South Asia

Macro Poverty Outlook

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

Annual Meetings 2022

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Afghanistan	Maldives
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AFGHANISTAN

August 15, 2021, political transition led to a significant economic contraction, increasing food insecurity, and widespread deprivation. The resumption of off-budget aid during the year helped cushion some of the negative impacts of the widespread humanitarian crisis. There are signs that the economy has reached an inflection point and is likely plateauing around a low-level equilibrium. While inflation remains high, some indicators saw improvement, (i) exports have increased, (ii) exchange rate volatility has lessened, and (iii) domestic revenue collection is relatively healthy. Living conditions showed marginal improvements in the last few months, though deprivation remains very high across the country, and the persistent inflation might erode these welfare gains. Sustaining this outcome will require the continuation of off-budget international support, including the US$ cash shipment by the UN.

Key conditions and challenges

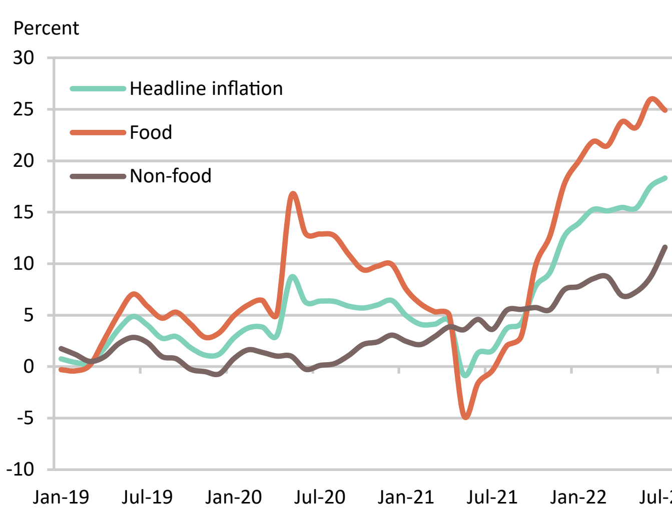
Immediately after Aug 15, 2021, the cessation of aid caused public spending and aggregate demand to contract severely. This, in turn, undermined private sector activity, especially in the aid-driven services sector, which significantly contributed to output and growth since 2001. Afghanistan's central bank lost its ability to manage the payment systems and conduct monetary policy due to the freeze of offshore assets and its inability to print new AFN notes. The resulting shortage of US$ and AFN currency notes and the sanctions triggered a banking sector's confidence crisis. The US Government has issued licenses to ease the sanctions concerns and support humanitarian delivery. Still, international banks are reluctant to reestablish correspondent relations with the Afghan banks due to Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) concerns. Formal payments flowing into/from Afghanistan remain problematic for all actors, including the Interim Taliban Administration (ITA), for critical imports such as electricity and medicines, the private sector, and humanitarian agencies. Over the year, off-budget aid resumed (estimates ~US$2 billion including ~US$1.2 billion through direct cash shipments) primarily to support humanitarian delivery and basic services; yet this was significantly lower than in the past. This aid, low corruption, and enhanced security helped the recovery of some economic activities and stabilization of the exchange rate.

Recent developments

Despite reduced incomes and domestic demand, prices have rapidly increased, indicating a strong supply shock owing to supply disruptions and increased international prices. Official data for July 2022 shows headline consumer price index inflation at 18.3 percent, mainly driven by 25 percent Y-o-Y inflation in the food segment. Non-Food segment Y-o-Y inflation for July 2022 was recorded at 11.6 percent. The private sector businesses faced the brunt of the crisis and reacted by closing and reducing their operations as a coping strategy. A recent survey of firms shows that reduced demand is one of the critical constraints to business recovery.

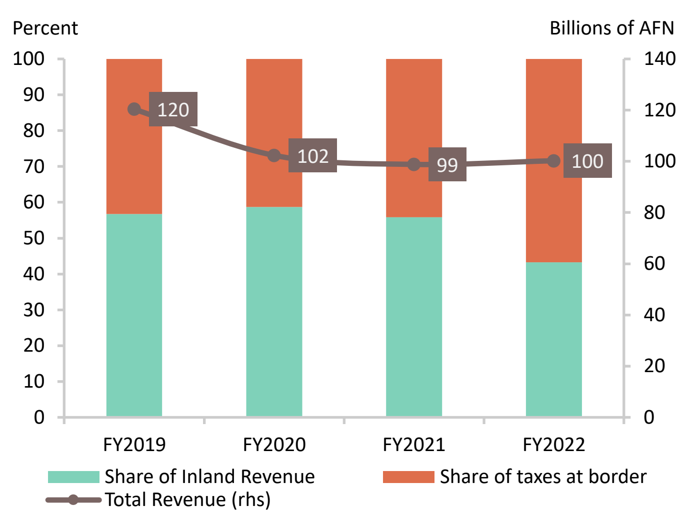
While no information on poverty is collected for the country, estimates for Q4-2021 showed that close to 70 percent of the country's population had difficulties covering their most basic expenses. Labor earnings plummeted across the country, and the contraction in salaried employment resulted in increased self-employment and other low-productivity jobs. However, more recent information collected this summer shows a slight improvement in living conditions, as the share of households reporting difficulties covering their most basic expenses has fallen to 64 percent compared to 70 percent at end-2021. Salaried employment has also recovered slightly in urban areas,

FIGURE 1 Afghanistan / Headline inflation



Source: National Statistic and Information Authority, Afghanistan.

FIGURE 2 Afghanistan / Revenue mobilization



Source: Ministry of Finance, Afghanistan.
Note: Data covering Dec 22nd through mid-August for all years.

though it remains below pre-COVID19 levels. On the downside, high inflation is eroding household earnings' real value, pushing food insecurity again and forcing households to adopt potentially harmful coping strategies.

The ITA has severely restricted access to public expenditure statistics. Recent revenue data shows good performance, with total revenue reaching AFN100 billion (US$1.1 billion) for December 22, 2021, to mid-August 2022 (exceeding last year's collection during the same period) thanks to an increase in revenues collected at borders (import duties and Business Receipt Tax). The budgeted revenue for the fiscal year 2022 is AFN186.7 billion (US$2.05 billion) against AFN203 billion (US$2.2 billion) in recurrent expenditures and AFN27.9 billion (US$0.3 billion) in development allocations. However, the ITA did not make the granular expenditure allocation public. A deficit of AFN44 billion (US$500 million) remains explicitly unfinanced.

Economic contraction drove the reduction in imports: goods imports fell by 47 percent over the second half of 2021 relative to the same period in 2020. In the first quarter of 2022, while imports of fuel and petroleum products increased by 57 percent because of higher international prices, imports of other categories of goods declined significantly, resulting in an overall decline in total imports by 11.3 percent Y-o-Y. Exports have picked up since the fourth quarter of 2021, and the momentum continued into Q1- 2022 (with US$408.7 million in goods exports compared to US$200.2 million in Q1-2021), reflecting a surge in the export of coal and fruits. Recent mirror trade data for July 2021 to June 2022 from Pakistan authorities shows that Afghanistan has a trade surplus of US$ 79 million.

The AFN has depreciated against most major trading currencies after August 2021 and lost 40 percent of its value against the US$ between mid-August 2021 and mid-December 2021. However, it has recovered since then, primarily due to the US$ cash shipments by the UN and strengthened controls by ITA in the foreign exchange market, including by regulating the Money Service Providers and prohibiting the use of foreign currency for domestic transactions. The AFN value against the US$ has hovered between 85 to 93 since mid-February 2022, and as of Sep 08, 2022, it is trading close to 88.19 AFN per US$, 2.3 percent below its August 15, 2021 value.

Afghanistan's financial sector remains in crisis. Capacity gaps at the central bank (Da Afghanistan Bank – DAB) continue to limit its ability to undertake critical functions, including banking supervision, monitoring illicit financial flows, and performing AML/CFT monitoring. The bank run during the August 2021 crisis has eroded confidence in the banking sector. The mandatory transition to Islamic Banking for all financial institutions is also creating operational difficulties. All banks, but one, have reported significant losses for the first quarter of 2022. The losses are predominantly due to the inability to collect interest income and FX losses. NPLs remain underreported due to the central bank's forbearance measures. There are rapidly escalating stability risks in the banking sector, which are made more worrisome as DAB's Bank Resolution capacity is very limited.

Outlook

The economy is now re-adjusting from the "aid bubble," and the international community's ongoing humanitarian and off-budget basic service support is expected to mitigate some negative impacts of the contraction. Still, it will not be sufficient to bring the economy back on a sustainable recovery path. Under the baseline scenario where the country receives minimal international support for humanitarian activities and basic core services, the real GDP is projected to contract between 16 to 19 percent in 2022, with an accumulated contraction of close to 30 percent between 2021 and 2022. The economy is projected to move to a low growth path (2.0 to 2.4 percent) for the next two years—with no improvement in per capita incomes owing to high population growth and no significant changes in poverty or food insecurity. Inflation is expected to remain high immediately due to global commodity price increases and supply constraints, further eroding the real value of household incomes. At the same time, ITA's restrictive policies on women's education and work will lower Afghanistan's growth prospects. This outlook is subject to significant downside risks. These include (i) the potential discontinuation/reduction in aid from the current levels, (ii) a stoppage of US$ cash shipments which could undermine exchange rate stability, and (iii) potential stability concerns in the banking sector.

BANGLADESH

Table 1	2021
Population, million	166.3
GDP, current US$ billion	416.3
GDP per capita, current US$	2503.1
International poverty rate ($2.15)[a]	13.5
Lower middle-income poverty rate ($3.65)[a]	51.6
Upper middle-income poverty rate ($6.85)[a]	86.9
Gini index[a]	32.4
School enrollment, primary (% gross)[b]	119.6
Life expectancy at birth, years[b]	72.9
Total GHG emissions (mtCO2e)	252.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ Most recent WDI value (2020).

