South Asia

Macro Poverty Outlook

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

Spring Meetings 2023

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AFGHANISTAN

After a severe contraction in the gross domestic product (GDP) of 20.7 percent in 2021, signs had emerged by mid-2022 that the Afghan economy was settling around a fragile low-level equilibrium. Revenue collection by the Interim Taliban Administration (ITA) was at levels comparable with previous years. In addition, the exchange rate had stabilized, exports increased, and imports showed resilience. Yet these signs of stabilization could not override the substantial pressures Afghan families faced in sustaining their livelihoods. The contraction of the aid-driven service and security sectors had widespread spillovers into other sectors of the economy, affecting the entire welfare distribution. Recent data suggest that aggregate demand has weakened in winter as activities around agriculture, construction, and other associated sectors have slowed. However, this seems broadly in line with seasonal trends.

Key conditions and challenges

The political crisis of Aug 15, 2021, morphed into an economic confidence crisis. The cessation of aid caused a collapse in aggregate demand. The freeze of central bank reserves and the indirect effects of sanctions crippled the financial sector, resulting in a rapid depreciation of Afghani (AFN) and a spike in inflation. Job losses and economic deprivation remained widespread as the economy adjusted to a lower-level equilibrium during 2022 when aid was partially resumed (off-budget and on a smaller scale at about US$3.5 billion compared to US$9 billion in 2020), shipments of cash in US$ (amounting to nearly US$1.8 billion in 2022) by the United Nations eased hard currency shortages and supported exchange rate stabilization. The ITA managed to restore some basic public services and collect revenues.

Some key challenges persist. The financial system remains constricted; trade and other payments flowing into and out of Afghanistan are carried out to a large extent through informal channels. Moreover, the low demand remains a critical constraint to the rebound of the private sector. Poverty was already high at 47 percent in 2019-2020. Recent data shows that by mid-2022, two-thirds of Afghan households reportedly could not afford food and other basic non-food items, forcing many adults to engage in low-productivity activities to generate income. Living conditions during the harsh winter months appear to have worsened partly because of significant electricity shortages in cities.

Recent developments

After remaining elevated during most of 2022, year-on-year headline inflation decelerated substantially to 5.3 percent in December 2022, when the base effect of the exchange rate depreciation took full effect. A reduction in international prices, exchange rate stability, and a seasonal weakening of aggregate demand supported this trend. The slackening of cereal price increases provided some respite for households—especially those at the bottom 40 percent of the welfare distribution. However, the cyclical slowdown of the economy during the winter season translated into a contraction of income-generation opportunities for self-employed and casual workers.

Merchandise exports were strong in 2022. Afghanistan's exports reached US$1.9 billion in 2022, more than twice the average of the previous four years. Unofficial customs data show that a surge in vegetables, minerals, and textiles exports—collectively contributing 94 percent of total exports—drove the strong performance. Major export destinations included Pakistan (63 percent) and India (22 percent). Coal became a significant export commodity (at around US$0.5 billion) for the first time as Pakistani importers switched to cheaper Afghan coal. Food exports to Pakistan also surged (to about US$0.5 billion, compared to US$0.16 billion in 2021) as devastating floods in Pakistan created additional demand. The labor-intensive nature of the exports suggests that at least some windfall gains due to the export surge could have benefited workers in those sectors.

Afghanistan's merchandise imports showed resilience in 2022, reaching US$6.3 billion, like the 2019 level (US$6.5 billion). Major imports include minerals/fuels (21 percent), food products (18 percent), and textiles (10 percent), which collectively contributed around half of the total imports. The primary origin countries for Afghanistan's imports were Iran (22 percent), Pakistan (17 percent), and China (17 percent).

The AFN has recovered following its initial depreciation and remained stable during 2022. The AFN value against the US$ hovered between 87 and 90 over Q4-2022 and, as of January 31, 2023, is trading close to 89.6 AFN/US$—a depreciation of 3.9 percent from its August 15, 2021 value. Cash shipments of US$ and strengthened ITA controls such as regulating the Money Service providers (MSP) sector and prohibiting foreign currency-denominated domestic transactions have supported exchange rate stability. The consistent availability of US$ in the domestic market and a stable AFN suggest that the ITA was able to identify sources to finance the estimated US$2 billion current account deficit for 2022.

Unofficial revenue statistics show that between March 22, 2022, and January 21, 2023 (the first ten months of the fiscal year), collection amounted to AFN149.6 billion (US$1.68 billion), in line with 2020 figures. The most collection comes from indirect taxes collected at borders. The latest available data show that revenue from inland sources totaled AFN 68.6 billion (US$0.8 billion), with non-tax sources contributing the most. Non-tax sources, primarily from royalties (from coal mining) and administration fees collected by ministries, contribute 52 percent of total inland revenues. Anecdotal evidence suggests significant revenue receipts are one-offs (e.g., arrears collection). The availability of public expenditure statistics remains limited. However, it seems that the ITA is using off-budget resources and mining concessions to finance the development projects such as the Qosh Tepa Canal (the first phase of 108km, out of a total of 285km).

The banking sector showed some signs of normalization amid large-scale financial disintermediation. The liquidity situation appears to have improved: although withdrawal limits remain in place for pre-August 15 deposits, most banks can service individual withdrawals up to the limit. At the same time, there is no withdrawal limit for fresh deposits. Deposits appear to have stabilized after decreasing 30 percent from January 2021 to June 2022. Banking sector vulnerabilities have deepened, however. International payments and trade finance are held back by the fractious correspondent banking relationships. The quality of assets is deteriorating, the transition to Islamic finance constrains lending, and banks' revenues from core functions declined by 32 percent. Stability risks are elevated—absent the current forbearance measures; most banks would be undercapitalized. The microfinance sector is dire and close to insolvency unless new equity is injected.

Outlook

Under the baseline scenario, in which Afghanistan continues to receive humanitarian and basic service support from the international community (amounting to about 20–25 percent of GDP), the economy is projected to move to a low growth trajectory (2.0 to 3.0 percent) during 2023–25, with no improvement in per capita income due to high population growth. Inflation is projected to remain between 5 and 10 percent, close to the historical average. Under this scenario, poverty is likely to remain high until the economy has identified new sources of growth that provide income-generation opportunities, especially for the large number of self-employed workers that represent 80 percent of the employment.

The new low-level equilibrium remains fragile, with significant downside risks. First, the non-inclusive nature of the regime and its regressive gender policies, most noticeably the December 2022 edicts, may reduce external support and, over the medium term, result in a loss of human capital, which will permanently lower future growth prospects. Second, the stoppage or reduction of cash shipments of US$ could undermine exchange rate stability. Other risks include the inability of the economy to finance the current account deficit and the worsening of stability concerns in the banking sector. If these risks materialize, real GDP will contract in 2023, pushing even more people into deprivation and food insecurity and potentially creating regional and global negative spillovers.

BANGLADESH

Table 1	2022
Population, million	167.9
GDP, current US$ billion	460.4
GDP per capita, current US$	2742.4
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]	115.9
Life expectancy at birth, years[b]	72.0
Total GHG emissions (mtCO2e)	266.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

Real GDP growth slowed in the first half of FY23, as inflation surged and external conditions deteriorated. Full year growth is projected to decelerate to 5.2 percent in FY23 from 7.1 percent in FY22 and downside risks to the outlook are rising. External risks include commodity price volatility and deteriorating economic conditions in key export markets, while domestic risks include unresolved financial sector vulnerabilities. The extreme poverty rate is expected to decline modestly in FY23 to 10.03 percent from 10.44 percent in FY22.

Key conditions and challenges

Real GDP grew by an average of 6.0 percent since 2000, making Bangladesh one of the fastest growing economies in the world. Growth has been supported by a demographic dividend, sound macroeconomic policies, and accelerating ready-made garment (RMG) 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, suboptimal urbanization, a business climate that lags peer economies, and high exposure to climate risks. Bangladesh will graduate from UN Least Developed Country status in 2026, which will gradually reduce access to concessional financing and preferential export market access.

Bangladesh navigated the COVID-19 pandemic with prudent macroeconomic policies, maintaining positive real GDP growth. However, pandemic job losses and reduced earnings disproportionately affected the poor, especially among women. Spatial inequality widened with the reemergence of a welfare gap between eastern and western Bangladesh. A post-pandemic recovery has been disrupted by elevated global commodity prices, rising global interest rates, and slowing global growth.

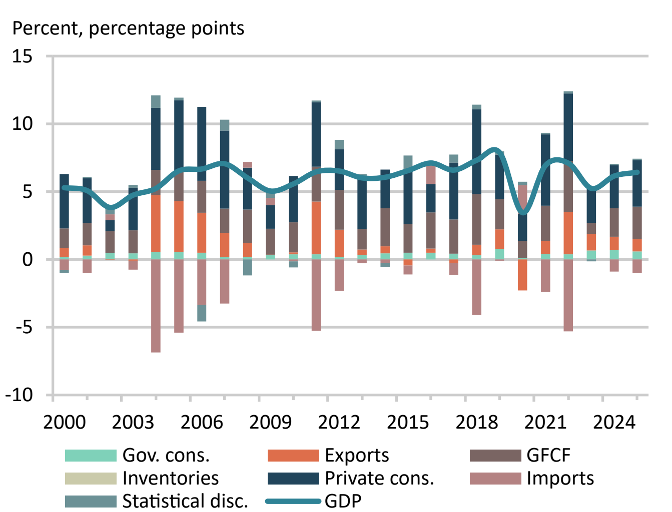
A widening Balance of Payments (BoP) deficit from the second half of FY22 led to a sharp decline in foreign exchange reserves. The declining reserves were further exacerbated by a multiple exchange rate regime that has disincentivized export and remittance inflows. In January 2023, an IMF program to support key policy reforms and rebuild external buffers was approved. Under the program, the authorities agreed to unify the official exchange rate by June 2023.

