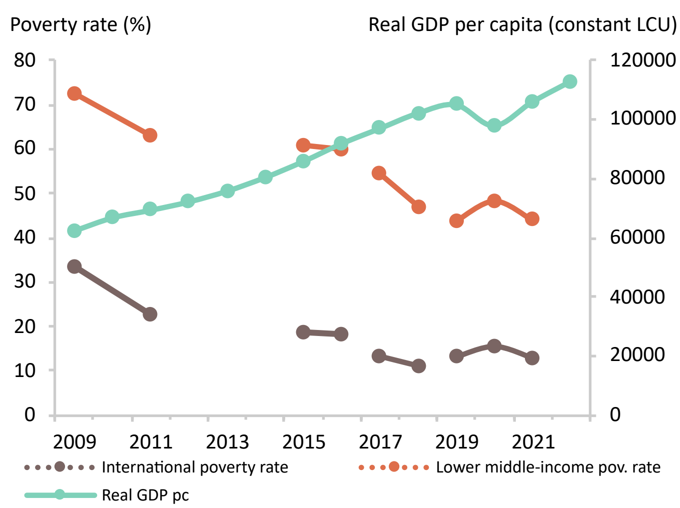
Headline inflation slowed to 5.4 percent in FY23/24, primarily thanks to lower fuel prices. However, food price inflation continued to be high and volatile, posing risks

FIGURE 1 India / Real GDP growth and contributions to real GDP growth at factor cost



Sources: National Statistics Office (NSO) and World Bank.
Note: FY16/17 refers to the fiscal year 2016-17 (April 2016-March 2017) and so on.

FIGURE 2 India / Actual poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

to welfare as about one-third of the population is undernourished. Persistent food inflation can further worsen malnutrition and stunting among vulnerable groups. As of August 2024, the Reserve Bank of India has kept the policy rate unchanged at 6.5 percent since February 2023.

In 2022-23, net employment growth exceeded the increase in the working-age population. The worker-population ratio increased across all groups, with women experiencing a five percentage point rise to 30.8 percent. However, despite the improvement, youth unemployment rates remained elevated and paid employment for women is still low. Job quality also remained a concern; 74 percent of the added jobs were in self-employment, of which 43 percent were unpaid. Over one-fifth of workers are in low-skill, elementary occupations, and informality prevails in agriculture (where nearly all jobs are informal) and paid non-farm employment (of which only 22 percent are formal). Two in five employed individuals earned incomes insufficient to keep an average family above the lower middle-income poverty line, and a quarter of workers did not earn enough to lift a family out of extreme poverty.

The general government fiscal deficit narrowed to 8.5 percent of GDP in FY23/24, from 9.6 percent in FY22/23, thanks to consolidation at the central level. Strong tax revenue growth and stable current spending more than offset a 28 percent increase in capital spending. However, public debt-to-GDP rose to 83.9 percent in FY23/24 due to slowed nominal GDP growth.

The current account deficit narrowed to 0.7 percent of GDP in FY23/24 from 2.0 percent in FY22/23. The merchandise balance improved, aided by declining global commodity prices, while services trade maintained a surplus. Net foreign direct investment dropped sharply due to increased repatriation, but foreign portfolio investment inflows increased ahead of India's inclusion in global bond indices. India's foreign exchange reserves rose to US$670 billion, providing an ample buffer.

Outlook

Growth is projected to remain strong at around 7 percent over the medium term. Agricultural growth is expected to recover to 4.1 percent in FY24/25, thanks to improved monsoon, and services and manufacturing sectors are projected to grow above 7 percent. On the demand side, government consumption will likely remain subdued due to continued fiscal consolidation, but private consumption is expected to rise with improved rural incomes. Although public investment growth may moderate, private corporate investment growth is set to increase, driven by growing consumer demand. Exports are projected to grow faster amid recovering global trade conditions and expected rate cuts by major central banks. Robust growth, particularly in rural incomes, should sustain poverty reduction, but more labor-intensive growth is needed to accelerate this trend.

Headline inflation continued to fall in Q1 FY24/25 and is projected to reach RBI's 4 percent target over the medium term, barring major climate shocks. Food price inflation remains volatile but is expected to ease with favorable monsoon conditions.

The overall fiscal deficit is projected to narrow thanks to continued strong revenue growth (from improved compliance and a broader tax base) and modest spending growth. Thus debt-to-GDP is projected to decline to around 82 percent by FY26/27.

The current account deficit is projected to widen to around 1.5 percent of GDP over the medium term due to increased domestic demand and is expected to be adequately financed by gradually improved foreign (direct and portfolio) investment flows. India's ample foreign exchange reserves are expected to remain sufficient, covering about eight months of imports.

TABLE 2 India / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021/22	2022/23	2023/24	2024/25e	2025/26f	2026/27f
Real GDP growth, at constant market prices	9.7	7.0	8.2	7.0	6.7	6.7
Private consumption	11.7	6.8	4.0	5.7	6.0	6.1
Government consumption	0.0	9.0	2.5	4.3	5.0	5.0
Gross fixed capital investment	17.5	6.6	9.0	7.8	7.7	7.7
Exports, goods and services	29.6	13.4	2.6	7.2	7.2	7.9
Imports, goods and services	22.1	10.6	10.9	4.1	6.3	7.3
Real GDP growth, at constant factor prices	9.4	6.7	7.2	7.0	6.7	6.7
Agriculture	4.6	4.7	1.4	4.1	3.9	3.7
Industry	12.2	2.1	9.5	7.6	7.3	7.2
Services	9.2	10.0	7.6	7.4	7.1	7.1
Inflation (consumer price index)	5.5	6.7	5.4	4.5	4.1	4.0
Current account balance (% of GDP)	-1.2	-2.0	-0.7	-1.1	-1.2	-1.6
Net foreign direct investment inflow (% of GDP)	1.2	0.8	0.3	1.0	1.2	1.5
Fiscal balance (% of GDP)	-9.5	-9.6	-8.5	-7.8	-7.5	-7.3
Revenues (% of GDP)	20.6	21.5	21.9	21.9	21.9	21.7
Debt (% of GDP)	84.8	82.5	83.9	83.7	83.0	82.0
Primary balance (% of GDP)	-4.3	-4.4	-3.1	-2.5	-2.2	-2.1
International poverty rate ($2.15 in 2017 PPP)[a]	12.9	..	..	..	..	..
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a]	44.1	..	..	..	..	..
GHG emissions growth (mtCO2e)	7.7	4.4	2.8	2.8	2.8	3.2
Energy related GHG emissions (% of total)	68.5	69.5	70.3	70.9	71.2	71.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Estimates are based on the Uniform Recall Period using survey-to-survey imputation (Roy and van der Weide (2022)). These estimates will be revised based on the 2022-23 Household Consumption Expenditure Survey when finalized. Extreme poverty line is defined at $2.15 per capita per day, and lower middle-income poverty line at $3.65 per capita per day (2017 PPP).