A post-pandemic growth rebound continued in FY22, led by resilient private consumption. However, a surge in imports led to a record current account deficit, lower foreign exchange reserves, and a depreciating exchange rate. GDP growth is projected to decelerate to 6.1 percent in FY23, as higher inflation and austerity measures dampen the recovery. Poverty is expected to continue declining gradually. Downside risks include further increases in commodity prices, weak export demand, and worsening financial sector vulnerabilities.

Key conditions and challenges

GDP grew rapidly over the past two decades, supported by a demographic dividend, sound macroeconomic policies, and an acceleration in readymade garment exports. However, the pace of job creation and poverty reduction slowed over the last decade. Persistent structural weaknesses include low public sector institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, unbalanced urbanization, and a business climate that lags peer economies, while Bangladesh remains vulnerable to the effects of climate change. After graduation from the UN's Least Developed Country status in 2026, Bangladesh will begin to lose preferential access to advanced economy markets and external concessional financing.

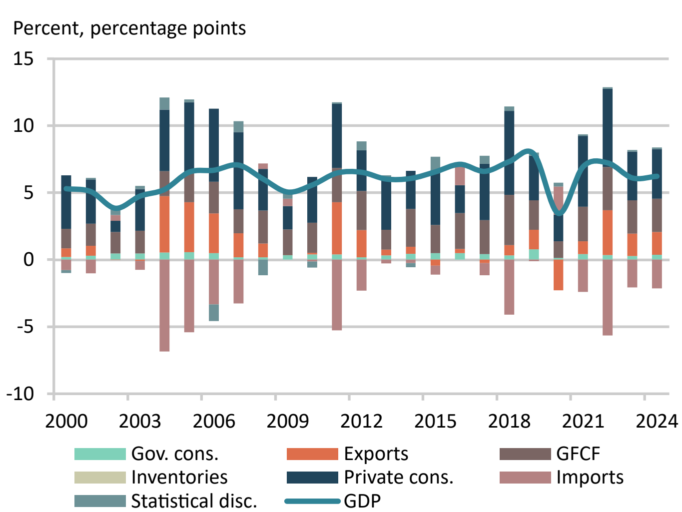
Bangladesh's economy performed well during the COVID-19 pandemic compared to peer countries. Relatively low debt-to-GDP provided a fiscal buffer, and a stimulus program protected manufacturing capacity. A robust recovery continued in FY22 as movement restrictions were lifted. Rising commodity prices and a surge in imports in the second half of FY22 resulted in a substantial Balance of Payments (BoP) deficit and accelerating inflation. A series of policy measures to suppress imports and preserve foreign exchange reserves is expected to dampen growth, including electricity cuts and reduced business hours.

Downside risks to the outlook persist and external risks remain elevated. A further rise in commodity prices (oil, natural gas, fertilizer, grains) may increase imports, while worsening global economic conditions may limit export growth. Although not fully reflected in official data due to continued regulatory forbearance, the pandemic has deepened longstanding financial sector vulnerabilities, including high levels of non-performing loans (especially in state-owned banks) and weak capital buffers.

Recent developments

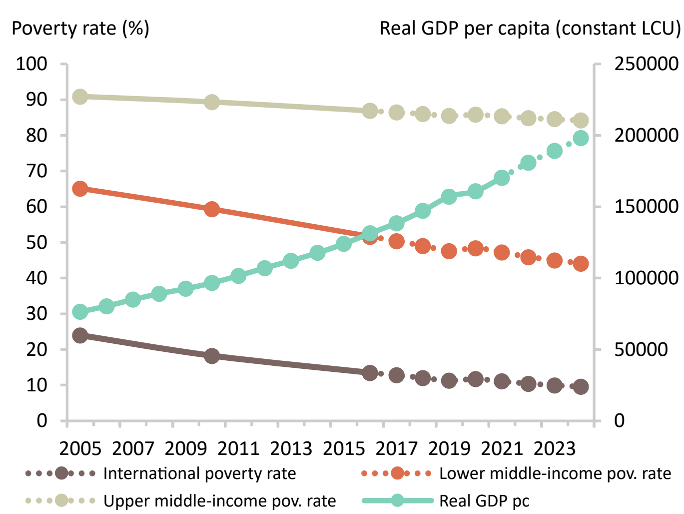
Provisional estimates of GDP growth by the Bangladesh Bureau of Statistics increased to 7.2 percent in FY22, notwithstanding rising inflation and external pressure in the second half of the fiscal year. On the demand side, exports rose by an estimated 31.3 percent in FY22, as Bangladesh gained readymade garment market share. However, imports also surged by an estimated 33.2 percent over the same period. Higher intermediate goods imports were driven by rising prices as well as higher volumes to meet export demand. Strong private consumption growth and implementation of infrastructure projects led to rising consumer and capital goods imports. On the supply side, the industrial production index showed strong growth in manufacturing in the first half of FY22. However, energy shortages disrupted industrial production in H2 FY22

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.

and early FY23. Services growth was supported by a decline in COVID-19 movement restrictions, while agricultural growth was dampened by widespread flooding in H2 FY22.

Inflation accelerated to 7.5 percent by July 2022, driven by rising global commodity prices and a 40 to 50 percent upward revision in domestic fuel prices. Bangladesh Bank raised the main policy rate by 75 basis points in FY22. However, monetary policy transmission has been impaired by caps on deposit and lending rates.

The current account deficit reached a record US$ 18.7 billion in FY22, as the trade deficit widened to US$ 37.2 billion. Official remittances declined in FY22 as the use of informal transfer channels normalized, reversing an unexpected surge in official inflows stemming from pandemic-related travel restrictions over the previous two fiscal years. Higher external financing flows increased the financial account surplus. However, the overall BoP deficit rose to US$ 5.4 billion in FY22. Foreign exchange reserves declined to US$ 41.8 billion by the end of FY22 (5.2 months of prospective imports), down from US$ 46.4 billion at the end of FY21 as Bangladesh Bank sold reserves to slow the depreciation of the taka.

The fiscal deficit is estimated to have widened. Nominal tax revenues increased by 16.8 percent (y-o-y) in H1 FY22, primarily supported by trade-related taxes on rising imports. Expenditure growth was led by subsidies (fertilizer, food, fuel) and incentives (export and remittances). As expenditure growth outpaced revenue growth, the fiscal deficit rose to an estimated 4.6 percent of GDP in FY22.

After increasing marginally during the COVID-19 pandemic, the poverty rate declined to an estimated 10.4 percent in FY22. Recent phone surveys point to improving labor market conditions in urban slums, although wages remain below pre-pandemic levels.

Outlook

Real GDP growth is expected to slow to 6.1 percent in FY23 as import suppression measures disrupt economic activity. Higher inflation will dampen private consumption growth, following substantial energy price increases. Export growth is expected to slow, as economic conditions in key export markets deteriorate, while rolling blackouts, gas rationing, and rising input costs weigh on manufacturers. A gradual reduction in poverty is expected, declining from 10.4 percent in FY22 to 10.0 percent in FY23.

The fiscal deficit will continue to rise in FY23, as subsidy and incentive expenditure pressure increases. However, government investment is expected to slow while austerity measures will moderate government consumption growth, keeping the fiscal deficit within 5 percent of GDP.

The pressure on the external sector is likely to persist in FY23. The current account deficit is expected to gradually decline as import costs moderate, supported by growing remittance inflows driven by strong labor market demand in the Middle East. Foreign exchange reserves are projected to decline moderately in FY23 supported by elevated external financing. Over the medium term, the balance of payments is projected to return to surplus as import growth moderates.

Addressing longstanding structural challenges would help sustain GDP growth over the medium term, including increasing domestic revenues, modernizing the tariff regime, resolving financial sector vulnerabilities, and improving the business climate.

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

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices	7.9	3.4	6.9	7.2	6.1	6.2
Private Consumption	4.9	3.0	8.0	8.8	5.4	5.6
Government Consumption	13.4	2.0	6.9	5.8	4.4	6.4
Gross Fixed Capital Investment	6.9	3.9	8.1	10.0	7.5	7.4
Exports, Goods and Services	11.5	-17.5	9.2	31.3	12.9	12.2
Imports, Goods and Services	0.5	-11.4	15.3	33.2	9.8	9.8
Real GDP growth, at constant factor prices	8.0	3.8	7.0	7.2	6.1	6.2
Agriculture	3.3	3.4	3.2	2.2	2.9	2.9
Industry	11.6	3.6	10.3	10.4	8.8	8.9
Services	6.9	3.9	5.7	6.2	4.8	5.0
Inflation (Consumer Price Index)	5.5	5.6	5.6	6.1	8.0	6.7
Current Account Balance (% of GDP)	-1.5	-1.6	-1.1	-4.1	-3.6	-3.3
Net Foreign Direct Investment Inflow (% of GDP)	0.7	0.3	0.3	0.5	0.4	0.6
Fiscal Balance (% of GDP)	-4.9	-4.9	-3.7	-4.6	-4.9	-4.4
Debt (% of GDP)	28.5	31.7	32.4	33.6	34.9	35.7
Primary Balance (% of GDP)	-3.0	-2.9	-1.7	-2.5	-2.7	-2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	11.3	11.7	11.1	10.4	10.0	9.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	47.6	48.4	47.2	45.9	45.0	44.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.5	85.8	85.3	84.9	84.5	84.2
GHG emissions growth (mtCO2e)	3.4	2.4	3.8	3.5	3.9	4.0
Energy related GHG emissions (% of total)	39.0	39.6	40.6	41.3	42.2	43.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on SAR-POV harmonization, using 2010-HIES and 2016-HIES. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2016) with pass-through = 1 based on GDP per capita in constant LCU.

BHUTAN

Table 1	2021
Population, million	0.8
GDP, current US$ billion	2.4
GDP per capita, current US$	3138.0
International poverty rate ($2.15)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	9.4
Upper middle-income poverty rate ($6.85)[a]	39.5
Gini index[a]	37.4
School enrollment, primary (% gross)[b]	105.8
Life expectancy at birth, years[b]	72.1
Total GHG emissions (mtCO2e)	-5.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ Most recent WDI value (2020).