Downside risks to the outlook are rising and external risks remain elevated. A further rise in commodity prices could increase imports and worsening global economic conditions would limit export growth. Continued import controls and energy rationing would disrupt industrial production. Unresolved financial sector vulnerabilities may disrupt financial sector intermediation.

Recent developments

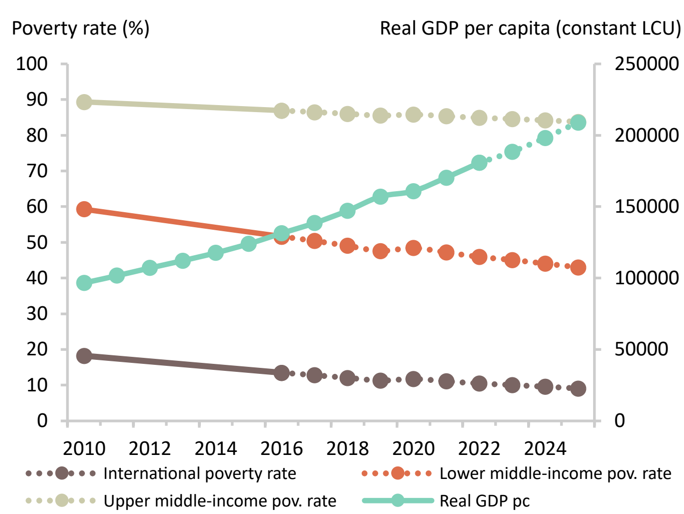
Real GDP growth slowed in the first half of FY23, as high inflation weighed on private consumption and fiscal consolidation measures slowed government consumption and investment growth. Exports remained resilient, growing by 9.8 percent in the first seven months (July-January) of FY23. On the supply side, domestic industrial production was disrupted by a lack of energy supply, rising input costs, and limited issuance of letters of credit due to a shortage of foreign currency. Modest agricultural growth was sustained, although increases in the diesel price impacted production.

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.

Inflation accelerated, driven by rising global commodity prices and an upward adjustment in administered prices of petroleum products. Monetary policy was tightened through higher policy rates, although transmission was impaired by a cap on lending interest rates. Tight liquidity conditions and narrow net interest margins weighed on private sector credit growth.

Employment levels improved, but real earnings have not yet recovered to pre-pandemic levels. Improving labor market conditions were partially offset by the loss of purchasing power. The poorest decile of households are most vulnerable to lost purchasing power, spending more than two-thirds of their income on food, housing and utilities.

The BoP deficit surged in the first half of FY23. Resilient export growth and slowing imports narrowed the current account deficit. However, a sharp contraction in trade credit and lower medium- and long-term borrowing contributed to a financial account deficit, resulting in a US$7.2 billion BoP deficit in the first half of FY23 and a 7.2 percent depreciation of the interbank exchange rate. Gross foreign exchange reserves declined by US$12.6 billion over a one-year period to US$32.6 billion at the end of January 2023.

The fiscal deficit widened to 4.3 percent of GDP in FY22 from 3.7 percent in FY21 but remained below a 5 percent of GDP target. Tax revenue remained among the lowest in the world at 7.6 percent of GDP in FY22. Expenditure growth accelerated with higher subsidy spending as a result of elevated commodity prices. Capital expenditure rose in FY22 led by infrastructure megaprojects, before being rationalized in the first half of FY23 to narrow the budget deficit.

Outlook

Real GDP growth is expected to decelerate to 5.2 percent in FY23 before returning to its long-term trend. Elevated inflation, tighter financial conditions, disruptive import restrictions, and global economic uncertainty will weigh on growth in the near term. Modest export growth is expected in FY23, led by rising RMG market share. Growth is expected to accelerate in FY24, as inflationary pressure eases and reform implementation accelerates, converging to around 6.5 percent over the medium term. A gradual reduction in extreme poverty is expected, from an estimated 10.03 percent in FY23 to 9.54 percent in FY24.

The fiscal deficit is projected to narrow to 3.7 of GDP over the medium term. Revenues will rise with increasing trade and economic activity, higher incomes, and tax administration reform implementation. Public expenditure is expected to remain stable as a share of GDP, as declining subsidy expenditure creates fiscal space to sustain public investment spending and support poverty reduction expenditure.

External conditions are expected to improve over the medium term. The current account deficit will narrow as imports normalize with moderating commodity prices. Remittance inflows are expected to rise with a higher outflow of workers and resilient demand for workers in the gulf region. A financial account deficit is projected to contribute to external sector pressure in FY23, before returning to surplus in FY24.

Addressing longstanding structural challenges and continuing to invest in climate adaptation and resilience would help sustain GDP growth over the medium term. Reform priorities include revenue mobilization, tariff modernization, resolving financial sector vulnerabilities, and improving the business climate.

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

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
Real GDP growth, at constant market prices	3.4	6.9	7.1	5.2	6.2	6.4
Private Consumption	3.0	8.0	7.5	3.9	4.8	5.3
Government Consumption	2.0	6.9	6.2	11.3	10.8	9.1
Gross Fixed Capital Investment	3.9	8.1	11.7	2.4	6.4	7.4
Exports, Goods and Services	-17.5	9.2	29.4	9.4	7.5	6.5
Imports, Goods and Services	-11.4	15.3	31.2	-0.5	4.5	5.2
Real GDP growth, at constant factor prices	3.8	7.0	7.2	5.2	6.2	6.5
Agriculture	3.4	3.2	3.1	3.3	3.3	3.4
Industry	3.6	10.3	9.9	6.5	7.2	7.8
Services	3.9	5.7	6.3	4.7	6.1	6.2
Inflation (Consumer Price Index)	5.6	5.6	6.1	8.6	6.5	5.7
Current Account Balance (% of GDP)	-1.5	-1.1	-4.0	-2.1	-1.5	-1.4
Net Foreign Direct Investment Inflow (% of GDP)	0.3	0.3	0.4	0.2	0.4	0.6
Fiscal Balance (% of GDP)	-4.8	-3.7	-4.3	-4.4	-4.0	-3.8
Revenues (% of GDP)	8.5	9.4	8.5	8.5	8.7	8.8
Debt (% of GDP)	31.7	32.4	33.1	33.8	34.1	34.2
Primary Balance (% of GDP)	-2.9	-1.7	-2.5	-2.5	-2.1	-2.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	11.7	11.1	10.4	10.0	9.5	9.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	48.4	47.2	45.9	45.1	44.1	43.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.8	85.3	84.9	84.6	84.2	83.8
GHG emissions growth (mtCO2e)	2.4	4.4	4.8	3.6	4.3	4.5
Energy related GHG emissions (% of total)	39.6	40.8	42.2	43.2	44.4	45.6

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 2010-HIES and 2016-HIES. Actual data: 2016. Nowcast: 2017-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2010-2016) with pass-through = 1 based on GDP per capita in constant LCU.

BHUTAN

Table 1	2022
Population, million	0.8
GDP, current US$ billion	2.5
GDP per capita, current US$	3241.2
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]	105.7
Life expectancy at birth, years[b]	71.6
Total GHG emissions (mtCO2e)	-5.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

Output is estimated to have grown by 4.3 percent in FY21/22, after two years of economic contraction. The COVID-19 pandemic and Russia's invasion of Ukraine resulted in a significant deterioration of fiscal and external balances, resulting in a fragile macroeconomic situation. Measures to support fiscal consolidation and financial sector stability are crucial to address short-term macroeconomic vulnerabilities and support economic recovery. The moderation in prices contributed to a slight decrease in poverty to 8.8 percent in 2021 based on $3.65/day.

Key conditions and challenges

Rapid economic growth in Bhutan has contributed to substantial poverty reduction over the last two decades, but poverty and inequality levels remain high. Annual real GDP growth averaged 7.5 percent since the 1980s, driven by the public sector-led hydropower sector and strong performance in services, including tourism. It was estimated that nearly 9 percent of the population lived below the $3.65/day poverty line in 2017, with poverty being more prevalent in rural areas and significant disparities across districts. More recent data (2022) is being analyzed to establish a comparable poverty trend for Bhutan.

The COVID-19 pandemic and spillovers from the war in Ukraine have resulted in a significant deterioration in the macroeconomic situation. After the economy contracted for two consecutive years in FY19/20 and FY20/21, non-hydro industry and services sector activity picked up. Tourism has been slow to recover, in part due to the new tourism levy act which tripled the sustainable development fee for international tourists from US$65 to US$200 per night. The youth unemployment rate increased from 20.9 percent in 2021 to 29 percent in 2022, which contributed to an increase in outward migration.