MALDIVES

Table 1	2023
Population, million	0.5
GDP, current US$ billion	6.6
GDP per capita, current US$	12678.3
Upper middle-income poverty rate ($6.85)[a]	3.9
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	97.8
Life expectancy at birth, years[b]	80.8
Total GHG emissions (mtCO2e)	2.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2022).

Economic growth is projected to remain robust over the medium term, driven by strong performance in the tourism sector. However, long-standing fiscal and external imbalances, including a recent sharp decline in official reserves, raise substantial liquidity and solvency concerns.
A major fiscal adjustment is urgently required to address these vulnerabilities and ensure macroeconomic stability, which could increase vulnerability to falling into poverty. Cushioning the impact on the poor and vulnerable from income and welfare losses will be critical.

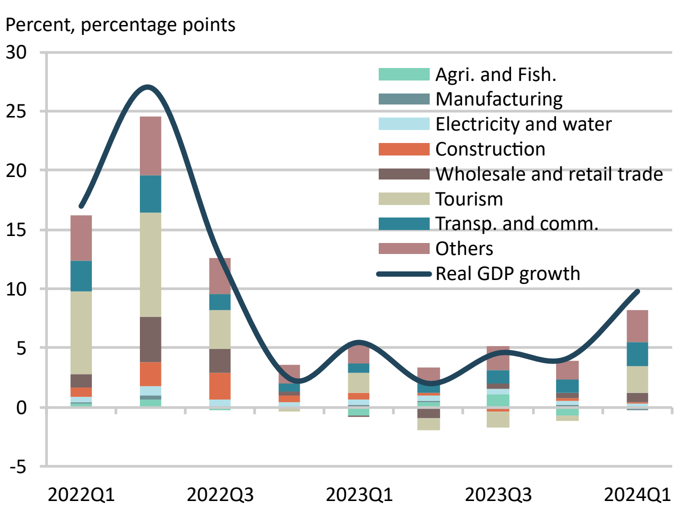
Key conditions and challenges

Tourism, the key driver of economic growth, continues to support economic activity and fiscal revenues with increased arrivals from China, Russia, and the UK. However, a decline in spending per tourist has moderated the impact of the sector's strong performance on overall growth.
Large increases in government spending and reliance on external non-concessional financing for infrastructure projects in recent years have worsened external and fiscal vulnerabilities and significantly increased public debt. Persistent large current account and fiscal deficits have led to a major depletion in already limited official reserves. Pressure on fiscal accounts this year has been aggravated by the government's continued provision of blanket subsidies, capital injections to underperforming state-owned enterprises (SOEs), and high levels of public health spending. The unavailability of finance has led to a notable reduction in capital spending, an accumulation of expenditure arrears, and concerns about the financial health of the construction industry.
To tackle the economic difficulties, the government announced a homegrown fiscal reform agenda in February 2024, including reforms that phase out existing subsidies and replace them with a targeted cash transfer scheme, improving health spending efficiency and rationalizing capital expenditure. Overnight subsidy removal, if uncompensated, could cause poverty ($6.85 per person per day, 2017 PPP) to almost double nationally and in the atolls. However, the implementation of these reforms has yet to commence, and it will also require candid and timely communication to the public.

Recent developments

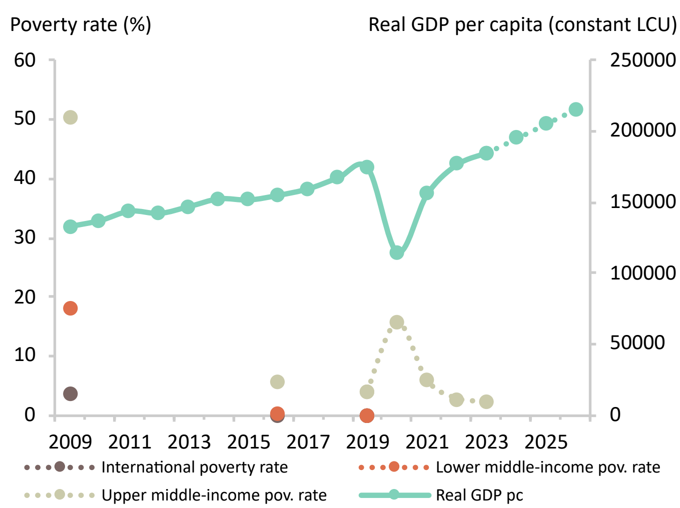
The economy grew by 4.1 percent (y-o-y) in 2023 and 9.8 percent (y-o-y) in Q12024. Tourist arrivals reached 1.3 million in August and are projected to reach a historical high of 2 million in 2024 (8.6 percent above 2023). However, due to a continued decrease in spending per tourist, these higher arrivals are not expected to significantly increase growth, with real GDP growth projected at 4.7 percent in 2024.
Domestic inflation remained low at an average of 0.5 percent (y-o-y) in H12024. However, food inflation experienced a sharp increase, reaching an average of 6.7 percent (y-o-y) in the same period, increasing costs of living for all, especially for less well-off households (who spend 35.2 percent of their budget on food).
A decline in fish exports of 45.5 percent (y-o-y) and growth in goods imports of 6.4 percent (y-o-y) in H12024, widened the trade deficit to US$1.5 billion in H12024, from US$1.4 billion in H12023. Higher import costs and external debt repayments also put significant pressure on official reserves, which fell from US$590.5 million

FIGURE 1 Maldives / Real GDP growth and contributions to real GDP growth



Source: World Bank.