Output is estimated to have grown by 4.6 percent in FY21/22, after two years of economic contraction. The pandemic and higher commodity prices have put pressure on the country's fiscal and external positions. Measures to support fiscal consolidation and financial sector stability are crucial to address short-term macroeconomic vulnerabilities and support the economic recovery. Poverty increased in 2020 and 2021 as the economic contraction translated into lower household incomes and a full recovery to pre-pandemic poverty levels is unlikely until 2023.

Key conditions and challenges

Rapid economic growth in Bhutan has contributed to substantial poverty reduction over the last two decades. Annual real GDP growth averaged 7.5 percent since the 1980s, driven by the public sector-led hydropower sector and strong performance in the services sector, including tourism. The poverty rate dropped from 27 percent to 9 percent between from 2007 to 2017, based on the $3.65/day poverty line.

The COVID-19 pandemic reversed some progress. The economy contracted for two consecutive fiscal years with the non-hydro industry and services sectors being adversely affected by supply chain disruptions, shortages of foreign labor, and the sharp fall in tourism-related activity. This has had a direct impact on production, livelihoods and worker earnings, all of which contributed to the estimated poverty rate rising from 8.8 percent in 2020 to 9.4 percent in 2021 based on $3.65/day. The youth unemployment rate, which was already high before the pandemic, doubled from 11.9 percent in 2019 to 20.9 percent in 2021.

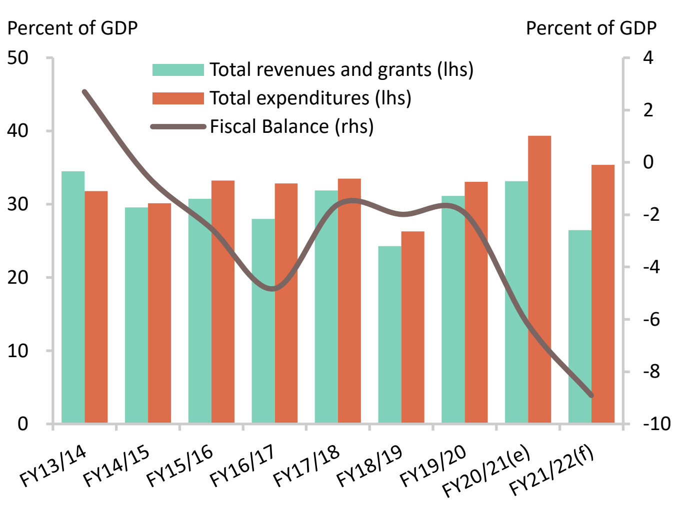
Macroeconomic vulnerabilities have increased amid the pandemic and global ramifications of the war in Ukraine. COVID-19 relief measures for individuals and businesses and subdued revenue performance have resulted in high fiscal deficits from FY20/21. Higher global energy and commodity prices are weighing on the balance of payments, with declining international reserves. Fiscal risks increased due to vulnerabilities in an already weak financial sector with elevated non-performing loans, given that over 90 percent of assets are controlled by the public sector. Labor shortages during the pandemic resulted in delays of hydro projects and hence expected delays in additional hydro revenue flows, constraining the country's ability to strengthen fiscal and external balances in the medium term.

In addition to continued global uncertainties, downside risks to the country's growth outlook also include delays in fiscal consolidation and financial sector vulnerabilities, which would constrain the government's ability to support a robust recovery.

Recent developments

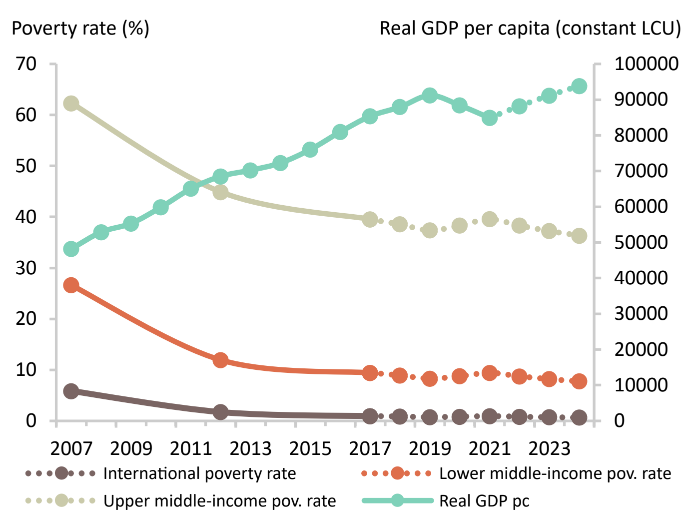
The economy has grown by 4.6 percent in FY21/22 (July 2021 to June 2022), supported by the easing of social and mobility restrictions in the second half of FY21/22 and high vaccination rates. The industry sector grew by 5.0 percent, supported by a recovery in the construction, manufacturing and mining sectors. The electricity sector contracted due to maintenance of the Tala hydropower plant, resulting in lower hydro exports and revenues. Services sector output increased by 4.6 percent, driven by transport and trade activities. The tourism industry remained largely inactive in FY21/22. On the demand side, public and

FIGURE 1 Bhutan / Fiscal indicators



Sources: Ministry of Finance and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

private investment and private consumption supported growth.

Average inflation moderated from 8.2 percent in FY20/21 to 5.9 percent in FY21/22, driven by a slowdown in food inflation due to favorable base effects. However, non-food inflation has accelerated to 7.0 percent, reflecting higher fuel and transport prices. The moderation in prices has led to an increase in consumption and a slight decrease in poverty to 8.7 percent in 2022 based on $3.65/day.

The current account deficit (CAD) has more than doubled to 27.4 percent of GDP in FY21/22. Exports remained subdued (as a share of GDP) due to near-zero tourism-related services exports. Higher non-hydro goods exports, mainly base metals, were offset by a decline in hydro exports. Imports surged with an increase in ICT equipment and capital goods for hydropower projects, as well as higher fuel and food prices. As a result, gross international reserves declined rapidly in FY21/22, reaching US$840 million in June 2022 (a 37 percent decline, y-o-y), equivalent to 7.1 months of imports.

The fiscal deficit widened further to 8.9 percent of GDP in FY21/22. Total expenditures declined (as a share of GDP) as COVID-19 relief measures (6.5 percent of GDP in FY20/21) have been financed by the King in FY21/22 outside of the budget. Capital expenditures increased, reflecting continued fiscal support to boost economic activity through accelerated implementation of the Twelfth Five Year Plan (FYP). Total revenues declined even more because of lower hydro revenues and external grants. Public debt declined to 130.9 percent of GDP in FY21/22 due to a decline in hydropower debt.

Outlook

The economy is expected to grow by 4.1 percent in FY22/23. The broader reopening of borders in September 2022 is expected to support growth in the industry and services sector. Tourist arrivals are expected to remain subdued because of weaker consumer confidence globally and the new tourism levy act, which tripled the sustainable development fee for international tourists. While output is returning to pre-pandemic levels, slower domestic demand recovery due to high inflation and lower hydro investments are expected to decelerate growth in FY22/23. Growth is expected to remain subdued in FY23/24 due to lower public investments in the first year of the Thirteen FYP and delays in several hydropower projects.

Inflation is projected to remain elevated in the short and medium term, owing to continued supply disruptions and higher commodity prices. While the $3.65/day poverty rate is expected to decline from 2022 onwards, a full recovery to poverty headcount rates estimated before the COVID-19 pandemic is not likely to be achieved until 2023 given elevated consumer prices.

The CAD is expected to moderate from FY22/23 due to a lower trade deficit. Higher non-hydro goods and tourism-related services exports offset lower hydro exports amid an increase in domestic electricity demand. Import demand is expected to ease on investment moderation.

The fiscal deficit is expected to decrease slightly with recurrent expenditure rationalization, although it will remain elevated at 8.2 percent of GDP in FY22/23 due to continued fiscal support though capital expenditures and subdued revenue performance. The deficit would decline to 5.5 percent of GDP in FY23/24 due to lower public investments in the first year of the Thirteen FYP and measures to improve spending efficiency.

Despite a decline in hydropower debt, public debt is projected to remain elevated as a share of GDP in the short to medium term due to high fiscal deficits. Risks to debt sustainability are expected to remain moderate as the bulk of the debt is linked to hydro project loans from India (to be paid off from future hydro revenues) with low refinancing and exchange rate risks.

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

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices	4.4	-2.3	-3.3	4.6	4.1	3.7
Private Consumption	10.4	0.1	-1.2	11.0	4.0	2.0
Government Consumption	7.0	7.3	4.9	-12.4	0.3	-1.5
Gross Fixed Capital Investment	-11.2	-16.5	-3.0	54.9	-18.9	-4.6
Exports, Goods and Services	9.6	-4.1	-7.3	15.6	7.4	7.7
Imports, Goods and Services	0.0	-9.2	0.8	51.4	-13.5	-3.5
Real GDP growth, at constant factor prices	4.6	-0.7	-2.2	4.6	4.1	3.7
Agriculture	2.7	2.9	3.3	3.5	3.5	3.5
Industry	-1.6	-5.5	-5.9	5.0	4.9	3.9
Services	11.1	2.5	-0.5	4.6	3.6	3.5
Inflation (Consumer Price Index)	2.8	3.0	8.2	5.9	5.9	5.0
Current Account Balance (% of GDP)	-20.5	-15.8	-12.1	-27.4	-17.1	-13.4
Fiscal Balance (% of GDP)	-2.0	-1.9	-6.2	-8.9	-8.2	-5.5
Debt (% of GDP)	106.5	122.8	132.4	130.9	129.2	126.5
Primary Balance (% of GDP)	-1.1	-1.5	-5.2	-7.0	-6.4	-3.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.8	0.8	0.9	0.8	0.7	0.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	8.3	8.8	9.4	8.7	8.2	7.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	37.4	38.3	39.6	38.3	37.2	36.3
GHG emissions growth (mtCO2e)	-0.2	1.5	1.6	-1.6	-1.6	-1.4
Energy related GHG emissions (% of total)	-15.6	-15.1	-14.5	-15.2	-15.9	-16.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on SAR-POV harmonization, using 2007-BLSS and 2017-BLSS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2007-2017) with pass-through = 1 based on GDP per capita in constant LCU.