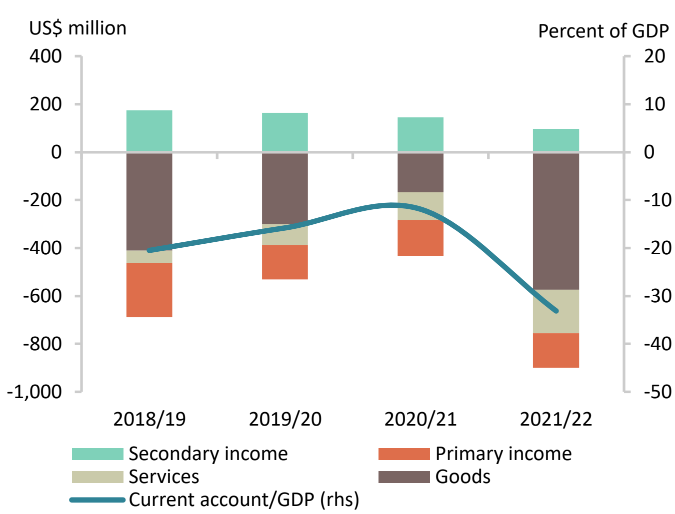
COVID-19 relief measures and subdued revenue performance have resulted in high fiscal deficits and public debt since FY20/21, with limited fiscal space to absorb additional shocks. International reserves have declined rapidly due to an increase in imports. Vulnerabilities in the financial sector with high non-performing loan (NPL) levels have increased fiscal risks, given that about 60 percent of assets of the sector are controlled by the public sector. Labor shortages during the pandemic resulted in significant delays in 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.

The macroeconomic situation is fragile. In addition to continued global uncertainties and additional delays in hydro projects, downside risks to the growth outlook include delays in fiscal consolidation and financial sector vulnerabilities, which constrain the government's ability to support a robust recovery.

Recent developments

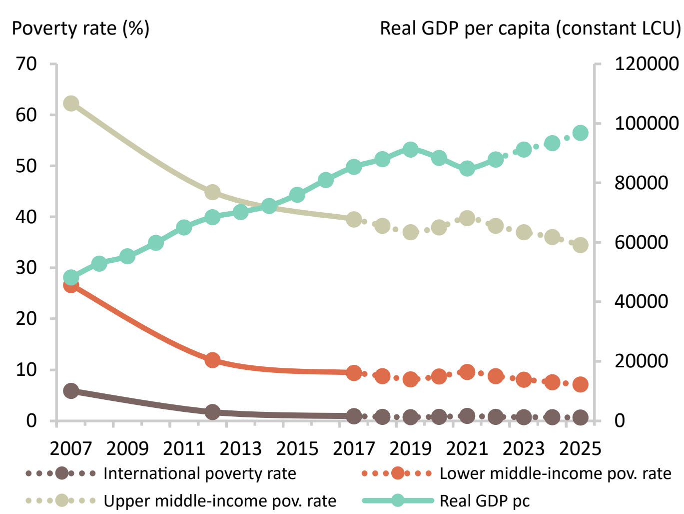
The economy grew by 4.3 percent in FY21/22 (July 2021 to June 2022), supported by the easing of social and mobility restrictions in the second half of FY21/22 and continued fiscal support to boost activity. The industry sector grew by 3.0 percent, supported by a recovery in the construction, manufacturing, and mining sectors. The electricity sector contracted due to maintenance of the Tala hydropower plant, resulting in lower hydro exports and revenues. Services output increased by 5.7 percent, driven by transport and trade activities. The tourism industry remained subdued in FY21/22 due to COVID-related

FIGURE 1 Bhutan / Current account and components



Sources: Royal Monetary Authority of Bhutan 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.

travel restrictions. On the demand side, public investment and consumption supported growth, reflecting continued fiscal support, while private investment and consumption have not yet recovered.

Average inflation moderated from 8.2 percent in FY20/21 to 5.9 percent in FY21/22, driven by a moderation in food inflation. However, non-food inflation accelerated to 7.0 percent in FY21/22, reflecting higher fuel and transport prices. The moderation in prices contributed to a slight decrease in poverty to 8.8 percent in 2021 based on $3.65/day (from 9.6 percent in 2020).

The current account deficit (CAD) more than doubled to 33.1 percent of GDP in FY21/22. Exports remained subdued (as a share of GDP) due to lower hydro exports and near-zero tourism-related services exports. Imports surged due to a significant increase in the import of Information and Communication Technology (ICT) equipment and higher prices, particularly of fuel and food. As a result, gross international reserves declined rapidly in FY21/22, reaching US$833 million in June 2022 (a 37 percent decline, y-o-y), equivalent to 6.6 months of FY21/22 imports.

The fiscal deficit widened to 7.8 percent of GDP in FY21/22 from 6.2 percent in FY20/21. Total expenditures declined (as a share of GDP) but capital expenditures increased, reflecting continued fiscal support through accelerated implementation of the Twelfth Five Year Plan (FYP). Total revenues declined because of lower hydro revenues and external grants. Public debt increased to 133.3 percent of GDP in FY21/22 due to an increase in non-hydropower debt.

Outlook

The economy is expected to grow by 4.5 percent in FY22/23. The further reopening of borders in September 2022 is expected to support growth in the industry and services sectors. Tourist arrivals are expected to remain subdued because of slow global growth and the introduction of the new tourism levy act. Growth is expected to remain subdued in FY23/24 due to lower public investments, typical for the first year of a new FYP, and the transition to a new Cabinet following national elections. Medium-term growth will be supported by a recovery in the non-hydro industry and services sectors, and by the commissioning of a new hydropower plant.

Inflation is projected to remain elevated in the short term, owing to higher import prices, before moderating in the medium term. While the incidence of poverty is expected to decline further from 2022, 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 remain elevated in FY22/23 at 28.6 percent of GDP due to lumpy imports of ICT equipment and a slow recovery of tourism. The CAD is expected to improve from FY23/24 due to lower ICT imports, and to moderate further in the medium term due to the doubling of hydropower capacity and a decline in imports following the completion of the hydropower projects. International reserves are expected to decline to 4 months of imports until FY24/25, before improving to 5 months of import coverage in FY25/26.

The fiscal deficit is projected to decline to 5.8 percent of GDP in FY22/23, driven by lower capital spending. The deficit is expected to further decline to 4.5 percent of GDP in FY23/24 due to lower public investments in the first year of the new FYP, and measures to rationalize current expenditure and increase domestic revenues.

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 repaid from future hydro revenues) with low refinancing and exchange rate risks.

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

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
Real GDP growth, at constant market prices	-2.3	-3.3	4.3	4.5	3.1	4.3
Private Consumption	0.1	-1.1	-2.9	-1.5	3.6	2.1
Government Consumption	7.3	4.9	5.5	2.7	0.9	2.0
Gross Fixed Capital Investment	-16.5	-3.0	13.4	1.5	-4.2	2.2
Exports, Goods and Services	-4.1	-7.3	10.3	10.7	5.4	4.2
Imports, Goods and Services	-9.2	0.8	6.2	-2.0	-2.4	-1.6
Real GDP growth, at constant factor prices	-0.7	-2.2	4.3	4.5	3.1	4.3
Agriculture	2.9	3.3	2.2	2.9	3.4	3.3
Industry	-5.5	-5.9	3.0	5.5	3.8	5.0
Services	2.5	-0.5	5.7	4.1	2.5	4.1
Inflation (Consumer Price Index)	3.0	8.2	5.9	4.4	3.9	3.5
Current Account Balance (% of GDP)	-15.8	-11.9	-33.1	-28.6	-19.2	-10.5
Fiscal Balance (% of GDP)	-1.9	-6.2	-7.8	-5.8	-4.5	-3.0
Revenues (% of GDP)	31.1	33.2	28.4	27.6	23.8	27.0
Debt (% of GDP)	122.8	132.4	133.3	134.2	129.6	120.6
Primary Balance (% of GDP)	-1.5	-5.2	-6.3	-3.8	-2.2	-0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.8	1.0	0.8	0.7	0.7	0.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	8.7	9.6	8.8	8.1	7.6	7.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	38.0	39.7	38.2	37.0	36.0	34.5
GHG emissions growth (mtCO2e)	1.5	1.6	-1.1	-1.7	-1.3	-1.8
Energy related GHG emissions (% of total)	-15.1	-14.5	-15.1	-15.9	-16.5	-17.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2017-BLSS. Actual data: 2017. Nowcast: 2018-2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

INDIA

Table 1	2022
Population, million	1417.2
GDP, current US$ billion	3407.4
GDP per capita, current US$	2404.3
School enrollment, primary (% gross)[a]	102.1
Life expectancy at birth, years[a]	70.2
Total GHG emissions (mtCO2e)	3699.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2021); Life expectancy (2020).

India has been one of the fastest-growing major economies in the world, but growth in FY23/24 will moderate on the back of global spillovers and slower consumption growth. Lower demand-pull pressures and monetary policy tightening will bring down inflation. Fiscal consolidation will stabilize public debt around 83 percent. Although extreme and moderate poverty remain above pre-pandemic levels, they are expected to decline in FY22/23. Over 40 percent of the population still lives in moderate poverty (3.65 US$ per person per day).

Key conditions and challenges

Real GDP growth in Q1-Q3 FY22/23 was strong at 7.7 percent, making India one of the fastest-growing major economies in the world. However, growth slowed in Q3, was not broad-based, and was bolstered by a favorable base effect. Strong domestic demand was underpinned by robust consumer spending by higher-income groups and a surge in public investment. Although growth has been strong, the labor market recovery has been incomplete as vulnerable employment has increased.

In FY23/24, real growth is expected to remain resilient but moderate to 6.3 percent due to slower consumption growth and global growth. Inflation is likely to ease within the RBI's tolerance range. The FY23/24 Union Budget reflects plans for fiscal consolidation through lower current spending. The current account deficit will decline to 2.1 percent of GDP due to strong growth in service exports and narrowed merchandise trade deficit.

Extreme poverty ($2.15 per capita per day, 2017 PPP) declined in FY21/22 to 13.8 percent but remains above pre-pandemic levels. More than 40 percent of India's population still lives below the $3.65 in 2017 PPP (poverty line usually used by middle-income countries), 16.4 percent of the population is multidimensionally poor (deprived in health, education, and standard of living), and another 18.7 percent is classified as vulnerable to multidimensional poverty.