FIGURE 2 Maldives / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

in December 2023 to US$395.4 million in July 2024 (from 1.4 to 0.9 months of imports). Similarly, usable reserves declined from US$179 million to an all-time low of US$43.7 million in the same period.

While recurrent expenditure declined by 7.2 percent (y-o-y) in H12024, lower than expected due to delayed subsidy reforms, capital expenditure declined by 47.6 percent (y-o-y) in H12024 due to infrastructure project cuts. Overall, total expenditure is expected to moderate in 2024, yet this will be overshadowed by the buildup of expenditure arrears. With lower revenue collections, which declined by 5.7 percent (y-o-y) in H12024 due to lower non-tax revenues, the estimated fiscal deficit at end-June remained at 12.8 percent of GDP—similar to 2023. Given the authorities have not published monthly and weekly fiscal developments since end-June, this has led to further concerns over the country's fiscal situation.

With the persistence in domestic and external financing difficulties, the central bank's (MMA) exposure to government securities rose further to 61.0 percent of its total financial assets by mid-2024, from 58.2 percent in 2023.

Outlook

Supported by tourism, the economy is projected to grow by 4.7 percent on average over the medium term—lower than the pre-pandemic average of 7.4 percent. This outlook is predicated on a major fiscal adjustment—including the negative impacts on real household incomes and a reduction in government consumption and investment—and more moderate spending per tourist. Inflation is projected to rise significantly over the medium term, due to the planned subsidy reform.

Assuming a timely implementation of the government's fiscal reform package, including a meaningful spending reduction, the fiscal deficit is expected to narrow from 12.7 percent of GDP in 2023 to 6.1 percent of GDP in 2026. As a result, public debt is projected to gradually decline from 122.8 percent of GDP in 2023 to 111.4 percent of GDP in 2026.

The poverty outlook remains uncertain, depending on the timing and scope of reforms, the impact on labor markets, and the design of cash transfers. In the absence of mitigating transfers, subsidy removal could double poverty rates. Assuming a budget of MVR 1.2 billion, a universal cash transfer would only partly offset the welfare losses, but a more generous targeted cash transfer to the bottom 60 percent of the population could fully compensate.

The current account deficit is expected to narrow from 21.2 percent of GDP in 2023 to 12.1 percent of GDP in 2026, supported by robust growth in service exports and slower growth in imports. High external financing needs—including significant debt servicing—are expected to sustain pressure on official reserves and threaten overall macroeconomic stability.

Major downside risks exist. Any shock to the tourism sector could worsen the growth outlook. Limited domestic and external financing may exacerbate liquidity and solvency concerns, especially considering the approaching spike in external debt servicing payments. A major fiscal adjustment is urgently required to ensure macroeconomic stability. Any delay in fiscal reforms could lead to a further deterioration of current vulnerabilities and an unprecedented economic shock.

TABLE 2 Maldives / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	37.7	13.9	4.1	4.7	4.7	4.6
Real GDP growth, at constant factor prices	33.8	15.0	3.5	4.7	4.7	4.6
Agriculture	-0.7	3.1	0.8	-7.5	3.4	2.9
Industry	-4.6	25.2	7.6	2.3	1.6	0.9
Services	43.4	14.7	3.1	5.8	5.2	5.1
Inflation (consumer price index)	0.5	2.3	2.9	2.3	7.8	4.5
Current account balance (% of GDP)	-8.6	-16.3	-21.2	-15.9	-13.7	-12.1
Net foreign direct investment inflow (% of GDP)	12.2	11.9	12.1	12.0	12.2	12.0
Fiscal balance (% of GDP)	-14.2	-11.6	-12.7	-9.4	-7.8	-6.1
Revenues (% of GDP)	26.4	30.6	33.5	31.9	34.1	33.6
Debt (% of GDP)	116.4	112.3	122.8	119.3	114.9	111.4
Primary balance (% of GDP)	-11.6	-8.0	-8.6	-4.1	-3.1	-1.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	5.8	2.7	2.3	..	..	..
GHG emissions growth (mtCO2e)	4.9	13.4	9.0	8.6	8.3	8.0
Energy related GHG emissions (% of total)	75.5	77.7	78.8	79.9	80.8	81.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data 2019. Nowcast based on microsimulations using sectoral GDP growth rates, and food and non-food inflation separately: 2021-2023.
b/ Nowcast and projections are not available.

NEPAL

Table 1	2023
Population, million	30.9
GDP, current US$ billion	40.9
GDP per capita, current US$	1324.0
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	7.5
Upper middle-income poverty rate ($6.85)[a]	44.1
Gini index[a]	30.0
School enrollment, primary (% gross)[b]	123.0
Life expectancy at birth, years[b]	70.5
Total GHG emissions (mtCO2e)	50.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

Growth accelerated in FY24, driven by tourism, hydropower, and remittance-driven private consumption. Reduced recurrent spending lowered the fiscal deficit, while lower imports and higher remittances led to the first current account surplus in years. Despite reduced monetary poverty, 14.5 million Nepalis remain vulnerable to climate risks, and millions may fall back into poverty due to climate shocks and persistently weak local economic opportunities. While medium-term growth is projected to be around 5 percent, risks remain, including political.