INDIA

Table 1	2021
Population, million	1393.4
GDP, current US$ billion	3175.9
GDP per capita, current US$	2279.3
International poverty rate ($2.15)[a]	10.0
Lower middle-income poverty rate ($3.65)[a]	44.8
Upper middle-income poverty rate ($6.85)[a]	83.8
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	99.9
Life expectancy at birth, years[b]	69.9
Total GHG emissions (mtCO2e)	3100.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ (2019) 2017 PPP. pip.worldbank.org.
b/ Most recent WDI value (2020).

The Indian economy will slow down in FY23, coming off a strong but incomplete recovery in FY22 (April 2021-March 2022). The spillovers from the Russia-Ukraine war and the global monetary policy tightening cycle weigh on India's economic outlook: elevated inflation on the back of higher prices of key commodities, heightened global uncertainty, and rising borrowing costs will affect domestic demand while slowing global growth inhibits India's export growth.

Key conditions and challenges

India's growth rebounded after the pandemic. The recovery in FY22 was strong but incomplete. Real output reached the pre-pandemic level, due to robust investment activity and moderate recovery in private consumption reflecting the weakness in the labor market. On the supply side, the recovery in contact-intensive services lagged overall growth. Monetary and fiscal policy response supported the recovery through the provision of liquidity in the financial market and the public capital expenditure program. However, India's recovery is now faced with spillovers from the Russia-Ukraine war and global monetary policy tightening. The surge in global oil prices pushed headline inflation to about 7 percent and the trade deficit to 5.4 percent of GDP in Q1 FY23. To mitigate inflationary pressures, the government implemented supply-side measures, while the RBI hiked policy rate multiple times along with repeated interventions in the foreign exchange market.

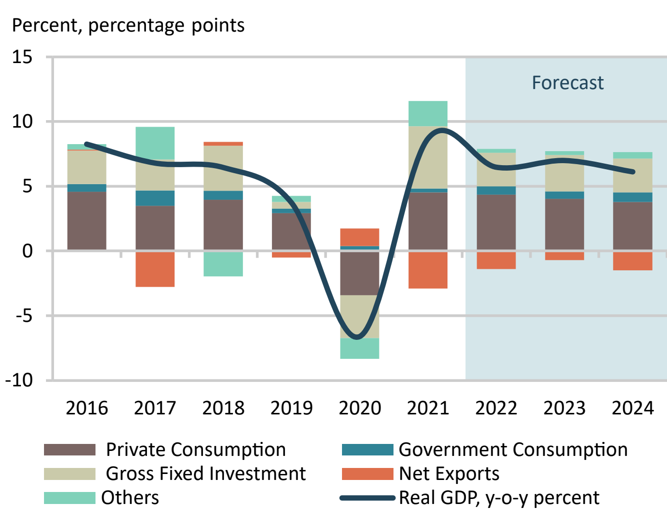
There are major headwinds to growth in FY23. Private consumption will be constrained by elevated inflation and labor market weakness, while private investment growth is likely to be dampened by heightened uncertainty and higher financing costs. Export growth will moderate amid the slowing global growth. To mitigate the inflationary impact, the government will likely spend more on food and fertilizer subsidies and, reduce taxes on fuel. The government will continue to support investment through its infrastructure program and the production-linked incentives scheme, logistics development, and simplifying business regulations.

Recent developments

The real GDP expanded by 13.5 percent y-o-y in Q1 FY23, from a low base in Q1 FY22 when the second COVID-19 wave hit India. Private consumption growth was robust but investment growth moderated. Net exports constituted a large drag on growth, with imports boosted by increased demand for petroleum, capital goods, and consumer durables. On the supply side, agriculture sector expanded, benefiting from a bumper winter crop, while the moderate growth in manufacturing and construction sectors reflected slowing global growth and muted investment activity, respectively. Within the services sector, robust growth in business and IT services was offset by soft growth in contact-intensive services.

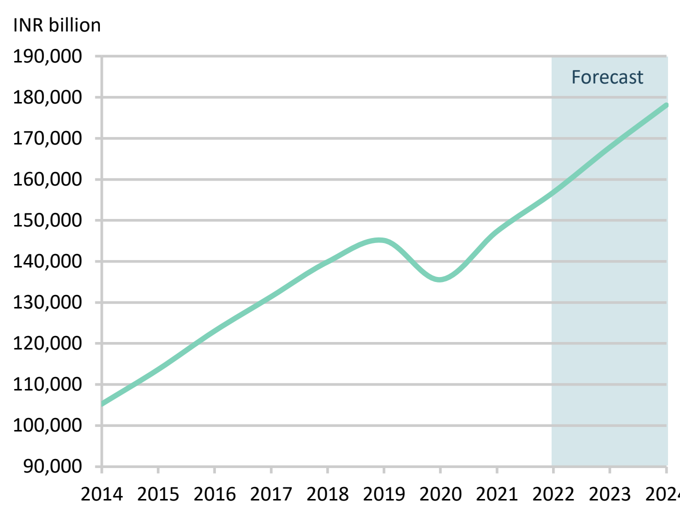
Headline inflation eased to 6.7 percent y-o-y in July 2022, after peaking at 7.8 percent in April 2022, but remains significantly above the RBI's tolerance range (2-6 percent). Low base and, rising prices of fuel and food - due to domestic and global supply constraints - pushed headline inflation beyond 7 percent during March-April. Since then, inflation has eased partly due to moderating fuel and food inflation, higher base and, the policy response of the

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



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

FIGURE 2 India / Real GDP



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

government through reduction in import duties on edible oils and lower taxes on fuel prices. The RBI has hiked the policy rate by a cumulative 140 basis points since May 2022. The general government fiscal deficit declined to 10.3 percent in FY22; a largely revenue-based consolidation. Public debt is estimated to have declined to 86 percent of GDP in FY22. Based on the budget for FY23, the central government is committed to reducing current spending and boosting capital expenditure. Helped by strong revenue performance, the government remains on track to meet its target.

Labor markets continued to recover with unemployment reaching pre-pandemic average of 7.5 percent (Jan- Aug 2022). Urban employment has consistently increased by 4 and 1.7 percentage points for men and women, respectively. While labor force participation for rural women have increased by around 8 percentage points to reach a third of working-age women in 2020-21 relative to 2017-18, the corresponding rates for urban women have increased by only 2 percentage points. The overall increase in employment is accompanied by a higher share of the self-employed and casual-wage workers, while the share of regular salaried workers declined in April-June 2022, relative to the same quarter in 2021.

Outlook

Real GDP is projected to expand by 6.5 percent in FY23- slower than expected a few months ago- due to the deteriorating external environment. Amid slowing global growth, export growth will moderate while import growth will be driven by recovering domestic demand. Despite improved balance sheets of banks and corporate sector, increased capacity utilization in manufacturing, and Production Linked Incentive scheme, private investment will be dampened by heightened global uncertainty, elevated input prices and rising borrowing costs. Private consumption growth will be constrained by high inflation and persisting weakness in some sections of the labor market.

Headline inflation will gradually ease, averaging 7.1 percent in FY23 and likely to revert to the RBI's tolerance range by end-FY23. Favorable base effect and gradual moderation in input costs are likely to reign-in food inflation while easing global oil prices will bring down the domestic fuel inflation. Gradual monetary policy normalization will continue.

Rising merchandise trade deficit will push the current account deficit to 3.2 percent of GDP in FY23. Nonetheless, stable portfolio capital inflows, given the relatively strong macroeconomic fundamentals, buoyant FDI and high reserves provide buffers against the external financing risks. Gradual fiscal consolidation will be led by strong revenue growth and continued decline in current spending as a share of GDP. Despite the declining fiscal deficit, slower growth will keep the public debt over 83 percent of GDP in FY23 and FY24.

The expected headwinds brought by lower growth and higher inflation are likely to lead to slow income growth. Hence, poverty and vulnerability are unlikely to recede to pre-pandemic levels and preserving some of the social protection measures adopted during the pandemic may be warranted.

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

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	3.7	-6.6	8.7	6.5	7.0	6.1
Private Consumption	5.2	-6.0	7.9	7.7	7.0	6.6
Government Consumption	3.4	3.6	2.6	6.1	5.4	7.1
Gross Fixed Capital Investment	1.6	-10.4	15.8	7.9	8.6	7.8
Exports, Goods and Services	-3.4	-9.2	24.3	8.0	9.9	8.8
Imports, Goods and Services	-0.8	-13.8	35.5	11.9	10.4	12.2
Real GDP growth, at constant factor prices	3.8	-4.8	8.1	6.3	6.9	6.2
Agriculture	5.5	3.3	3.0	3.2	3.8	3.6
Industry	-1.4	-3.3	10.3	4.9	6.0	6.5
Services	6.3	-7.8	8.4	8.0	8.2	6.8
Inflation (Consumer Price Index)	4.8	6.2	5.5	7.1	5.2	4.5
Current Account Balance (% of GDP)	-0.9	0.9	-1.2	-3.2	-2.5	-1.8
Net Foreign Direct Investment Inflow (% of GDP)	1.5	1.6	1.2	1.6	1.6	1.6
Fiscal Balance (% of GDP)	-7.2	-13.3	-10.2	-9.6	-8.4	-7.9
Debt (% of GDP)	73.7	87.6	86.0	84.6	83.9	83.7
Primary Balance (% of GDP)	-2.5	-7.8	-5.0	-4.2	-3.0	-2.5
GHG emissions growth (mtCO2e)	0.1	-11.3	3.9	5.5	4.6	2.6
Energy related GHG emissions (% of total)	70.5	67.1	67.6	68.9	69.9	70.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

MALDIVES

Table 1	2021
Population, million	0.5
GDP, current US$ billion	5.1
GDP per capita, current US$	9388.4
Upper middle-income poverty rate ($6.85)[a]	3.9
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	98.0
Life expectancy at birth, years[b]	79.2
Total GHG emissions (mtCO2e)	2.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

Tourism is recovering faster than expected and arrivals are likely to reach pre-pandemic levels this year, supporting projected robust growth of 9.5 percent on average in 2022–24. Higher global commodity prices have, however, put pressure on inflation. Government also faces additional spending pressures from rising food and fuel subsidies, and growing debt payments. Increasing inflation and austerity measures are a risk to poorer households unless well-targeted.