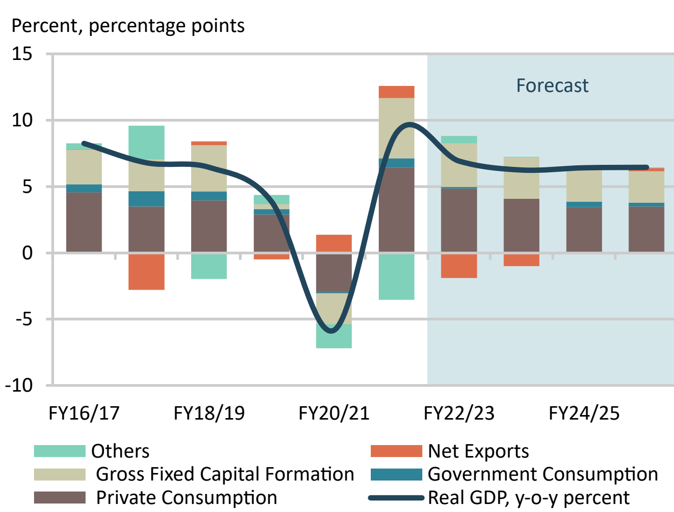
A withdrawal of pandemic relief programs can pose risks to low-income households. The FY23/24 Budget reduced allocation for Mahatma Gandhi Rural Employment Guarantee scheme by 33 percent compared to FY22/23, and a 30 percent reduction in food subsidy due to rollback of the free foodgrain scheme announced in 2020. However, the allocation for Jal Jeevan Mission (safe drinking water in rural areas), Swachh Bharat Mission (waste management), and PM Awas Yojna (housing for urban poor) increased significantly compared to budget allocation in FY22/23.

Recent developments

Real GDP growth was bolstered by solid domestic demand in Q1-Q3 FY22/23, but growth momentum has gradually weakened. Robust discretionary spending of households more than offset the contraction in government consumption. Investment expanded because of solid profits in the corporate sector and the government's capex push. Net exports were a drag on growth due to weak merchandise exports and strong imports of capital goods. On the supply side, the trade, transport, hospitality, and communication services recovered to 1.5 percent above the Q1-Q3 FY19/20 level.

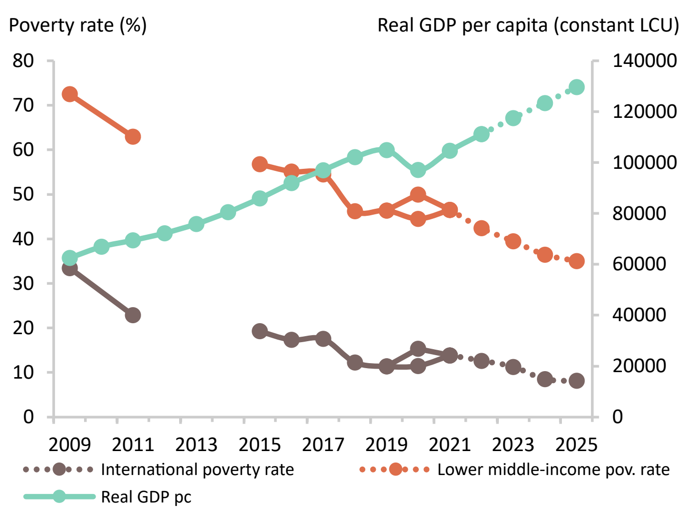
The labor market continued to recover in 2022, particularly in urban areas. The average unemployment rate dropped to 7.6 percent in 2022 from 10 percent in 2021,

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



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: FY14/15 refers to the fiscal year 2014-15 (April 2014-March 2015) and so on.

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



Source: World Bank.
Notes: see Table 2. FY14/15 refers to the fiscal year 2014-15 (April 2014-March 2015) and so on.

largely driven by increased self-employed workers, even as the proportion of regular salaried workers declined, raising concerns about job quality. While extreme and moderate poverty are expected to decline in FY22/23, the realized gains to welfare will depend on the prices of necessities and the real value of labor earnings.

Headline inflation eased to 6.4 percent y-o-y in February from an average of 6.8 percent over Q1-Q3 FY22/23, driven by lower food prices, and moderating fuel inflation. Core inflation averaged 6.1 percent over April-February FY22/23 due to recovering demand for services and elevated input prices. Since May 2022, the RBI has hiked the policy rate cumulatively by 250 basis points to contain inflation, which has also helped reduce pressures on the currency.

The current account deficit to GDP ratio (3.3 percent: H1 FY22/23) likely narrowed in Q3 FY22/23 as the trade deficit declined. The financing of the current account remained adequate and FX reserves stayed high. Net portfolio capital outflows and large trade deficits in H1 FY22/23 weighed on the Indian rupee which depreciated by 7.9 percent against the USD. Since October though, the rupee has stayed close to its long-term trend.

The general government fiscal deficit likely fell by 1.1ppts since FY21/22 to 9.4 percent of GDP in FY22/23. The consolidation has been led by strong revenue growth, the withdrawal of most pandemic-related stimulus measures, and reduced current spending. Declining fiscal deficit and a large nominal growth-interest rate differential translated into lower public debt of 83 percent of GDP in FY22/23 from 85.4 percent in FY21/22.

Outlook

Despite global growth headwinds, real GDP growth is likely to moderate to 6.3 percent in FY23/24 from the estimated 6.9 percent in FY22/23. Consumption is expected to be constrained by rising borrowing costs, slower income growth, and continued fiscal consolidation. The government's sustained capex-push, healthy corporate profits, and reduction in NPLs will buoy investment despite reduced risk appetite and elevated input costs. The negative contribution of net exports will be smaller due to stellar performance of service exports and a gradual decline in import bills. On the supply-side, contact-intensive services and construction are expected to grow at a robust pace compared to the manufacturing sector.

Moderating consumption and easing global commodity prices are likely to push down headline inflation to 5.2 percent in FY23/24, within the RBI's tolerance range. While core inflation will be elevated, it is projected to decline as monetary policy tightening takes effect by mid-FY23/24 and demand-pull price pressures ease.

The government will continue with carefully designed fiscal consolidation. The general government deficit will decline by 0.7ppts in FY23/24, due to modest revenue growth and lower current spending, reflecting the withdrawal of pandemic-related support programs. The current level of the fiscal deficit stabilizes the debt-to-GDP ratio at around 83 percent. Poverty is expected to decline, but the withdrawal of expansions in food and workfare entitlements could increase the vulnerability of the economically weaker sections, particularly if inflationary pressures persist.

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

	2020/21	2021/22	2022/23e	2023/24f	2024/25f	2025/26f
Real GDP growth, at constant market prices	-5.8	9.1	6.9	6.3	6.4	6.5
Private Consumption	-5.2	11.2	8.3	6.9	5.8	5.9
Government Consumption	-0.9	6.6	1.2	-1.1	4.4	3.3
Gross Fixed Capital Investment	-7.3	14.6	10.1	9.3	7.1	6.8
Exports, Goods and Services	-9.1	29.3	11.5	9.2	7.6	6.0
Imports, Goods and Services	-13.7	21.8	19.0	11.6	6.4	4.5
Real GDP growth, at constant factor prices	-4.2	8.8	6.6	6.3	6.4	6.5
Agriculture	4.1	3.5	3.2	3.4	3.2	3.5
Industry	-0.9	11.6	3.6	6.8	5.7	6.6
Services	-8.2	8.8	9.5	6.7	7.7	7.1
Inflation (Consumer Price Index)	6.2	5.5	6.6	5.2	4.7	4.1
Current Account Balance (% of GDP)	0.9	-1.2	-3.0	-2.1	-1.1	-0.8
Net Foreign Direct Investment Inflow (% of GDP)	1.6	1.2	1.2	1.6	1.6	1.6
Fiscal Balance (% of GDP)	-13.3	-10.5	-9.4	-8.7	-8.5	-8.2
Revenues (% of GDP)	19.6	20.6	20.2	20.1	20.1	20.3
Debt (% of GDP)	87.5	85.4	83.0	83.4	83.7	84.2
Primary Balance (% of GDP)	-7.8	-5.2	-4.2	-3.3	-3.0	-2.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	11.5-15.3	13.8	12.6	11.3	8.5	8.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	44.5-50.0	46.6	42.4	39.5	36.4	35.0
GHG emissions growth (mtCO2e)	-4.9	8.1	6.9	4.4	3.9	3.6
Energy related GHG emissions (% of total)	69.3	71.1	72.6	73.3	73.9	74.4

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 CPHS data and a methodology for consumption imputation based on Sinha Roy & Roy (2022). Actual data: 2021-2022. Nowcast: 2022-2023. Forecasts are from 2023 to 2025.
b/ Projection using CPHS data and annual growth rates for five sectors of employment with pass-through = 0.65, based on GDP per capita at constant factor prices.

MALDIVES

Table 1	2022
Population, million	0.5
GDP, current US$ billion	5.7
GDP per capita, current US$	10929.5
Upper middle-income poverty rate ($6.85)[a]	3.9
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	79.9
Total GHG emissions (mtCO2e)	3.0

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

The economy has recovered to pre-pandemic levels and, with rising tourist arrivals, is expected to maintain a strong growth and poverty reduction trajectory. Commodity price volatility is driving inflation and exerting pressure on fiscal and external balances, through costlier imports and higher subsidies. Despite recent improvements, public debt is expected to remain high, warranting continued efforts to reduce fiscal deficits, including comprehensive subsidy reforms while mitigating impacts on the vulnerable.