Key conditions and challenges

Nepal's economy has demonstrated remarkable resilience, growing at an average of 4.5 percent over the past decade despite significant external shocks. Over 20 percent of the population is classified as poor using the revised national poverty line. However, welfare has significantly improved in the last decade, mainly due to increased remittances. As a result, extreme poverty, applying the international poverty line of $2.15 per day, has been nearly eliminated, and the percentage of Nepalis living on less than $3.65/day and $6.85/day has significantly reduced. Consumption inequality has also decreased, with the Gini index falling from 32.8 to 30.0 and the prosperity gap narrowing. Without remittances, over 2.6 million more people would be classified as poor. Human capital has improved, with 94 percent of households gaining electricity access, up from 70 percent. Progress includes reduced distance to public hospitals and increased availability of paved roads. Spatial inequalities persist, with the poorest provinces like Sudurpashchim and Karnali experiencing longer distances to paved roads and lower electricity access compared to national averages.

Vulnerability to climate shocks also remains a challenge. Although poverty reduction is particularly salient in rural areas, poverty remains predominantly rural. Poverty incidence varies significantly across provinces, with the poverty rate (based on the national poverty line) as high as 34.2 percent in Sudurpashchim and as low as 11.9 percent in Gandaki. Inequality (Gini index) in urban areas (30.3) is higher than in rural areas (28.7). Sluggish job creation with a high youth unemployment rate (22.7 percent in 2022/2023) makes emigration a preferred option for Nepalis across the income distribution (particularly the young male), contributing to a loss of skilled workforce.

Despite these positive developments, Nepal's per capita income level remains below its peers. Persistent challenges such as low productivity and weak international competitiveness hinder sustained high growth rates. Additionally, challenges related to the effective implementation of federalism and other governance issues constrain economic progress.

Recent developments

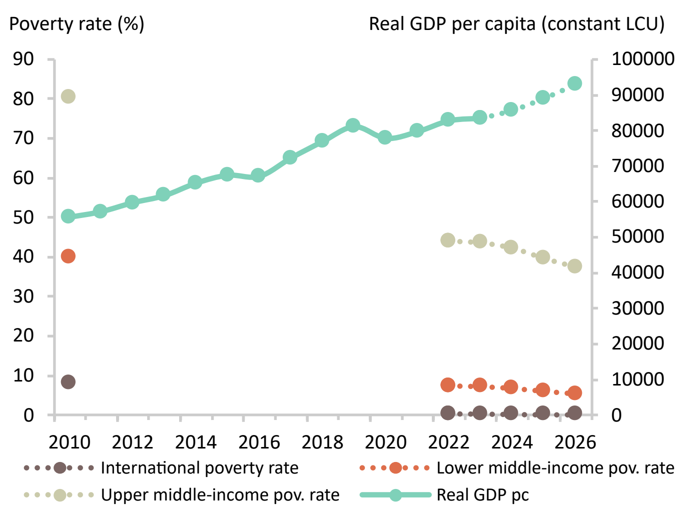
Growth accelerated to 3.9 percent in FY24, from 2 percent in FY23. The services sector was a key driver, fueled by a surge in tourist arrivals that boosted activities in transportation, accommodation, and food services. Increased hydropower and paddy productions also supported growth. On the demand side, high remittances boosted private consumption, while low capital spending kept public investment subdued.

Headline inflation fell to 5.4 percent in FY24 from 7.7 percent in FY23, below the central

FIGURE 1 Nepal / The current account balance turned positive in FY24

Sources: World Bank staff calculations and Nepal Rastra Bank.

FIGURE 2 Nepal / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

bank's 6.5 percent target, mainly due to reduced non-food and services inflation.

The current account balance turned positive for the first time in eight years in FY24, driven by increased remittances from record migration in FY23 and lower imports of intermediate goods. Exports increased due to record-high electricity exports and growth in export services from higher tourist arrivals. Consequently, foreign reserves grew, reaching 13 months of import cover at end-FY24.

The fiscal deficit narrowed to a seven-year low of 2.6 percent of GDP in FY24, largely due to reduced recurrent expenditure driven by austerity measures and lower intergovernmental transfers. Domestic revenue collection improved slightly, with increases in both trade and non-trade revenues. The fiscal deficit was financed through a combination of domestic and external concessional borrowings. Public debt reached 42.7 percent of GDP by end-FY24. However, Nepal remains at a low risk of debt distress due to both external and overall public debt.

The central bank reduced the policy rate twice in FY24, from 7 percent to 5.5 percent, to stimulate private sector credit. However, credit as a proportion of GDP remained stagnant, while non-performing loans rose to a record 4 percent.

Outlook

Growth is projected to accelerate to 5.1 percent in FY25 and 5.5 percent in FY26. The wholesale, retail, construction, and manufacturing, which together account for over one-fifth of the GDP, are poised to benefit from the central bank's loosening of monetary policy and easing of regulatory requirements. This is anticipated to stimulate private investment, while remittance-driven private consumption, along with hydropower and tourism exports, is expected to bolster growth.

Inflation is anticipated to remain moderate due to declining global commodity prices and increased agricultural production. As a result, the poverty ($3.65/day) is expected to decline to 6 percent in 2025 and 5.4 percent in 2026. However, 14.5 million people are vulnerable to falling into poverty due to climate change hazards, particularly in the northern mountainous areas.

The current account surplus is expected to moderate in FY25 in response to increased imports. However, a projected increase in net electricity exports is expected to partially offset this. Remittances are expected to stabilize at around 25 percent of GDP following the peak migration in FY23. Under the baseline scenario, foreign reserves are projected to remain sufficient to cover imports for over nine months at end-FY26.