Key conditions and challenges

Tourism is the main driver of economic growth in Maldives and has seen a rapid recovery following the COVID-19 crisis. While the Russia-Ukraine war initially reduced tourists from Russia – one of Maldives' key markets – Russian arrivals have been recovering since the resumption of Aeroflot flights in May. The recovery of arrivals from traditional European markets and new interest from Middle East countries have further bolstered growth.

However, a heavy reliance on tourism and limited sectoral diversification remain a key structural challenge as the country is highly vulnerable to external and macroeconomic shocks. As an economy that is also heavily import-dependent, Maldives is now facing significant current account and inflationary pressures due to the sharp rise in global commodity prices. This is also putting pressure on public finances given the government's blanket provision of generous food and fuel subsidies through SOEs to help contain domestic price increases.

To promote development and enhance growth, Maldives has scaled up infrastructure investments since 2016. This has boosted construction activity, tourism capacity, productivity, and medium-term growth prospects. Investments in physical and social infrastructure have also contributed to poverty reduction and better living standards for Maldivians. However, financing of these large investments through external non-concessional sources and sovereign guarantees has contributed to growing fiscal and debt vulnerabilities. While Maldives has managed to roll over a significant portion of its foreign debt due in 2022, debt servicing risks are expected to remain elevated in the medium term.

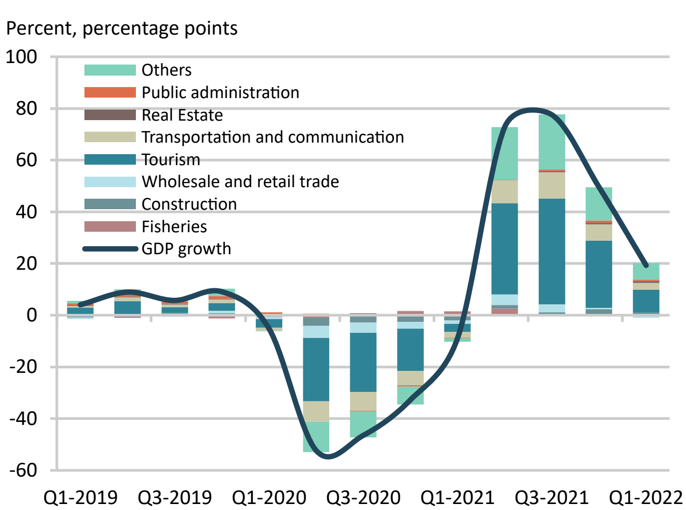
Although 3.9 percent of the population were below the international poverty line (US$6.85/person/day) in 2019, more than 90 percent of the poor were concentrated in the atolls. In line with the decline in GDP per capita, poverty is estimated to have temporarily increased to 19.8 percent in 2020, but, with the economic rebound, is expected to drop to 3.8 percent by the end of 2022.

Recent developments

With the sustained recovery in tourism, the economy grew, in real terms, by 19.3 percent (y-o-y) in Q1 2022. The sector continues to grow faster than expected with arrivals reaching 813,211 in H1 2022, a 59 percent increase from the same period in 2021. Given this strong performance, arrivals are expected to reach pre-pandemic highs of 1.7 million by the end of the year, which exceeds the 2022 forecast of 1.57 million.

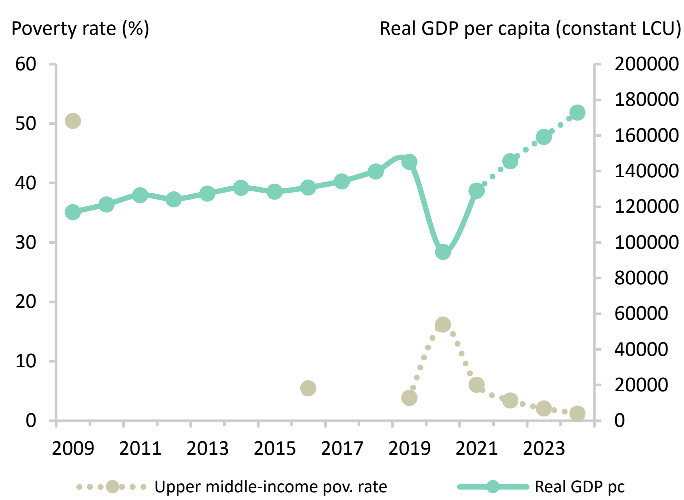
Despite the recovery in tourism driving stronger export earnings, the merchandise trade deficit expanded significantly

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



Sources: Maldives monetary authority and World Bank staff calculations.

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



Source: World Bank. Notes: see table 2.

in H1 2022 driven by a 48 percent (y-o-y) increase in imports following the surge in commodity prices and growth in imports of capital goods and construction materials. At the same time, official reserves fell by 7 percent to US$750.4 million at the end of June, with reserve coverage falling to 2.9 months of imports from 3.8 months at the end of 2021. Prices of services, transportation, food, and housing were also affected by the rise in commodity prices, with headline inflation increasing by 1.2 percent (annual average) in July 2022 compared to 0.5 percent in 2021.

While revenues remain broadly in line with budget expectations for H1 2022, the annual budget for subsidies, Aasandha (government's health insurance scheme), and development project investments were fully spent by the end of June. Given that inflationary pressures are likely to persist and with ongoing plans to complete key infrastructure projects, the government may find it increasingly difficult to finance the subsidy program in its current form and other expenditures in H2 2022. This could have a negative impact on the poor unless subsidies on food, fuel, and health are better targeted.

Outlook

Driven by robust tourism growth, the economy is projected to grow, in real terms, by 12.4 and 8.2 percent in 2022 and 2023, respectively, supported by: (i) greater capacity in the tourism sector due to the completion of Velana International Airport and opening of new resorts, (ii) the expected return of Chinese tourists, and (iii) continued spending on infrastructure, housing, and renewable energy projects. Although inflation is projected at 3.5 percent in 2022, it will likely moderate in 2023 as global energy prices normalize. The current account deficit is expected to remain elevated over the medium-term, as imports grow in response to increased domestic consumption and sustained public investments.

The fiscal deficit is projected to widen in 2022 due to higher capital expenditures and subsidy support. Although the government has announced austerity measures, recurrent spending is likely to increase over the medium-term as the Public Sector Pay Harmonization Policy is implemented. The fiscal deficit is, however, expected to narrow in 2023/24 as revenues grow alongside robust tourism performance and following plans to increase general and tourism GST rates. Despite a narrowing of the fiscal deficit, public debt is expected to remain high at 118 percent of GDP in 2024.

Downside risks persist. Tourism could be adversely impacted by further global shocks. Further increases in commodity prices may cause an additional fiscal burden. With a significant widening of the current account deficit amidst the rising import bill, official reserves have declined to the lowest level since 2018. The government faces external debt servicing payments of about US$330 million on average over the next three years, even as global financing conditions tighten. Stronger-than-expected tourism, including from the traditional markets of China and Western Europe, and newer markets such as India and the Middle East, could offer upside potential for the growth outlook.

More effective revenue mobilization measures, coupled with reforms to Aasandha and existing subsidy programs, and better investment management are critical to bring down the high level of public debt, replenish fiscal buffers against future shocks, and lower the cost of growth-enhancing investments, especially with large debt service obligations.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.9	-33.5	37.0	12.4	8.2	8.1
Private Consumption	4.4	-27.2	29.0	9.1	9.0	9.2
Government Consumption	-4.3	5.4	9.4	7.6	4.7	15.1
Gross Fixed Capital Investment	-2.6	-36.6	15.0	19.5	13.8	3.8
Exports, Goods and Services	6.7	-51.4	89.5	10.9	6.3	7.3
Imports, Goods and Services	-0.3	-41.1	35.2	31.0	8.1	7.9
Real GDP growth, at constant factor prices	6.9	-31.3	33.1	12.4	8.2	8.1
Agriculture	-7.6	7.0	14.8	2.3	2.0	1.8
Industry	1.9	-25.4	6.6	5.3	4.9	2.5
Services	8.6	-34.3	39.0	14.0	9.0	9.1
Inflation (Consumer Price Index)	0.2	-1.4	0.5	3.5	1.3	1.1
Current Account Balance (% of GDP)	-26.6	-35.5	-9.0	-29.1	-19.1	-17.6
Net Foreign Direct Investment Inflow (% of GDP)	17.1	11.8	8.7	10.4	11.3	11.4
Fiscal Balance (% of GDP)	-6.7	-23.5	-14.6	-16.1	-9.6	-8.7
Debt (% of GDP)	78.8	150.3	120.2	122.8	119.0	118.3
Primary Balance (% of GDP)	-4.9	-20.7	-11.9	-13.3	-6.2	-5.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	3.9	19.8	7.0	3.8	2.1	1.0
GHG emissions growth (mtCO2e)	2.2	-11.0	11.1	13.6	11.8	10.5
Energy related GHG emissions (% of total)	81.1	82.4	84.1	85.9	87.2	88.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 1 based on GDP per capita in constant LCU.

NEPAL

Table 1	2021
Population, million	29.7
GDP, current US$ billion	36.3
GDP per capita, current US$	1222.8
International poverty rate ($2.15)[a]	8.2
Lower middle-income poverty rate ($3.65)[a]	40.0
Upper middle-income poverty rate ($6.85)[a]	80.4
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	126.9
Life expectancy at birth, years[b]	71.1
Total GHG emissions (mtCO2e)	46.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2010), 2017 PPPs.
b/ Most recent WDI value (2020).