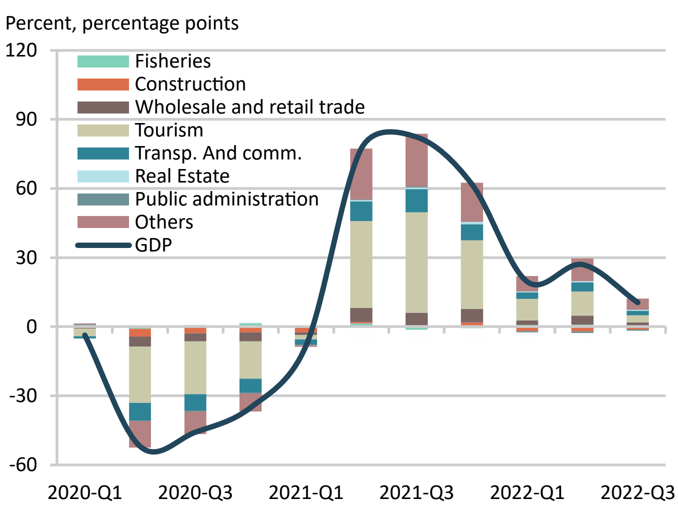
Key conditions and challenges

Tourism, which accounts for almost one-third of the economy, has seen a rapid recovery following the pandemic. Despite the war in Ukraine, arrivals from Russia remain strong and growing arrivals from India and Gulf countries have compensated for lower arrivals from Europe and China.
However, heavy reliance on tourism and limited sectoral diversification remain a key structural challenge as Maldives is highly vulnerable to macroeconomic shocks. As an economy that is heavily import-dependent, Maldives is facing significant external and inflationary pressures due to the sharp rise in global commodity prices. This is putting pressure on public finances given the government's blanket provision of food and fuel subsidies to help contain domestic price increases, continued high levels of capital expenditure, and an inefficient public health insurance scheme. Untargeted austerity measures pose risks to poverty, particularly in the atolls where 90 percent of the poor live, as past welfare gains have been driven by a strong redistributive model. The latter includes universal access to basic health and education services, public sector employment and pensions, health insurance, price controls and subsidies, and income support programs. Additional challenges to welfare include differential access to economic opportunities in Male relative to the atolls, and overcrowding affecting poorer urban households in Male.
To promote development, Maldives has scaled up infrastructure investments since 2016. This has boosted construction activity, tourism capacity, and medium-term growth prospects. Although these investments have contributed towards poverty reduction and better living standards, financing of these large investments through non-concessional sources and sovereign guarantees has led to growing fiscal vulnerabilities.
Recently, the increased cost of external borrowing has also compelled the government to turn towards domestic financing sources, which is crowding out the private credits and leading to a concerning rise in the exposure of the financial sector to the sovereign. Public and publicly guaranteed debt stock and debt servicing risks are expected to remain elevated in the medium term.

Recent developments

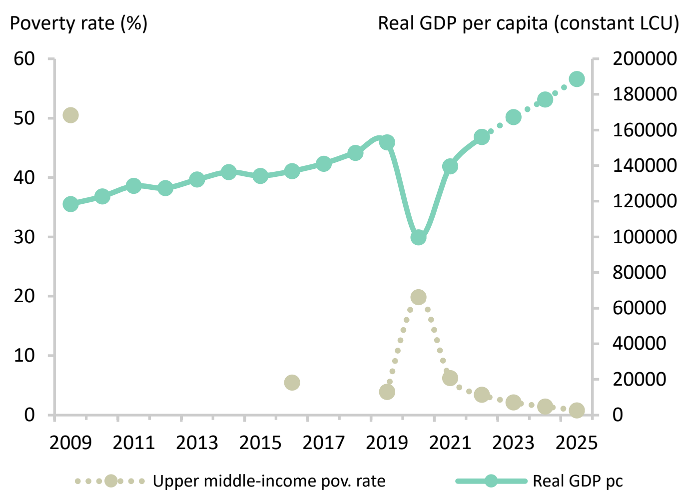
Tourist arrivals reached 1.68 million in 2022 – only 1.6 percent lower than the pre-pandemic high – which supported growth in the real estate, transport, and trade sectors, as well as driving the overall real economic growth of an estimated 12.3 percent (y-o-y).
Higher global commodity prices led to rising domestic inflation, which reached an average of 2.3 percent (y-o-y) in 2022, higher than the historical average of 0.5 percent. Price increases were particularly

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.

acute in the food, transport, health, and restaurant services sectors.

Despite growth in tourism earnings, the current account deficit widened considerably to an estimated 24.6 percent of GDP in 2022, due to far costlier imports of oil and capital goods. High import costs and external debt repayments put significant pressure on gross reserves, which fell to less than US$500 million (or 1.8 months of imports) in October 2022, before recovering to over US$800 million (3 months of import) by the end of the year due to a US$200 million currency swap deal with India.

Blanket subsidies for energy and food commodities, together with sustained levels of high capital spending, led to an increase in the fiscal deficit to 14.5 percent of GDP in 2022. This was despite several austerity measures to lower administrative costs and the public sector wage bill. Over 80 percent of the deficit was covered by domestic sources, with MMA's asset exposure to government rising to 48 percent of its total financial assets at end-2022, from 43 percent at end-2021.

With ongoing plans to complete key infrastructure projects, and continued inflationary pressures, the government may find it increasingly difficult to finance the subsidy program in its current form. Better targeting of tax and transfer instruments would help mitigate a negative impact of subsidy reforms on the poor.

Outlook

The economy is expected to grow by 6 percent on average in the medium term, supported by robust tourism performance. The return of Chinese tourists together with arrivals from India and Russia are expected to lead to 1.8 million arrivals in 2023 (7.1 percent y-o-y increase). Going forward, tourism will be further supported by the expansion of Velana International Airport (likely to be completed by 2025) and investments in new resorts.

The recent increase in GST rates is expected to help narrow the fiscal deficit. Yet, public debt levels remain high. Additional fiscal adjustment is required to address fiscal vulnerabilities, particularly through expenditure rationalizations on capital expenditure, subsidies, and pharmaceutical spending. Meanwhile, recovery in demand, elevated global commodity prices, and the GST rate hike are expected to increase inflation in 2023, warranting a tighter macroeconomic policy mix. Subsidy reform to target the poor and vulnerable is needed to reduce the fiscal burden.

The current account deficit is expected to remain elevated given high commodity prices and necessary capital imports, as the government aims to complete ongoing infrastructure projects and commence projects in outer Atolls. Despite a recent decline in oil prices, rising external financing needs – including debt servicing – are expected to sustain pressure on official reserves.

Downside risks persist. Tourism could be adversely impacted by further global shocks. Any further widening of the current account deficit could put additional pressure on official reserves. The government faces external debt servicing payments of about US$340 million on average over the next three years amidst tightening global financing conditions. Stronger-than-expected tourism with the return of Chinese tourists offers upside potential to the outlook. In the absence of any pandemic relief measures, the poverty rate would have risen to 19.9 percent in 2020. With the recovery in economic growth, poverty rates are expected to drop to 2.1 percent in 2023.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-33.5	41.7	12.3	6.6	5.3	5.9
Private Consumption	-32.1	48.3	37.2	2.8	3.3	3.9
Government Consumption	-39.6	44.2	30.6	11.2	8.3	8.4
Gross Fixed Capital Investment	-2.8	-21.0	27.6	6.1	3.0	5.2
Exports, Goods and Services	-54.3	82.4	27.1	7.5	6.6	6.0
Imports, Goods and Services	-46.2	42.9	59.7	5.9	5.4	5.2
Real GDP growth, at constant factor prices	-31.3	38.0	12.3	6.6	5.3	5.9
Agriculture	7.1	-0.6	2.5	2.8	3.2	3.5
Industry	-24.8	4.5	-8.7	13.9	5.1	4.2
Services	-34.3	46.8	15.3	6.1	5.4	6.2
Inflation (Consumer Price Index)	-1.4	0.5	2.3	5.7	2.5	2.5
Current Account Balance (% of GDP)	-42.8	-7.8	-24.6	-20.1	-14.9	-15.0
Net Foreign Direct Investment Inflow (% of GDP)	11.8	11.4	11.7	8.8	8.1	7.8
Fiscal Balance (% of GDP)	-23.6	-13.9	-14.5	-9.6	-9.5	-9.0
Revenues (% of GDP)	26.8	25.7	28.7	30.8	30.2	29.3
Debt (% of GDP)	150.2	113.6	110.1	112.0	109.9	113.2
Primary Balance (% of GDP)	-20.8	-11.4	-10.9	-6.1	-5.9	-5.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	19.9	6.2	3.4	2.1	1.4	0.8
GHG emissions growth (mtCO2e)	-10.9	12.2	14.8	12.0	10.2	9.5
Energy related GHG emissions (% of total)	82.4	84.4	85.8	87.0	87.9	88.6

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: 2020-2022. Forecasts are from 2023 to 2025.
b/ Microsimulations for 2020-2022 based on 2019 actual data. Neutral-distribution projections with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU (2023-2025).

NEPAL

Table 1	2022
Population, million	30.5
GDP, current US$ billion	40.1
GDP per capita, current US$	1314.3
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]	125.4
Life expectancy at birth, years[b]	69.2
Total GHG emissions (mtCO2e)	52.5

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

Following GDP growth of 5.8 percent in FY22, import restrictions contributed to slower growth in the first half of FY23. The fiscal deficit has been held under 4 percent of GDP by sharply reducing expenditures to match revenue weakness. A weak labor market recovery post COVID-19 and lower human capital investments risk rising inequality. Elections in FY22 and FY23 were followed by a collapse of the ruling coalitions.