A gradual reduction in the fiscal deficit is expected over the medium term, driven by decreased recurrent expenditure and revenue measures. New tax measures in the FY25 budget and the implementation of the Domestic Revenue Mobilization Strategy are anticipated to increase revenue collection. While planned capital expenditure is projected to rise, its execution is likely to remain constrained by the slow implementation of the national project bank. Public debt is also expected to decline due to smaller fiscal deficits and higher economic growth.

While Nepal's medium-term outlook remains generally positive, it faces several downside risks. Increased financial sector vulnerabilities could curtail private sector credit. Political instability might lead to inconsistent policies, deterring investors. Delays in implementing capital expenditures could negatively impact growth. Externally, regional instability and trade disruptions could reduce tourism and domestic demand. Emigration is crucial for poverty reduction, but high vulnerability persists due to a weak labor market and reliance on inadequate and non-responsive social assistance programs.

TABLE 2 Nepal / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.8	5.6	2.0	3.9	5.1	5.5
Private consumption	8.0	6.8	0.7	1.1	1.8	2.9
Government consumption	-1.7	9.6	-21.2	-11.1	5.8	5.5
Gross fixed capital investment	9.8	3.4	-10.0	18.4	16.5	13.1
Exports, goods and services	-21.3	34.1	3.3	18.1	11.3	13.2
Imports, goods and services	18.8	16.4	-18.7	-2.3	10.4	9.7
Real GDP growth, at constant factor prices	4.5	5.3	2.3	3.5	5.1	5.5
Agriculture	2.8	2.4	2.8	3.0	3.3	3.4
Industry	6.9	10.7	1.4	1.3	4.9	7.5
Services	4.7	5.3	2.4	4.5	6.1	6.0
Inflation (consumer price index)	3.6	6.3	7.7	5.4	5.0	4.5
Current account balance (% of GDP)	-7.7	-12.5	-0.9	3.9	2.6	1.7
Net foreign direct investment inflow (% of GDP)	0.4	0.4	0.1	0.1	0.2	0.2
Fiscal balance (% of GDP)	-4.0	-3.6	-5.8	-2.6	-2.2	-1.9
Revenues (% of GDP)	23.3	22.9	19.3	19.4	20.0	20.3
Debt (% of GDP)	39.9	40.5	42.9	42.7	42.2	41.3
Primary balance (% of GDP)	-3.2	-2.7	-4.5	-1.1	-0.8	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	0.4	0.3	0.3	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	7.5	7.3	6.8	6.1	5.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	44.1	43.6	42.3	39.6	37.4
GHG emissions growth (mtCO2e)	3.2	-1.1	-0.4	3.6	3.8	4.1
Energy related GHG emissions (% of total)	32.6	31.3	30.1	31.4	32.7	34.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2022-LSS-IV. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2022) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

PAKISTAN

Table 1	2023
Population, million	240.5
GDP, current US$ billion	338.2
GDP per capita, current US$	1406.1
International poverty rate ($2.15)[a]	4.9
Lower middle-income poverty rate ($3.65)[a]	39.8
Upper middle-income poverty rate ($6.85)[a]	84.5
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	84.4
Life expectancy at birth, years[b]	66.4
Total GHG emissions (mtCO2e)	520.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2022).

Pakistan's economy stabilized in FY24, supported by strong agricultural growth, improved macroeconomic policies, new external financing, easing import controls, and political uncertainty. However, with policy tightening, elevated inflation, and so far limited structural reforms, growth will remain below potential, and labor income, employment, and human capital accumulation rates will decrease. Monetary poverty will remain high. Policy uncertainty, limited policy buffers, and the financial sector pose substantial risks to the outlook.

Key conditions and challenges

Pakistan faced an economic crisis at the beginning of FY24 with heightened risks of debt default. Political uncertainty, fiscal and external imbalances, and global monetary tightening led to pressures on domestic prices and foreign reserves. Measures to manage imports and capital outflows were introduced, disrupting local supply chains, economic activity and exacerbating inflationary pressures.

The situation has improved significantly since then, even if risks remain high. With the approval of the IMF Stand-By Arrangement in July 2023, exchange rate flexibility was restored, import controls were relaxed, and fiscal consolidation measures were introduced. Political uncertainty also lessened post-elections. Coupled with strong agricultural growth, the economy began recovering in FY24. However, overall real labor income declined, and with elevated inflation, poverty rose in FY24.

Downside risks remain high, with the recovery expected to continue but predicated on the new IMF-EFF program remaining on track and on additional external financing inflows. Continued fiscal restraint will dampen aggregate demand, income, employment, and poverty alleviation. Heavy banking sector exposure to the sovereign, domestic policy uncertainty, federal-provincial government political misalignments, and geopolitical instability pose significant risks.

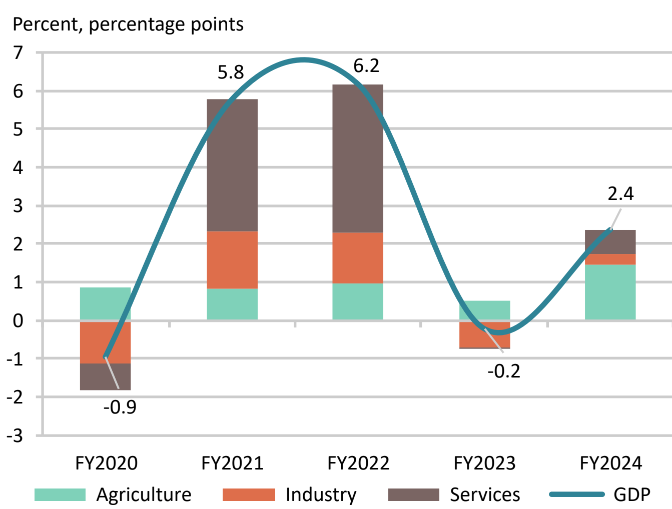
Recent developments

After contracting by 0.2 percent y-o-y in FY23, real GDP growth at factor cost rose to 2.4 percent in FY24. On favorable weather conditions, agriculture growth reached a 19-year high of 6.3 percent (Figure 1), real agricultural labor income grew by 5 percent and the sector's share in GDP rose to 22.7 percent. As easing external pressures permitted the lifting of import and capital controls, the industry and services sectors grew by a modest 1.5 percent and 1.1 percent, respectively. Tepid growth in non-agricultural sectors led to falling real wages for construction, trade, and transportation, while employment and labor force participation rates and job quality indicators have not risen. These together with fiscal consolidation and high inflation led to a poverty rate of 40.5 percent in FY24 and an additional 2.6 million Pakistanis falling below the poverty line (Figure 2).