After a strong recovery in FY21 and FY22, Nepal's GDP growth is projected to moderate as monetary policy normalizes and remaining pandemic support measures are unwound. The current account deficit is expected to improve as the rise in commodity prices stabilizes, import demand moderates, and remittances rise. Key risks include higher-than-expected inflation and continued or new distortionary measures to protect reserves. Bright spots include the commissioning of additional hydropower generation capacity.

Key conditions and challenges

Nepal achieved solid yet volatile growth averaging 5.2 percent between FY12 and FY19, elevating the country to lower middle-income status in 2020. Growth benefited from substantial remittance inflows averaging 23.2 percent of GDP per year which financed consumption and poverty reduction but constrained the development of export-oriented domestic industries. The COVID-19 pandemic has stalled progress in poverty reduction.

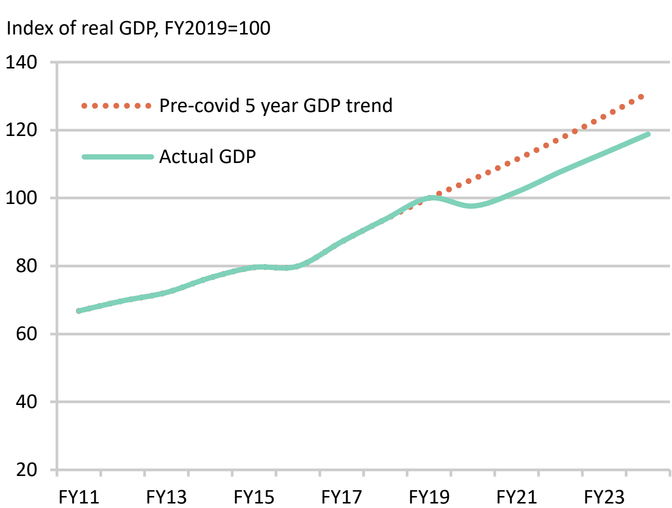
Nepal's macroeconomic outlook is stable, but the country faces structural challenges. The economy suffers from productivity shortfalls driven by infrastructure gaps, challenging geographic conditions, and remittances appreciating real exchange rates and thus hindering the development of an export sector. A structural deficit has emerged following the transition to federalism as spending responsibilities have yet to be fully devolved. Nepal's external sector maintains a fragile equilibrium in which remittances finance most of Nepal's large trade deficit, with the remainder covered by reserves and borrowing. Attracting additional foreign exchange inflows through foreign direct investment and export growth is necessary to enhance resilience and alleviate pressure on reserves.

Recent developments

Nepal's economy has emerged strongly from the pandemic with GDP estimated to have grown by 5.8 percent in FY22, up from 4.2 percent in FY21. Growth was driven by industry and services benefiting from post-pandemic demand and generous financing conditions. Agricultural growth, by contrast, slowed due to unseasonal rains. Average consumer inflation rose from 3.6 percent in FY21 to 6.3 percent in FY22, including price increases in transportation, education, and housing. Inflation has been broad-based, and the rising cost of basic necessities negatively impacts the poor and vulnerable.

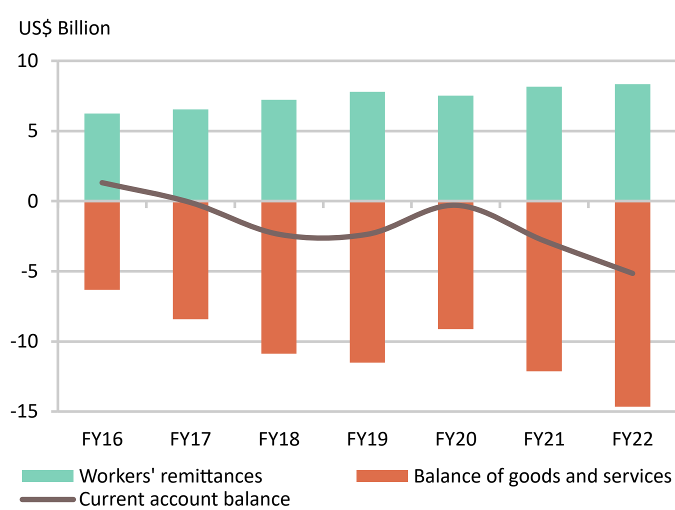
The rapid increase in domestic demand, coupled with rising prices for imported goods, fueled imports early in FY22. By contrast, remittances - Nepal's largest source of foreign exchange earnings - did not begin growing again until late FY22 and have remained below FY21 levels as a percentage of GDP. Remittances are an important income for households and impact welfare across the distribution. As a result, the current account deficit (CAD) widened to 12.8 percent of GDP in FY22, which Nepal opted to finance through concessional borrowing, trade credits, and a drawdown in reserves which declined from USD 11.8 billion in mid-July 2021 to USD 9.5 billion in mid-July 2022, equivalent to 6.9 months of import cover. Reserves are deemed adequate, above the 5.5 months of imports recommended by the IMF but lower than the central bank policy

FIGURE 1 Nepal / Real GDP levels: Actual vs. pre-covid trend



Sources: World Bank staff projections and Nepal Central Bureau of Statistics.

FIGURE 2 Nepal / Current account deficit



Sources: World Bank staff calculations and Nepal Rastra Bank.

floor of 7 months. To reduce demand for imports and thus foreign currency, the government raised the policy rate in February 2022, imposed a ban on the import of selected "non-essential goods" in April 2022, and raised letters of credit and cash backing requirements on imports.

The fiscal deficit narrowed from 4.1 to 3.5 percent of GDP in FY22, driven by substantial capital budget under-execution, delayed passage of the FY22 budget, and greater trade-related revenues associated with elevated imports. Public debt has begun to stabilize, as the debt to GDP ratio rose by 0.8 percentage points of GDP to reach 41.5 percent of GDP in FY22. The most recent Joint Bank-Fund Debt Sustainability Analysis of December 2021 finds that the risk of debt distress remains low.

The uneven and slow labor market recovery poses risks to poverty reduction and can exacerbate existing inequalities. A World Bank COVID monitoring survey at the end of 2021 suggests that the economic contraction had a major impact on jobs and incomes. While most jobs lost in 2020 had been regained by the end of 2021, 22 percent of jobs lost had not been recovered. The recovery was much faster in 2021 than it was in 2020 when only 14 percent of those who lost their job found a new one. The recovery from earnings losses has been slower: 53 percent of those who recovered from a job loss by late 2021 reported an earnings loss.

Outlook

The baseline scenario assumes no new pandemic containment measures, an end to ongoing import restrictions, and recovery of tourist arrivals by FY24. The forecast projects growth moderating to 5.1 percent in FY23 and 4.9 percent in FY24, reflecting monetary policy normalization, the end of pandemic monetary support measures, and still relatively high commodity prices. A rebound in tourism is projected to support the services sector, although higher interest rates could weigh on demand in other subsectors. Industrial growth should be strong due to increased hydroelectricity production and an increased supply of electricity to other industrial sectors. Continued fertilizer shortages are expected to weigh on agricultural growth in FY23. Inflation is expected to moderate to 5.3 percent in FY24 as commodity prices stabilize and a hawkish monetary policy is fully implemented.

The fiscal deficit is projected to fall from 3.4 percent of GDP in FY23 to 2.4 percent in FY24 as the remaining COVID-19 support measures and FY23 electoral spending end, and the government implements revenue-enhancing reforms. Total public debt is projected to decrease to 40.9 percent of GDP by FY24.

The CAD is expected to narrow to 8.8 percent of GDP in FY23 and 5.7 percent in FY24 as tightened monetary policy increases import financing costs and commodity prices stabilize. Remittances are expected to increase by 0.7 percentage points of GDP between FY22 and FY24 reflecting increased outmigration and exports, while small in magnitude, are projected to rise. FDI is projected to remain low, leaving external borrowing and reserves drawdowns to continue financing the CAD.

Risks to the outlook are balanced. Higher than expected inflation would reduce household purchasing power and drag growth, as would an extension of import restrictions. Welfare recovery remains uncertain due to rising inflation and risks to agricultural production. While a steeper drop in commodity prices would reduce the import bill and ease external pressures, a strong correction in oil prices could lower the demand for migrants in Gulf countries and weigh on remittances inflows.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.7	-2.4	4.2	5.8	5.1	4.9
Private Consumption	8.1	3.6	4.3	5.4	2.9	2.1
Government Consumption	9.8	3.8	-1.7	5.5	3.0	-5.3
Gross Fixed Capital Investment	11.3	-8.9	9.8	4.6	5.8	9.0
Exports, Goods and Services	5.5	-15.9	-21.1	35.0	20.3	18.4
Imports, Goods and Services	5.8	-20.8	16.3	15.0	3.9	4.1
Real GDP growth, at constant factor prices	6.4	-2.4	3.8	5.5	5.1	4.9
Agriculture	5.2	2.4	2.8	2.3	2.0	2.1
Industry	7.4	-4.0	4.5	10.2	8.9	9.2
Services	6.8	-4.5	4.2	5.9	5.6	5.1
Inflation (Consumer Price Index)	4.6	6.1	3.6	6.3	5.5	5.3
Current Account Balance (% of GDP)	-6.9	-0.9	-7.8	-12.8	-8.8	-5.7
Net Foreign Direct Investment Inflow (% of GDP)	0.3	0.5	0.5	0.4	0.4	0.4
Fiscal Balance (% of GDP)	-5.0	-5.4	-4.1	-3.5	-3.4	-2.4
Debt (% of GDP)	27.2	36.9	40.6	41.5	41.6	40.9
Primary Balance (% of GDP)	-4.5	-4.7	-3.3	-2.6	-2.3	-1.2
GHG emissions growth (mtCO2e)	-1.2	-4.1	1.2	2.2	1.7	3.5
Energy related GHG emissions (% of total)	28.3	24.7	23.7	23.3	23.6	23.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

PAKISTAN

Table 1	2021
Population, million	225.2
GDP, current US$ billion	348.3
GDP per capita, current US$	1546.5
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]	95.5
Life expectancy at birth, years[b]	67.4
Total GHG emissions (mtCO2e)	456.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2020).