Key conditions and challenges

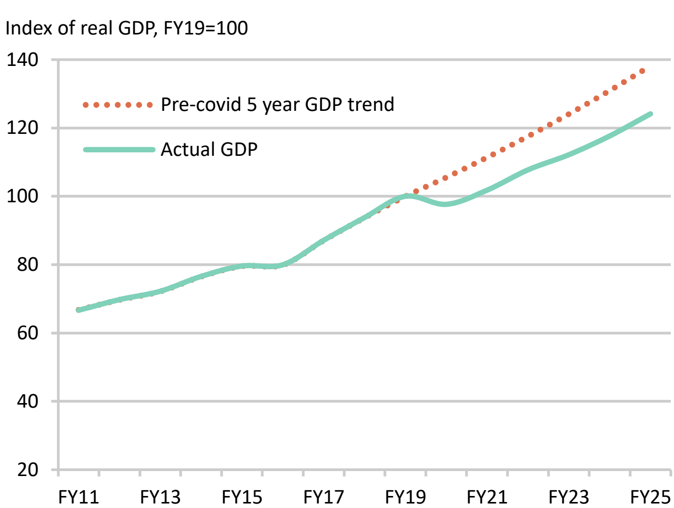
Nepal's economic growth averaged 4.5 percent annually between FY13 and FY22, elevating the country to lower middle-income status in 2020. Growth benefited from substantial remittance inflows averaging 23 percent of GDP per year over the same period. The jobs recovery following COVID-19 has been both slow and weak, therefore raising risks of poverty and inequality in the medium term. Approximately 30 percent of workers who recovered a job experienced more than one employment transition; recovered jobs were of lower quality (23 percent), and they resulted in lower earnings (53 percent) compared to jobs that were lost. Productivity is low across the board and is growing too slowly for Nepal to converge to higher income countries. Underlying constraints include infrastructure gaps, challenging geographic conditions, and remittances appreciating the real exchange rate and thus hindering the development of an export sector. A structural deficit has emerged following the transition to federalism as new administrative structures have been established while spending responsibilities have yet to be fully devolved.

Recent developments

Nepal's economy emerged from the pandemic with real GDP estimated to have grown 5.8 percent in FY22, up from 4.2 percent in FY21. High-frequency indicators suggest slower growth in the first half of FY23 (H1FY23) relative to H1FY22, as monetary policy tightened and import restriction measures continued. Industrial growth has benefitted from additional hydropower generation capacity, while services have benefitted from post-pandemic demand and a gradual pickup in tourism. Agricultural production has been favored by a good monsoon season. Russia's invasion of Ukraine has contributed to rising inflation, peaking in mid-July 2022 at 8.1 percent year-on-year before gradually declining to 7.3 percent year-on-year by mid-January 2023. Inflation has been broad-based, and the rising cost of basic necessities negatively impacted the poor and vulnerable.

The Nepali economy imports much more than it exports and over half of all fiscal revenues are trade related. Expansive monetary policy and sluggish remittances following the pandemic led to a wide current account deficit (CAD) of 12.8 percent of GDP in FY22. Although reserves are deemed adequate, as they approached the policy floor of 7 months of import cover the government raised the policy rate by 350 basis points between February and August 2022 to 7 percent, imposed a ban on selected imports in April 2022, and raised letter of credit and cash backing requirements on imports. These import restrictions reduced the CAD and stabilized foreign exchange reserve stocks as intended in the H1FY23. Unintended consequences include a steep drop in fiscal revenues and slower growth in H1FY23

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



Sources: World Bank staff projections and Nepal National Statistics Office.

FIGURE 2 Nepal / Current account deficit

Sources: World Bank staff calculations and Nepal Rastra Bank.

as goods imports fell. Import restrictions were gradually lifted, with the final restrictions removed in January 2023. Worker migration has recovered, and in H1FY23 remittances were 13.9 percent higher in nominal dollar terms than during H1FY22.

The fiscal deficit narrowed to 3.5 percent of GDP in FY22, driven by capital budget under-execution, delayed passage of the FY22 budget, and greater trade-related revenues associated with elevated imports. This trend reversed quickly as the fiscal balance turned negative in H1FY23 for the first time in five years. Fiscal revenues fell and expenditures were driven by electoral spending and higher public wages. Consecutive fiscal deficits have increased the debt-to-GDP ratio from 22.7 to 41.5 percent from FY17 to FY22, roughly half of which is highly concessional external debt.

Outlook

Nepal's macroeconomic outlook has dimmed, reflecting external shocks such as the war in Ukraine as well as domestic policies including import restrictions, monetary policy tightening, and political uncertainty. Local elections in May 2022 and national and provincial elections in November 2022 were followed by successive changes in administration, the most recent being the collapse of the ruling coalition in March 2023.

The forecast projects growth declining to 4.1 percent in FY23 before rising to 4.9 percent in FY24. As the previous World Bank projection in October 2022 envisaged FY23 GDP real growth at 5.1 percent, the economy is now forecast to be smaller through FY25 than under the previous forecast. It is recommended that the authorities rely more heavily on price signals to reduce credit growth and thus import demand in the future, instead of import quantity restrictions, to manage foreign exchange reserves. Other notable elements of the forecast include a 1.3 percentage point of GDP loss of both fiscal revenues and expenditures in FY23 relative to FY22, as spending was reduced to adjust to the unplanned revenue shortfall. As a result, the fiscal deficit is projected to remain steady at 3.5 percent of GDP in FY23 before narrowing slightly to 3.2 percent in FY24. Total public debt is projected to rise to 41.7 percent of GDP in FY23 before stabilizing in the forecast period. Remittances are forecast to grow through FY25, reflecting strong migration outflows. The CAD is expected to narrow sharply to 2.8 percent of GDP in FY23 and FDI remains very low, leaving external borrowing and reserves drawdowns to continue financing the CAD.

Risks to the outlook are tilted to the downside. No new shocks are included in the forecast; given the increasing frequency of shocks in recent years, this may be optimistic. Political stability may not be achieved in the forecast period. Higher-than-expected inflation would reduce household purchasing power and drag growth. Welfare recovery remains uncertain due to rising inflation and risks to agricultural production. Reduced investments in human capital, especially amongst those yet to recover from a job loss following COVID-19, also impose risks to rising inequality. For the latter group, 8 and 11 percent report dropouts in school enrollment and incomplete early childhood vaccinations, respectively.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-2.4	4.2	5.8	4.1	4.9	5.5
Private Consumption	3.6	4.3	5.4	2.5	3.7	4.5
Government Consumption	3.8	-1.7	5.5	6.3	3.5	6.6
Gross Fixed Capital Investment	-8.9	9.8	4.6	-15.7	21.7	13.3
Exports, Goods and Services	-15.9	-21.1	35.0	9.1	21.6	18.4
Imports, Goods and Services	-20.8	16.3	15.0	-12.3	17.5	12.3
Real GDP growth, at constant factor prices	-2.4	3.8	5.5	4.1	4.9	5.5
Agriculture	2.4	2.8	2.3	2.5	2.6	2.8
Industry	-4.0	4.5	10.2	3.2	6.5	8.9
Services	-4.5	4.2	5.9	5.2	5.6	5.9
Inflation (Consumer Price Index)	6.1	3.6	6.3	6.8	6.0	5.5
Current Account Balance (% of GDP)	-0.9	-7.8	-12.8	-2.8	-4.2	-3.6
Net Foreign Direct Investment Inflow (% of GDP)	0.5	0.5	0.4	0.0	0.3	0.4
Fiscal Balance (% of GDP)	-5.4	-4.1	-3.5	-3.5	-3.2	-3.3
Revenues (% of GDP)	22.2	23.7	23.2	21.9	22.5	22.6
Debt (% of GDP)	36.9	40.6	41.5	41.7	41.6	41.5
Primary Balance (% of GDP)	-4.7	-3.3	-2.6	-2.1	-2.1	-2.4
GHG emissions growth (mtCO2e)	0.4	3.6	4.4	3.5	3.9	4.4
Energy related GHG emissions (% of total)	28.0	28.8	29.9	31.2	33.1	35.7

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	2022
Population, million	235.8
GDP, current US$ billion	380.6
GDP per capita, current US$	1613.8
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]	66.3
Total GHG emissions (mtCO2e)	490.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Pakistan's economy is under stress with low foreign reserves and high inflation. Activity has fallen with policy tightening, flood impacts, import controls, high borrowing and fuel costs, low confidence, and protracted policy and political uncertainty. Despite some projected recovery, growth is expected to remain below potential in the medium term. Poverty will inevitably increase with pressures from weak labor markets and high inflation. Further delays in external financing, policy slippages, and political uncertainty pose significant risks to the outlook.

Key conditions and challenges

With high public consumption, economic growth increased substantively above potential in FY22 at the cost of growing imbalances that led to pressures on domestic prices, external and fiscal sectors, the exchange rate, and foreign reserves. These imbalances were exacerbated by the catastrophic flooding in 2022, surging world commodity prices, tightening global financing conditions, and domestic political uncertainty. Furthermore, distortive policy measures, including periods of exchange rate caps and import controls, delayed the IMF-EFF program and contributed to creditworthiness downgrades, lower confidence, high yields, and interest payments, and the loss of access to international capital markets.