The current account deficit (CAD) narrowed to 0.2 percent of GDP in FY24 from 1.0 percent in FY23 due to a smaller trade deficit on lower domestic demand and global commodity prices. With fresh multilateral and bilateral inflows, the balance of payments swung from a deficit in FY23 to a surplus of 0.8 percent of GDP in FY24. International reserves increased to US$10.6 billion at end-FY24, equivalent to 1.9 months of imports, while the Rupee appreciated modestly against the U.S. dollar.

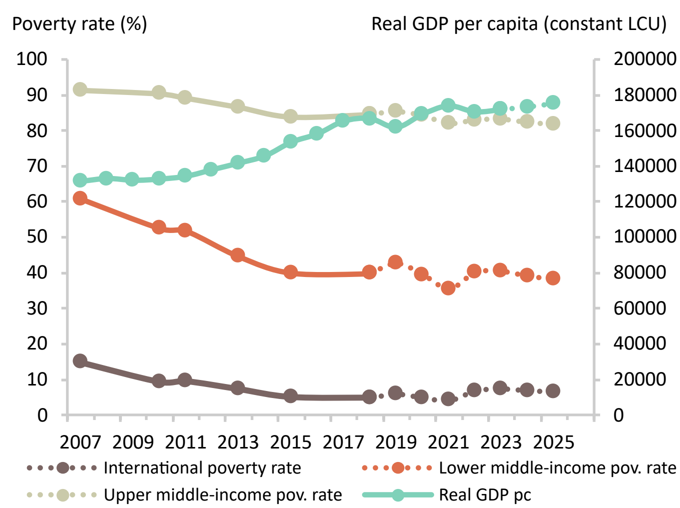
Headline inflation decelerated to an average of 23.4 percent in FY24 from 29.2 percent in FY23 owing to high base effects,

FIGURE 1 Pakistan / Real GDP growth and sectoral contributions to real GDP growth



Sources: Pakistan Bureau of Statistics and World Bank staff calculations.

FIGURE 2 Pakistan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

currency appreciation, and slower food inflation, which lowered price pressures for the poor, vulnerable, and aspiring middle-class households who allocate 42 to 48 percent of their budgets to food. However, energy inflation rose to 65 percent, while core inflation including transportation remained elevated in rural areas. Higher indirect taxes have also driven further price increases for consumer goods and services. These have adversely affected the poor, vulnerable, and aspiring middle-class households, who allocate 23 to 28 percent of their budgets to energy, housing, and transportation services. Official remittances rose in nominal terms, but only 3.2 percent of the poorest households receive these directly, while currency appreciation and high domestic inflation reduced their real value. Depressed economic activity in the construction, trade, and manufacturing sectors has likely reduced internal remittance income. With slower inflation, the central bank reduced the policy rate by a cumulative 450 bps to 17.5 percent.

The overall fiscal deficit narrowed by 0.9 percentage point to 6.8 percent of GDP in FY24 due to fiscal tightening. With higher direct taxes and hikes in the petroleum development levy, total revenues rose more than non-interest expenditures, contributing to a primary surplus of 0.9 percent of GDP. However, interest spending rose, crowding out public investment. Social protection expenditures increased while development expenditures declined, weakening social service delivery and delaying reductions in alarmingly high stunting and learning poverty rates.

Outlook

The recovery is expected to continue, with real GDP growth reaching 2.8 percent in FY25, as the economy benefits from the availability of imported inputs, easing domestic supply chain disruptions and lower inflation. Business confidence will also improve with credit rating upgrades, reduced political uncertainty, and fiscal tightening measures, such as the devolvement of constitutionally mandated expenditures to the provinces and higher agricultural income taxes. However, output growth will remain below potential as tight macroeconomic policy, elevated inflation, and policy uncertainty continue to weigh on activity. Limited growth in real wages and employment will keep the poverty rate near 40 percent through FY26. However, with continued progress on reforms and macroeconomic stability, poverty reduction is expected to gradually resume.

With high base effects and lower commodity prices, inflation will slow to 11.1 percent in FY25 but remain elevated due to higher domestic energy prices, expansionary open market operations, and new taxation measures. These price conditions are likely to exert more pressure on poor and vulnerable households by limiting real labor income growth to less than one percent in FY25. On the external front, the CAD is forecast to remain low at 0.6 percent of GDP in FY25 but widen as domestic demand recovers.

The fiscal deficit is projected to increase to 7.6 percent of GDP in FY25 due to higher interest payments but gradually decrease in fiscal tightening and falling interest payments. Fiscal consolidation will lead to continued high energy inflation and higher taxes on goods and services, which will worsen monetary poverty, welfare, and human development outcomes.