Supported by accommodative macroeconomic policy, Pakistan's economy saw robust growth in FY22, at the cost of growing economic imbalances. The Government has begun to further tighten policy to constrain aggregate demand. However, the catastrophic flooding is likely to disrupt activity and may lead to delays in the required fiscal consolidation. Economic growth is expected to slow substantially in FY23. Unanticipated flood damages, policy slippages, and political uncertainty pose substantial risks.

Key conditions and challenges

Despite an economic rebound in FY21 and FY22, persistent structural weaknesses of the Pakistani economy, such as low productivity growth due to low investment and exports, are hindering a sustained recovery. Expansionary COVID-related macroeconomic policies supported aggregate demand that have contributed to pressures on domestic prices, external sector, the exchange rate, and foreign reserves. In response, the Government, amid the ongoing monetary tightening, passed a contractionary FY23 Budget and reversed unsustainable energy price subsidies.

Continued policy tightening has become more challenging on account of the catastrophic floods. The Government will face challenges in implementing the planned fiscal consolidation, given extensive relief and recovery needs. Additional downside risks include unexpected damages resulting from the still evolving flooding situation that could further reduce output and worsen economic imbalances, political pressures that undermine the implementation of a coherent and prudent macroeconomic policy mix, unanticipated deterioration of external conditions, and risks associated with large fiscal and external financing needs. To manage these uncertainties, the Government should adhere to sound economic management, while carefully targeting any new expenditures and maintaining progress on critical structural reforms, including in the energy sector.

Recent developments

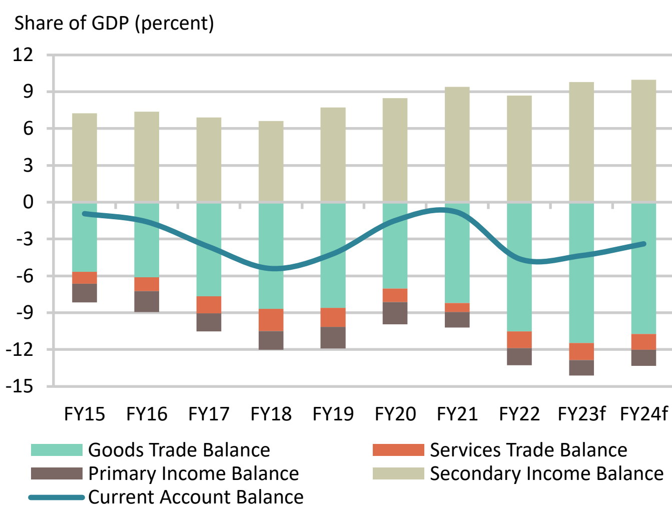
Growth of real GDP at constant 2015-16 factor prices for FY22 was estimated at 6.0 percent. Agricultural output growth increased significantly on larger crop production, in line with overall better weather conditions, and stronger livestock output. Growth of industry and services sectors remained strong but some industries, such as food and textiles, are weakening in line with the deteriorating macro conditions.

On the external front, strong domestic demand and high global commodity prices led to a current account deficit (CAD) of 4.6 percent of GDP in FY22, the largest in 4 years (Figure 1). The large CAD, together with ongoing political and policy uncertainty, weakened investor confidence and the currency depreciated 23.1 percent against the U.S. dollar in FY22. Foreign reserves dwindled to 1.5 months of import cover at end-FY22.

The weaker Rupee, high commodity prices, and the overheating economy, pushed up inflation, which reached an average of 12.2 percent in FY22, an 11-year high. Accordingly, the State Bank of Pakistan tightened monetary policy and raised the policy rate by a cumulative 800 bps beginning September 2021. However, at the current policy rate of 15 percent, the real interest rate is still negative.

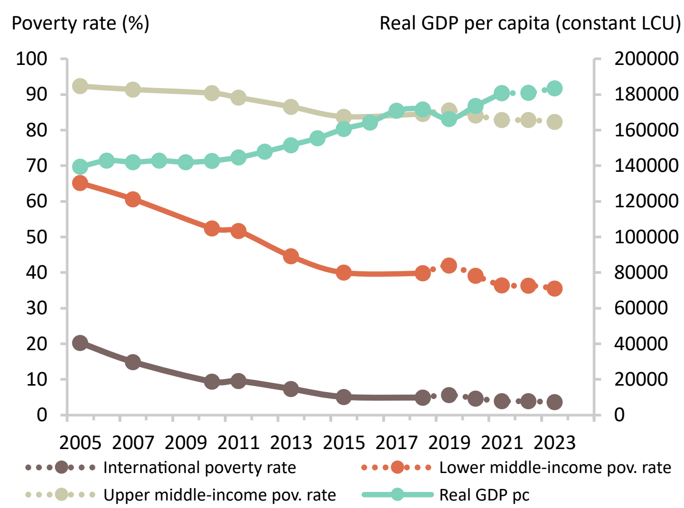
Partly due to energy price subsidies, the FY22 fiscal deficit widened to 7.8 percent

FIGURE 1 Pakistan / Current account balance and major components



Sources: State Bank of Pakistan and World Bank staff estimates.
Notes: Pakistan reports data on a fiscal year (FY) basis. The fiscal year runs from July 1 through June 30.

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



Source: World Bank. Notes: see Table 2.

of GDP and public debt rose to 78.0 percent of GDP. Banking sector sovereign exposure continued to increase, with lending to the public sector accounting for nearly 70 percent of all bank credit at end-June 2022. Considering the mounting risks, rating agencies downgraded Pakistan's government bonds, while bond yields rose sharply. The Government responded with a contractionary FY23 budget targeting a primary surplus of 0.2 percent of GDP and adjustments to energy prices, leading to some improvement in sentiment and stabilization of yields, and the exchange rate in early FY23.

Outlook

The economic outlook and prospects for overdue adjustment have been significantly affected by the floods. Agricultural output is expected to decline sharply, with losses to cotton, date, wheat, and rice crops. Nearly a million livestock is estimated to have perished. Cotton losses are expected to weigh on the domestic textile industry and the wholesale and transportation service industries. Public relief and limited reconstruction activities are expected to partially offset the loss in activity. Real GDP growth is therefore expected to slow to 2.0 percent in FY23, but recover to 3.2 percent by FY24, supported by a recovery in agricultural production, reconstruction efforts, and projected lower global inflationary pressures.

Due to higher energy prices, flood disruptions, and the weaker Rupee, inflation is projected to rise to 23.0 percent in FY23 but moderate over the forecast horizon with declining international energy prices and resolution of flood-related supply constraints. Despite flood-associated effects, the CAD is expected to narrow slightly to 4.3 percent of GDP in FY23 with slower domestic economic activity and is projected to shrink further in FY24 as exports recover from flood impacts.

In line with fiscal consolidation efforts, the fiscal deficit is projected to contract modestly to 6.8 percent of GDP in FY23, despite negative revenue impacts from the flooding and increased expenditure needs. The fiscal deficit is expected to gradually narrow over the medium term as revenue mobilization measures, particularly GST harmonization and personal income tax reform, take hold. With rapid nominal GDP growth, public debt as a share of GDP is projected to decline gradually over the forecast period, despite continued primary deficits. The macroeconomic outlook is predicated on the IMF-EFF program remaining on track.

The high inflation and devastating floods will have an adverse impact on poverty. While rising prices reduced real purchasing power of all households, the floods primarily affected rural areas in Sindh and Balochistan where poverty rates are already high. Poorer households are more dependent on agricultural income and spend a larger share of their income on food, and therefore will be disproportionally affected by the loss of the harvest and assets like housing and livestock, and rising prices. As a direct consequence of the floods, the national poverty rate could increase by 2.5 to 4.0 percentage points, with adverse human development effects in disaster-affected areas. The size and duration of shocks will vary across locations and households, depending on the intensity of the flooding as well as the quality of relief and reconstruction efforts.

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

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices	2.5	-1.3	6.5	6.2	2.0	3.2
Private Consumption	5.6	-2.8	9.3	10.0	3.1	3.3
Government Consumption	-1.6	8.5	1.8	-3.4	7.0	0.3
Gross Fixed Capital Investment	-11.1	-6.7	4.5	2.5	-9.7	2.9
Exports, Goods and Services	13.2	1.5	6.5	8.4	1.5	3.1
Imports, Goods and Services	7.6	-5.1	14.5	15.6	2.3	1.8
Real GDP growth, at constant factor prices[a]	3.1	-0.9	5.7	6.0	2.0	3.2
Agriculture	0.9	3.9	3.5	4.4	-1.8	3.0
Industry	0.2	-5.7	7.8	7.2	2.4	2.9
Services	5.0	-1.2	6.0	6.2	3.2	3.4
Inflation (Consumer Price Index)	6.8	10.7	8.9	12.2	23.0	9.5
Current Account Balance (% of GDP)	-4.2	-1.5	-0.8	-4.6	-4.3	-3.3
Net Foreign Direct Investment Inflow (% of GDP)	0.4	0.9	0.5	0.4	0.6	0.7
Fiscal Balance, including grants (% of GDP)	-7.8	-7.0	-6.0	-7.8	-6.8	-6.1
Debt (% of GDP)	78.0	81.1	75.6	78.0	71.7	71.9
Primary Balance, including grants (% of GDP)	-3.0	-1.5	-1.1	-3.0	-2.8	-2.1
International poverty rate ($2.15 in 2017 PPP)[b,c]	4.9	5.6	4.7	3.9	3.9	3.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	39.8	42.0	39.1	36.4	36.4	35.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	84.5	85.5	84.1	82.9	82.8	82.4
GHG emissions growth (mtCO2e)	2.5	0.0	3.9	3.2	3.1	2.5
Energy related GHG emissions (% of total)	42.9	41.9	42.3	42.2	42.0	41.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ The Government's provisional FY22 estimate of real GDP growth (at 2015-16 prices) is 6.0 percent.
b/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

SRI LANKA

Table 1	2021
Population, million	22.0
GDP, current US$ billion	88.9
GDP per capita, current US$	4040.6
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	13.8
Upper middle-income poverty rate ($6.85)[a]	52.8
Gini index[a]	39.3
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	77.1
Total GHG emissions (mtCO2e)	48.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ Most recent WDI value (2020).