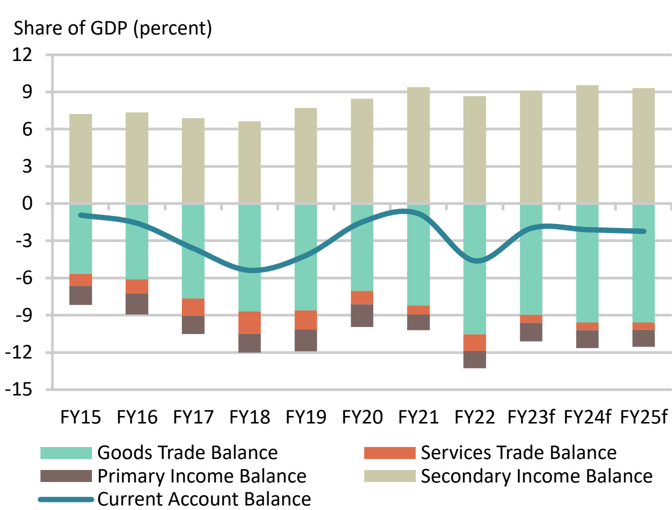
Key risks to the outlook are the non-completion of the IMF program due to policy slippages and the non-materialization of expected financing. Additional risks include political instability, deterioration of domestic security and external economic conditions, and financial sector risks associated with revaluation losses, liquidity shortages, and high sovereign-exposure. Health and education outcomes are also at risk as the high inflation and reduced incomes could lead poor households to lower school attendance and food intake.

Recent developments

Economic activity is estimated to have sharply declined over July-December 2022 (H1 FY23). The devastating floods, along with difficulties in securing quality fertilizers and animal feed, have reduced agricultural output and labor opportunities for low-income workers. Similarly, dwindling foreign reserves, import restrictions, flood impacts, high fuel costs, policy uncertainty, and the slowdown in domestic and global demand have affected industry and service sector activity, with large-scale manufacturing output contracting by an average of 3.7 percent over H1 FY23. With the destruction of infrastructure and disrupted access to schools, medical facilities, and sanitation systems, the floods have negatively impacted health and education outcomes, especially for rural areas, potentially affecting long-term human capital accumulation.

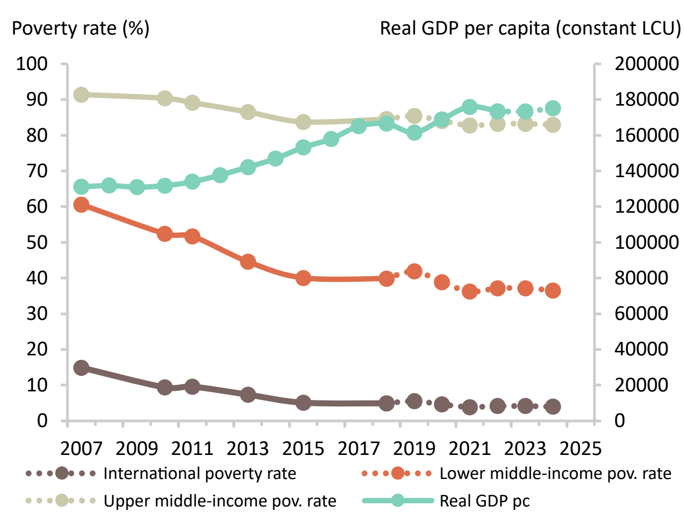
Pakistan's external account weakened in H1 FY23 as foreign reserves fell significantly. With import controls, the trade deficit contracted by nearly 32 percent y-o-y in H1 FY23. Official remittance inflows also fell by 11.1 percent, partly due to the exchange rate cap that made informal non-banking channels preferable. Any decline in overall remittances would reduce households' capacity to cope with economic shocks, adding pressure on poverty. Overall, the current account deficit shrank to US$3.7 billion in H1 FY23 from US$9.1 billion in H1 FY22. With weaker sentiment and lower foreign exchange inflows, the financial

FIGURE 1 Pakistan / Current account balance and major components



Sources: State Bank of Pakistan and World Bank staff estimates.
Note: 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.

account saw the largest half-year deficit in 12 years. Reserves therefore declined from US$11.1 billion at the end-FY22 to US$4.8 billion at the end-February 2023, equivalent to 0.8 months of total imports. With the release of the exchange rate cap in early-2023, the official exchange rate has fallen by more than 20 percent against the U.S. dollar as of end-February from end-June 2022.

Headline consumer price inflation rose to a multi-decade high of an average of 25.0 percent y-o-y in H1 FY23, up from 9.8 percent in H1 FY22. This reflects the weaker exchange rate, surging global commodity prices, lower domestic fuel and electricity subsidies, and flood-related disruptions. As food constitutes half of their expenditure, the real purchasing power of poor households has fallen significantly with higher food prices, putting poverty gains at risk. The real interest rate remains negative despite the policy rate being raised by a cumulative 625 bps to 20.0 percent since July 2022.

The fiscal deficit reached PKR1,683 billion in H1 FY23, 23.0 percent higher than in H1 FY22. This was driven by higher interest payments as interest rates rose and the currency weakened, leading debt servicing costs to jump by 77.1 percent to PKR2,573 billion. Reflecting fiscal consolidation efforts, non-interest expenditure rose by only 8.2 percent, with reduced spending on subsidies and grants. Meanwhile, revenue increased by 18.8 percent, supported by higher revenue from direct taxes and hikes in the petroleum development levy. Consequently, the primary balance reached a surplus of PKR890 billion – significantly higher than the surplus of PKR81 billion for H1 FY22.

Outlook

Real GDP growth is expected to slow sharply to 0.4 percent in FY23, reflecting corrective tighter fiscal policy, flood impacts, high inflation, high energy prices and import controls. Agricultural output is expected to contract for the first time in more than 20 years due to the floods. Industry output is also expected to shrink with supply chain disruptions, weakened confidence, and higher borrowing costs and fuel prices. The lower activity is expected to spill over to the wholesale and transportation services sectors, weighing on services output growth. Output growth is expected to gradually recover in FY24 and FY25 but remain below potential as low foreign reserves and import controls continue to curtail growth. In the absence of higher social spending, the lower middle-income poverty rate is expected to increase to 37.2 percent in FY23. Given poor households' dependency on agriculture, and small-scale manufacturing and construction activity, they remain vulnerable to economic and climate shocks.

Due to higher energy and food prices, and the weaker Rupee, inflation is projected to rise to 29.5 percent in FY23 but moderate over the forecast horizon as global inflationary pressures dissipate. With dampened imports, the current account deficit is projected to narrow to 2.0 percent of GDP in FY23 but widen to 2.2 percent of GDP in FY25 as import controls ease. The fiscal deficit is projected to narrow to 6.7 percent of GDP in FY23 and further over the medium term as fiscal consolidation takes hold. The macroeconomic outlook is predicated on the completion of the IMF-EFF program, sound macroeconomic policy, continued structural reforms, and adequate external financing.

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

	2019/20	2020/21	2021/22e	2022/23f	2023/24f	2024/25f
Real GDP growth, at constant market prices	-1.3	6.5	6.2	0.4	2.0	3.0
Private Consumption	-2.8	9.3	10.0	1.3	2.3	3.0
Government Consumption	8.5	1.8	-3.4	-16.1	3.8	4.5
Gross Fixed Capital Investment	-6.7	4.5	2.5	-15.6	1.3	2.8
Exports, Goods and Services	1.5	6.5	8.4	-8.3	4.4	3.3
Imports, Goods and Services	-5.1	14.5	15.6	-15.3	4.9	3.9
Real GDP growth, at constant factor prices[a]	-0.9	5.7	6.0	0.4	2.0	3.0
Agriculture	3.9	3.5	4.4	-1.0	2.5	2.8
Industry	-5.7	7.8	7.2	-2.3	1.5	2.9
Services	-1.2	6.0	6.2	1.8	2.1	3.0
Inflation (Consumer Price Index)	10.7	8.9	12.2	29.5	18.5	10.0
Current Account Balance (% of GDP)	-1.5	-0.8	-4.6	-2.0	-2.1	-2.2
Net Foreign Direct Investment Inflow (% of GDP)	0.9	0.5	0.4	0.0	0.3	0.6
Fiscal Balance, including grants (% of GDP)	-7.0	-6.0	-7.8	-6.7	-6.2	-6.0
Revenues (% of GDP)	13.3	12.4	12.1	10.9	11.4	12.0
Debt (% of GDP)	81.1	75.6	78.0	74.0	72.1	72.2
Primary Balance, including grants (% of GDP)	-1.5	-1.1	-3.0	-0.6	-0.4	-0.4
International poverty rate ($2.15 in 2017 PPP)[b,c]	5.6	4.6	3.9	4.1	4.1	4.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	41.9	38.9	36.2	37.2	37.1	36.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	85.4	84.0	82.7	83.2	83.2	82.9
GHG emissions growth (mtCO2e)	1.2	5.1	5.0	2.1	2.7	3.0
Energy related GHG emissions (% of total)	42.6	43.6	44.3	43.8	43.7	43.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
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: 2019-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

SRI LANKA

Table 1	2022
Population, million	22.2
GDP, current US$ billion	74.8
GDP per capita, current US$	3367.9
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]	100.3
Life expectancy at birth, years[b]	76.4
Total GHG emissions (mtCO2e)	39.2

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

The economy contracted significantly in 2022, leading to the worst poverty levels since 2009 and reversing some past human capital gains. Debt restructuring and implementation of deep reforms are needed for economic stabilization and restoring growth. Mitigating the impacts on the vulnerable is critical during this adjustment. The fluid political situation and heightened fiscal, external, and financial sector imbalances pose significant uncertainty for the outlook.