TABLE 2 **Pakistan** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	6.5	4.8	0.0	2.8	2.8	3.2
Private consumption	9.4	7.0	2.6	2.5	2.7	3.3
Government consumption	1.8	-1.3	-3.9	-4.2	6.8	5.8
Gross fixed capital investment	3.7	4.6	-14.9	-2.4	2.6	2.8
Exports, goods and services	6.5	5.9	3.2	2.0	1.3	3.2
Imports, goods and services	14.5	11.0	1.8	-4.0	3.4	4.6
Real GDP growth, at constant factor prices	5.8	6.2	-0.2	2.4	2.8	3.2
Agriculture	3.5	4.2	2.3	6.3	1.9	2.8
Industry	8.2	7.0	-3.7	1.5	3.1	3.2
Services	5.9	6.7	0.0	1.1	3.0	3.3
Inflation (consumer price index)	8.9	12.2	29.2	23.4	11.1	9.0
Current account balance (% of GDP)	-0.8	-4.7	-1.0	-0.2	-0.6	-0.7
Net foreign direct investment inflow (% of GDP)	0.5	0.5	0.2	0.4	0.5	0.5
Fiscal balance, including grants (% of GDP)	-6.0	-7.8	-7.7	-6.8	-7.6	-7.3
Revenues (% of GDP)	12.4	12.1	11.5	12.5	13.9	12.9
Debt (% of GDP)	77.6	80.6	81.6	72.4	73.8	74.7
Primary balance, including grants (% of GDP)	-1.1	-3.1	-0.9	0.9	0.7	-0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.0	4.2	6.8	7.4	6.9	6.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	39.5	35.5	40.2	40.5	39.1	38.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	84.1	81.9	83.0	83.2	82.2	81.7
GHG emissions growth (mtCO2e)	4.6	4.1	2.4	4.1	4.4	4.4
Energy related GHG emissions (% of total)	44.3	44.5	44.0	44.4	45.0	45.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2024. Forecasts are from 2024 to 2025.
b/ Poverty projections based on microsimulations using 2018-HIES and aggregate macroeconomic indicators (see Barriga-Cabanillas et al (2024), forthcoming).

SRI LANKA

Table 1	2023
Population, million	22.2
GDP, current US$ billion	84.4
GDP per capita, current US$	3792.8
International poverty rate ($2.15)[a]	1.0
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	49.3
Gini index[a]	37.7
School enrollment, primary (% gross)[b]	96.9
Life expectancy at birth, years[b]	76.6
Total GHG emissions (mtCO2e)	34.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2022).

The economy has stabilized with positive growth, low inflation, a steady exchange rate, and improved fiscal and external balances amid the debt service suspension. However, poverty and inequality remain high. Continued macro stability hinges on policy consistency and the successful completion of the external debt restructuring. Prospects for medium-term growth and poverty reduction depend on the design and sustained implementation of key structural reforms.

Key conditions and challenges

The economy has stabilized since late 2023 following the deep economic crisis. Sri Lanka defaulted in 2022 amid unsustainable debt and depleted reserves, driven by macroeconomic mismanagement and long-standing structural weaknesses, and exacerbated by exogenous shocks. However, reforms implemented since 2022, including cost-reflective utility pricing, new revenue measures, a return to prudent monetary policy, and domestic debt restructuring, have helped regain macroeconomic stability.

After contracting by 7.3 percent (year-on-year, y-o-y) in 2022, the economy grew in the last two quarters of 2023, limiting the annual contraction to 2.3 percent. Inflation moderated to single digits in mid-2023, down from a peak of 69.8 percent (y-o-y) in September 2022. The rupee appreciated by 10.8 percent (y-o-y) in 2023 after sharply depreciating by 81.2 percent the year before. Due to the recovery of tourism receipts and remittances and increased inflows from development partners, usable official reserves increased to US$3.0 billion (equivalent to 2.1 months of imports) by end-2023, compared to US$500 million at end-2022. In June 2024, the International Monetary Fund successfully completed the second review of the Extended Fund Facility program.

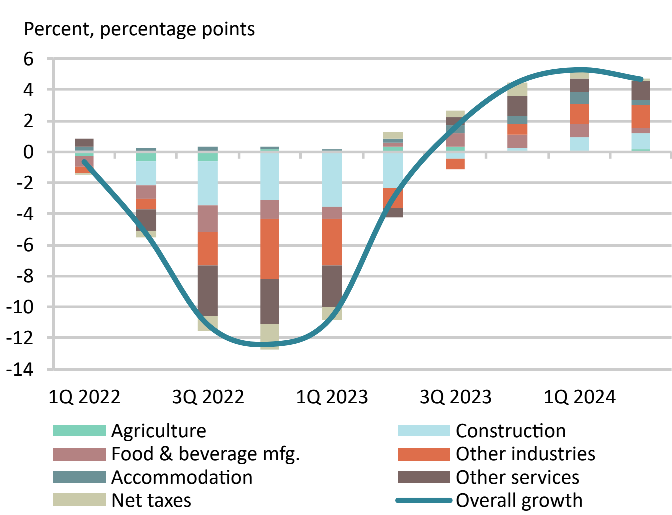
Despite progress, external debt servicing remains suspended while negotiations with external creditors continue. Household budgets remain stretched due to tax and price increases, as well as jobs and income losses. Real wages contracted by 16.9 and 22 percent between 2021 and 2024, in the private and public sectors, respectively. Food insecurity remains high, and poverty has nearly doubled to 23.4 percent in 2024. Sustained implementation of key structural reforms—related to fiscal and debt management, the financial sector, social assistance, state-owned enterprises, and trade and investment—will determine the prospects for medium-term growth and poverty reduction.

Recent developments

The economy grew by 5 percent (y-o-y) in H1 2024, driven by a rebound in the industrial sector—particularly in construction and food and beverage manufacturing—as well as strong performance in tourism-related services. Private consumption remained weak as household disposable incomes continued to be depressed. Labor force participation continued to decline (from 49.9 percent in Q1 2023 to 47.1 percent in Q1 2024). Food insecurity was widespread, with 23.7 percent of households being food insecure and 26 percent of households consuming an inadequate diet in 2023.