Sri Lanka faces an unsustainable debt and severe balance of payments crisis, which is having a negative impact on growth and poverty. The fluid political situation and heightened fiscal, external and financial sector imbalances pose significant uncertainty for the outlook. Debt restructuring and the implementation of a deep structural reform program are critical for economic stabilization. The crisis is expected to increase poverty substantially, making mitigation efforts a key priority.

Key conditions and challenges

The economy was already showing signs of weakness before the COVID-19 pandemic. Growth and poverty reduction had slowed down in the last five years. A restrictive trade regime, weak investment climate, episodes of loose monetary policy, and an administered exchange rate had contributed to external imbalances. Years of fiscal indiscipline, driven primarily by low revenue collections, had led to high fiscal deficits and large gross financing needs. Combined with these pre-existing fiscal imbalances, tax cuts in 2019 contributed to a rapid growth in debt to unsustainable levels. Sri Lanka lost access to international financial markets in 2020, after credit rating downgrades.

Without market access, Sri Lanka continued to service its external debt and pay for imports using official reserves and loans from the banking sector. Official reserves dropped from US$7.6 billion in 2019 to less than US$400 million (excluding a currency swap equivalent to US$ 1.5 billion with China) in June 2022. Net foreign assets in the banking system also fell to US$ -5.9 billion in June 2022. This severe forex liquidity constraint has been felt across the economy, particularly from Q2 2022, with shortages of fuel, medicines, cooking gas, and inputs needed for economic activity. Amid depleted reserves, Sri Lanka announced an external debt service suspension in April 2022, and later appointed legal and financial advisors to support debt restructuring.

The incumbent president resigned following protests in July. Although parliament appointed a new president to complete the remaining two and a half-year term, political tensions remain elevated as the economic crisis deepens.

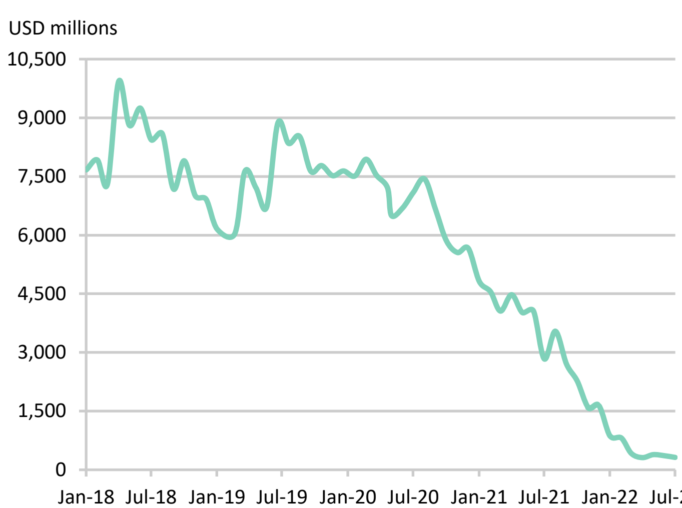
The IMF reached a staff-level agreement with Sri Lanka on a 48-month Extended Fund Facility program of about US$2.9 billion. However, financing assurances to restore debt sustainability from official creditors and making a good faith effort to reach a collaborative agreement with private creditors are crucial before the IMF can provide financial support.

Recent developments

The economy contracted by 4.8 percent (y-o-y) in 1H 2022. Amid shortages of inputs and supply chain disruptions, all key sectors contracted. High frequency indicators such as the purchasing managers' indices indicate continued stress beyond 1H as well.

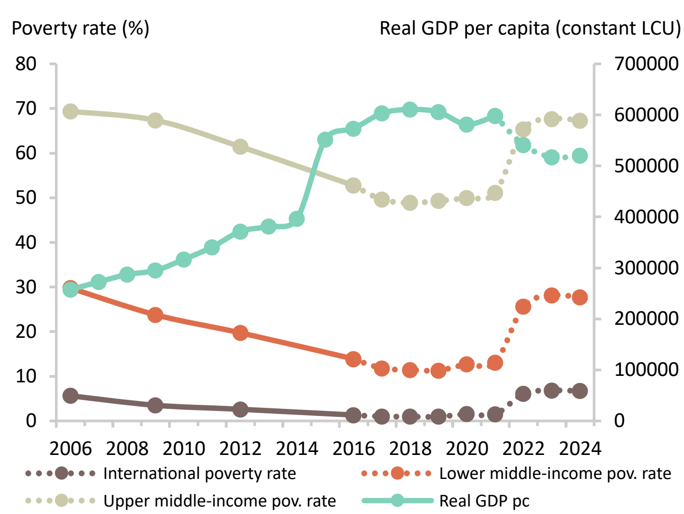
Inflation reached an unprecedented 64.3 percent (y-o-y) in August 2022, due largely to high food inflation of 93.7 percent (y-o-y). This reflects the impact of rising global commodity prices, monetization of the fiscal deficit, and currency depreciation. The ban on chemical fertilizers in 2021 and the negative impact on crop yields have also affected domestic food supplies, agriculture earnings, and food security. Between January and July 2022, the central bank

FIGURE 1 Sri Lanka / Gross official reserves



Source: Central Bank of Sri Lanka and World Bank staff calculations.
Note: gross official reserves exclude a currency swap with China equivalent to US$ 1.5 billion.

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



Source: World Bank. Notes: see table 2.

raised policy rates by a cumulative 950 basis points to try to curb inflation.

Poverty is expected to have increased in 2022, given the contraction in the economy. Poorer households have been impacted from multiple fronts (food inflation, job losses, limited fertilizer supply, and drop in remittances). While social assistance provides some relief, it is inadequate in the face of substantial losses in real income.

The goods trade deficit declined by 18.6 percent (y-o-y) in H1 2022 as exports, particularly textiles, grew faster than imports, which were largely financed by Indian financial support of approximately US$3.8 billion. With declining remittances and limited tourism receipts, the current account deficit is expected to have widened in H1 2022. The central bank floated the currency on March 07 and returned to a managed float on May 12 after the LKR depreciated by about 78 percent since the floating. Due to low market confidence, it has been challenging to bring export earnings and remittances to Sri Lanka through formal channels, despite mandatory repatriation and conversion rules.

Although expenditures increased in the first four months of 2022 – due to additional support provided to social protection beneficiaries, public servants, and pensioners – several revenue measures, including a one-off tax imposed on large corporates, helped reduce the primary deficit. The overall deficit remained broadly unchanged, however, due to the rising interest bill, and was financed primarily by the central bank. To raise more revenue, the government increased the VAT rate from 8 to 15 percent and proposed additional tax measures in May and through the 2022 Interim Budget in August.

Outlook

The fluid political situation and heightened fiscal, external and financial sector imbalances pose significant uncertainty for the outlook. The growth outlook is subject to high uncertainty and will depend on the progress in fiscal consolidation, debt restructuring, and growth-enhancing structural reforms. Despite tightened monetary policy, inflation will likely stay elevated. The fiscal deficit is expected to gradually fall over the medium-term due to consolidation efforts. The current account deficit is expected to decline due to import compression. Additional resources will be needed in 2023 and beyond to close the external financing gap. Poverty is projected to remain above 25 percent in the next few years.

Key downside risks include a slow debt restructuring process, limited external financing support, and a prolonged recovery from the scarring effects of the crisis. Fiscal consolidation needs to be accompanied by tighter monetary policy to contain inflationary pressures. Significant debt restructuring is essential to restore a sustainable debt level. The financial sector has to be managed carefully given high exposure to the public sector. The necessary macroeconomic adjustments may initially adversely affect growth and poverty but will correct the macroeconomic imbalances, help regain access to international financial markets, and build the foundation for sustainable growth. Mitigating the impacts on the poor and vulnerable remains critical during the adjustment. Reductions in poverty will require an expansion of employment in industry and services and a recovery in the real value of incomes. On the upside, a credible reform program supported by financing from international partners could enhance confidence and attract fresh capital inflows.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-0.2	-3.5	3.3	-9.2	-4.2	1.0
Private Consumption	3.8	-5.8	6.2	-9.8	-4.0	1.1
Government Consumption	6.6	3.6	3.1	-9.4	-2.2	-2.9
Gross Fixed Capital Investment	-12.1	-9.1	9.6	-16.0	-6.3	1.5
Exports, Goods and Services	1.7	-29.6	10.3	1.8	1.9	2.0
Imports, Goods and Services	-3.5	-20.1	4.1	-9.9	0.4	0.6
Real GDP growth, at constant factor prices	0.4	-3.0	4.0	-9.2	-4.2	1.0
Agriculture	0.5	-1.4	2.5	-9.0	2.4	1.5
Industry	-4.1	-5.3	5.6	-11.2	-5.7	1.0
Services	2.9	-1.9	3.3	-8.2	-4.2	0.9
Inflation (Consumer Price Index)	4.3	4.6	6.0	45.6	23.8	8.0
Current Account Balance (% of GDP)	-2.1	-1.4	-3.8	-1.4	-0.7	-0.4
Net Foreign Direct Investment Inflow (% of GDP)	0.7	0.5	0.8	0.3	0.3	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.0	1.5	1.5	6.1	6.8	6.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	11.3	12.7	13.1	25.6	28.2	27.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	49.3	50.0	51.2	65.4	67.6	67.3
GHG emissions growth (mtCO2e)	5.2	0.1	4.4	-9.8	-4.7	2.5
Energy related GHG emissions (% of total)	70.2	71.4	71.9	68.8	67.1	67.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2024.
b/ Projection based on microsimulations for 2020-2022. Projections for 2023-2024 using neutral distribution (2022) with pass-through = 0.87 based on GDP per capita in constant LCU.

Macro Poverty Outlook

10/2022

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