Key conditions and challenges

In the last five years, growth and poverty reduction significantly decelerated due to several shocks, including COVID-19. A restrictive trade regime, weak investment climate, episodes of loose monetary policy, and an administered exchange rate contributed to external imbalances. Years of fiscal indiscipline, driven primarily by low revenue collections, 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 build-up of debt to unsustainable levels. Sri Lanka lost access to international financial markets in 2020 after credit rating downgrades.

Without market access, official reserves dropped from US$7.6 billion in 2019 to less than US$500 million (excluding a currency swap equivalent to US$ 1.4 billion with China) in December 2022. Net foreign assets in the banking system also fell to US$ -4.8 billion in December 2022. This severe forex liquidity constraint has been felt across the economy, particularly from Q2 2022, with shortages of fuel, medicine, cooking gas, and other inputs needed for economic activity. Amid depleted reserves, Sri Lanka announced an external debt service suspension in April 2022, pending debt restructuring. A foreign exchange management strategy (covering outflows with available inflows in the absence of debt servicing), implemented in H2 of 2022, somewhat stabilized the external sector.

The IMF Board approved a US$3 billion-48-month Extended Fund Facility program on March 20, 2023, after securing financing assurances from official creditors to provide debt relief consistent with the IMF's debt sustainability framework.

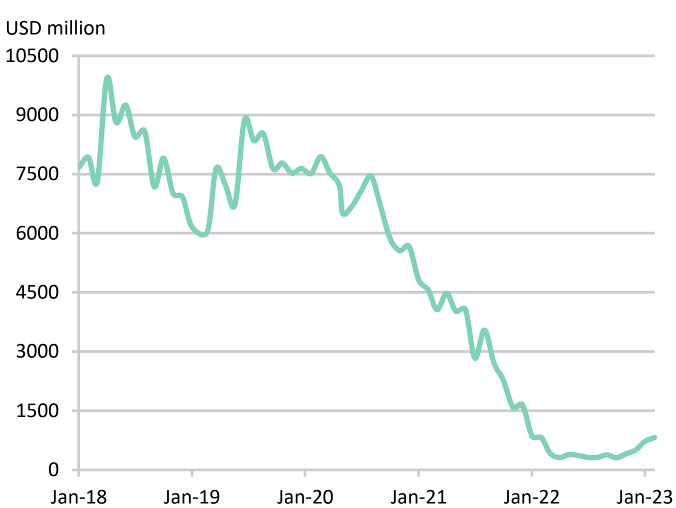
Recent developments

The economy contracted by 7.8 percent (y-o-y) in 2022. While all key sectors contracted, the manufacturing and construction sectors suffered the most amid shortages of inputs and supply chain disruptions. High-frequency indicators, such as purchasing managers' indices, indicate continued stress in Q1 2023.

After peaking at an unprecedented 69.8 percent (y-o-y) in September, headline inflation closed 2022 at 57.2 percent (y-o-y), reflecting the impact of elevated global commodity prices, monetization of fiscal deficits, currency depreciation, and food supply constraints due to the 2021 ban on chemical fertilizers. Since January 2022, the central bank has raised policy rates by a cumulative 1,050 basis points to try curbing inflation.

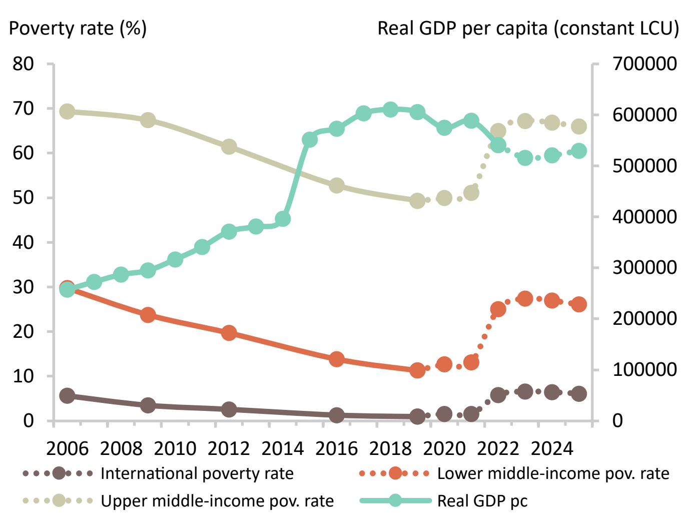
Due to the economic contraction, half a million jobs were lost in industry and services and back-up lower-paying agricultural jobs could not compensate for income losses. Combined with increases in the cost of living, this economic contraction led national and urban poverty to double (to 25 percent) and triple (15 percent), respectively.

FIGURE 1 Sri Lanka / Gross official reserves



Sources: Central Bank of Sri Lanka and World Bank staff calculations.
Note: Gross official reserves exclude a currency swap with China equivalent to US$ 1.4 billion.

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



Source: World Bank. Notes: see Table 2.

The crisis left 52 percent of the population in estate areas living in poverty, exacerbating spatial disparities, and led to an increase in overall inequality.

The trade deficit declined to US$ 5.2 billion in 2022 from US$ 8.1 billion in 2021, as exports, particularly textiles, grew faster than imports. This trade deficit reduction is estimated to have lowered the current account deficit, despite a fall in remittances (by 36 percent, y-o-y) and relatively low tourism receipts. Lower remittances – a source of income for 7.2 percent of the population- contributed to income losses and to the adoption of negative coping mechanisms, further increasing the risk of food insecurity and stunting.

The currency (LKR) depreciated by 78 percent against the US Dollar between March and May 2022 when it was floating. A return to a managed float, amid the ongoing foreign exchange management strategy, restricted the full year depreciation to 81 percent. However, due to low market confidence, bringing export earnings and remittances to Sri Lanka through formal channels has been challenging, despite mandatory repatriation and conversion rules. The unwinding of speculative Dollar holdings led to sharp appreciation of the LKR in early March 2023 amid sluggish import demand.

The overall fiscal deficit is estimated to have declined owing to the implementation of several new revenues measures (including a VAT rate increase from 8 to 15 percent), tightly controlled expenditure and a buildup of arrears to suppliers and contractors. Interest payments continued to absorb more than two-thirds of total revenue.

Outlook

The fluid political situation and heightened fiscal, external, and financial sector imbalances pose significant uncertainty for the outlook. Growth prospects depend on debt restructuring and growth-enhancing structural reforms. At the same time, fiscal consolidation will likely dampen these prospects, with the fiscal deficit expected to gradually fall over the medium term. Inflation is projected to come down from a high base as monetization of fiscal deficits is reined in. The current account deficit is expected to decline thanks to import compression, despite decelerating exports due to weak global demand. Additional resources will be needed in 2023 and beyond to close the external financing gap.

Key downside risks include a slow debt restructuring process, limited external financing support, a sharper global slowdown, and a prolonged recovery from the scarring effects of the current crisis. A lower-level external trade equilibrium could have contagion effects on domestic trade, economic activity, jobs, and incomes. This and adverse effects from revenue-mobilization efforts could worsen poverty projections. The financial sector needs to be managed carefully, given rising non-performing loans and large public sector exposures.

The necessary macroeconomic adjustments may initially adversely affect growth and poverty but will correct overall 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. Reducing poverty requires better-targeted social assistance, an expansion of employment in industry and services, and a recovery in the real value of incomes. On the upside, the government's reform program, supported by financing from international partners, could boost confidence and attract fresh capital inflows key to restarting the labor market and restoring livelihoods.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices[a]	-4.6	3.5	-7.8	-4.3	1.2	2.0
Private Consumption	-5.8	6.2	-8.0	-4.5	1.3	2.1
Government Consumption	3.6	3.1	-13.6	-3.4	-0.7	1.0
Gross Fixed Capital Investment	-13.1	10.6	-12.6	-4.8	1.8	2.0
Exports, Goods and Services	-29.6	10.3	5.6	-4.0	4.7	3.2
Imports, Goods and Services	-20.1	4.1	-5.9	-3.9	4.1	2.4
Real GDP growth, at constant factor prices[a]	-2.9	4.0	-6.7	-4.3	1.2	2.0
Agriculture	-0.9	0.9	-4.6	2.4	1.5	1.5
Industry	-5.3	5.7	-16.0	-5.8	1.0	2.2
Services	-1.9	3.5	-2.0	-4.5	1.2	2.0
Inflation (Consumer Price Index)	4.6	6.0	46.4	21.8	8.0	7.0
Current Account Balance (% of GDP)	-1.4	-3.8	-1.6	-1.1	-1.1	-0.9
Net Foreign Direct Investment Inflow (% of GDP)	0.5	0.8	0.6	1.1	1.2	1.2
Fiscal Balance (% of GDP)	-10.6	-12.0	-8.5	-7.8	-6.0	-5.0
Revenues (% of GDP)	8.8	8.3	8.7	11.0	12.5	13.5
Primary Balance (% of GDP)	-4.4	-5.7	-2.4	-0.4	1.1	2.0
International poverty rate ($2.15 in 2017 PPP)[b,c]	1.6	1.5	5.8	6.6	6.4	6.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	12.7	13.1	25.0	27.4	26.9	26.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	49.9	51.1	65.0	67.2	66.9	66.0
GHG emissions growth (mtCO2e)	4.4	6.3	-6.7	-3.5	1.0	1.2
Energy related GHG emissions (% of total)	66.0	67.7	66.1	64.0	63.9	63.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ GDP by expenditure for 2020 and 2021 are estimates, as the data published on March 15, 2023 by authorities only included GDP by production.
b/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
c/ Microsimulations for 2020-2022 based on 2019 actual data. Neutral-distribution projections with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU (2023-2025).

Macro Poverty Outlook

04/
2023

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