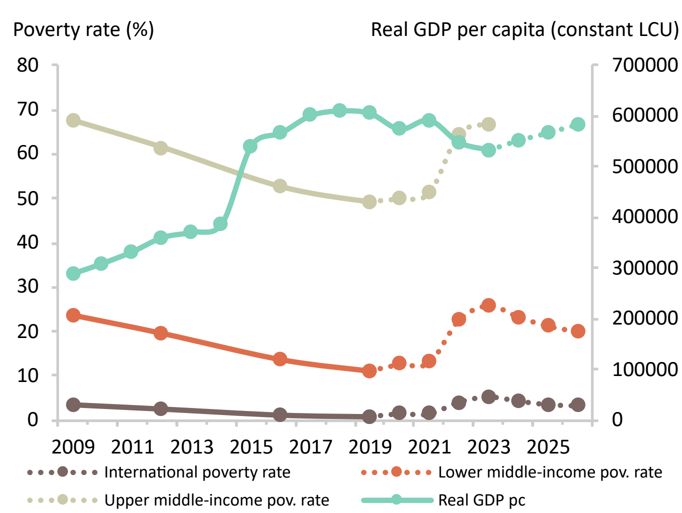
Headline inflation, measured by the Colombo Consumer Price Index, remained in the low single digits throughout 2024 (0.5 percent, y-o-y, in August 2024), supported by downward adjustments in administered

FIGURE 1 Sri Lanka / Real GDP growth and contributions to real GDP growth (production side)



Sources: Department of Census and Statistics and World Bank calculations.
Note: Food and beverage manufacturing includes production of tobacco products and accommodation includes food and beverage services.

FIGURE 2 Sri Lanka / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

prices, currency appreciation, and improved supply conditions, whilst demand remained subdued. With inflation well below target, the central bank maintained an accommodative stance, cutting policy rates by 75 basis points (bps) between March and July 2024 (a cumulative 725 bps reduction since May 2023), pushing commercial bank lending and deposit rates downwards. Despite this, growth in credit to the private sector remained sluggish at 6.9 percent in July 2024 (y-o-y).

The merchandise trade deficit increased by 18.3 percent (y-o-y) in the first seven months of 2024 as import demand gradually recovered. However, increased tourism receipts (66.1 percent, y-o-y) and remittances (11 percent, y-o-y) in the first eight months, the continued suspension of debt servicing, and inflows from development partners contributed to a balance of payment surplus during this period. As a result, usable official reserves increased to US$4.5 billion (equivalent to 3 months of imports) by the end of August 2024, and net foreign assets of the banking system turned positive in May 2024 for the first time in four years. With improved foreign exchange liquidity, the rupee appreciated by 7.3 percent between January and August 2024.

The primary surplus, achieved in 2023, strengthened further in the first six months of 2024, as new measures, including an increase in the VAT rate and removal of VAT exemptions, led to a 42.6 percent increase in tax revenues, while expenditures remained tightly controlled. The overall fiscal deficit declined as the interest bill fell, driven by lower borrowing costs.

Outlook

Faster-than-expected macroeconomic stabilization has improved the short-term growth outlook to 4.4 percent (y-o-y) in 2024. Continued implementation of structural reforms will, however, be key to raising the medium to long-term growth potential. Poverty (below $3.65 per person per day, 2017 PPP) is expected to decline gradually but remain above 20 percent until 2026. Inflation is likely to remain below the central bank's target of 5 percent in 2024, and gradually increase towards the medium-term target as demand picks up. The current account is projected to remain in surplus in 2024, driven by tourism and remittances, and with the restriction on importing personal vehicles only being phased out from 2025. Debt restructuring and continued fiscal consolidation are expected to reduce the overall fiscal balance in the medium term.

While recent economic performance has been sound, macroeconomic stability remains fragile and is predicated on the consistent implementation of key fiscal, financial, and monetary policies. Given limited fiscal and external buffers, however, downside risks remain high. These include a protracted or insufficiently deep debt restructuring, policy uncertainty (including direction and pace of policy reform and the potential fiscal impact of electoral promises), and medium-term scarring effects of the crisis. Financial sector risks need to be carefully monitored as elevated non-performing loans and high exposure to the sovereign hinder financial sector stability. Poverty outcomes will hinge on reform design and sequencing, as well as the adequacy and targeting of compensating transfers. Inequality is estimated to remain high and increases in stunting and malnutrition are expected to increase spatial and intergenerational inequalities in the absence of compensating mechanisms and sustained growth. On the upside, a strong and sustained implementation of the structural reform program could boost confidence and attract fresh capital inflows.

TABLE 2 Sri Lanka / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.2	-7.3	-2.3	4.4	3.5	3.1
Private consumption	2.7	-0.5	-1.6	2.2	2.6	2.9
Government consumption	-2.8	1.4	-5.4	-0.1	2.4	1.8
Gross fixed capital investment	6.5	-24.5	-8.4	14.0	7.0	4.6
Exports, goods and services	10.1	10.2	12.0	4.3	3.6	3.4
Imports, goods and services	4.1	-19.9	6.5	4.7	3.9	3.7
Real GDP growth, at constant factor prices	3.9	-7.0	-2.6	4.4	3.5	3.1
Agriculture	1.0	-4.2	2.6	1.5	1.5	1.5
Industry	5.7	-16.0	-9.2	10.4	6.4	4.1
Services	3.4	-2.6	-0.2	2.3	2.5	2.9
Inflation (consumer price index)	6.0	46.4	17.4	3.0	4.5	5.1
Current account balance (% of GDP)	-3.7	-2.0	1.8	..	..	..
Net foreign direct investment inflow (% of GDP)	0.7	1.2	0.8	-0.9	-1.0	-1.0
International poverty rate ($2.15 in 2017 PPP)[a]	1.5	4.1	5.2	4.3	3.5	3.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a]	13.1	22.7	25.9	23.4	21.3	20.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a]	51.2	64.4	66.6	64.3	63.3	62.0
GHG emissions growth (mtCO2e)	1.2	-5.8	-2.4	6.2	6.1	5.9
Energy related GHG emissions (% of total)	59.7	57.8	56.2	58.5	60.7	62.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.

Macro Poverty Outlook

10/
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