

Macro Poverty Outlook

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



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Poverty & Equity

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South Asia

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Bangladesh
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India

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AFGHANISTAN

Following the Interim Taliban Administration's (ITA) takeover, the economy shrank by 20.7 percent and 6.2 percent in 2021 and 2022, respectively. The new low-level equilibrium, supported by international aid, is delicate and vulnerable to disruptions. The ITA has demonstrated its ability to collect revenues and increase international trade. Supply constraints have eased, reducing headline inflation steeply from its peak in July 2022, leading to deflation since April 2023. Despite a general improvement in household welfare over the last year, poverty still affects half of Afghanistan's population, and high levels of unemployment and underemployment persist. The banking sector is struggling, and the payment system remains largely dysfunctional.

Key conditions and challenges

Following a notable contraction after the ITA's ascendancy to power, international aid (US\$ 3.5-4.0 billion in 2022) and improved security halted the steep economic decline from mid-2022. The exchange rate stabilized, international trade recovered, and the government could collect revenues and pay public employees' salaries. Still, the economy remains fragile, with significant challenges. The formal financial sector remains constricted, and most payments rely on the informal Hawala system. With the constant pressure of sustained population growth and the economy missing previous (external) growth drivers, high unemployment and underemployment plague the labor market. Moreover, with nearly half of the population living in poverty and the rest vulnerable, private consumption remains constrained.

As international aid decreases, the low-level equilibrium sustained since the summer of 2022 faces substantial downside risks. To ensure long-term sustainability, the country must strengthen its human capital stock, improve social protection, sustain basic services, and address climate vulnerabilities. Harmful gender policies by the ITA will hamper growth. The country is also ill-prepared to face climate challenges, and large segments of people's livelihood, mainly in rural areas, remain vulnerable to weather shocks. Leveraging the comparative advantage in the agriculture and mining sectors will be critical for livelihoods, job creation, and future growth.

Recent developments

Following the August 2021 political upheaval, headline inflation surged due to supply disruptions and shocks to global commodity prices despite reduced domestic demand. After reaching 18.2 percent year-on-year in July 2022, prices dropped sharply, resulting in deflation since April 2023. By July 2023, year-on-year inflation stands at -9.1 percent, driven by year-on-year deflation of 12.6 percent in food and 5.0 percent in non-food segments. These price dynamics likely stem from the economy adjusting to a structurally lower aggregate demand level, improved supply conditions, and appreciating Afghani (AFN). Declining prices, notably in food, have supported a progressive improvement in

Afghan households' self-reported welfare and food security. According to recent (April-June 2023) estimates, monetary poverty is at 48.3 percent, a 4-percentage point decline compared to the same period in 2020, driven by the reduction in rural poverty. Afghan households have coped with the crisis by increasing the labor supply, particularly youth and women. Female labor force participation saw a threefold increase compared to 2020, with women primarily engaged in home production (garment and food processing). Overall, the growth in labor supply has sizably outpaced a slacking demand, resulting in a doubling of unemployment and a one-quarter increase in underemployment, as proxied by the share of workers employed for less than 40 hours per week.

Afghanistan's exports have surged in value, but the economy still runs a substantial trade deficit. Afghanistan's exports reached US\$1.9 billion in 2022, driven by food, coal, and textiles, which accounted for 94 percent. While exports grew three percent in the first seven months of 2023 compared to the same period in 2022, monthly export data indicates a decline in trend since February 2023 due to a decrease in coal exports. Imports in 2022 accounted for US\$6.3 billion. For the first seven months of 2023, imports reached US\$4.4 billion, marking a 32 percent increase from the same period in 2022. Food, minerals, and textiles composed more than half of imports. The trade deficit for Jan-July 2023 was US\$3.5 billion, higher than the US\$ 2.4 billion deficit in Jan-July 2022.

Between January and August 24, 2023, Afghani (AFN) appreciated against the US dollar (7.3 percent), Chinese yuan (6.0 percent), and Pakistan rupee (29.3 percent). The AFN appreciated due to limited domestic money supply, higher remittances, and UN shipments of US dollars and other inflows. In 2023, the UN brought in approximately US\$1.12 billion in addition to US\$1.8 billion in 2022. Interestingly, the cash shipments and remittance inflows do not fully explain the financing for the trade deficit. The foreign exchange market seems balanced, with no evidence of a parallel exchange market, suggesting significant unidentified external inflows filling the gap.

In 2022, revenue collection reached AFN 193.9 billion (US\$ 2.2 billion), which accounted for almost 98 percent of the fiscal year's revised budget target of AFN 198.7 billion. Revenue collection for the first five months of the fiscal year 2023 reached AFN 76 billion, an 8 percent increase compared to the same period in the previous fiscal year but lower than

the five-monthly target by 7.0 billion. Customs duty and Business receipt tax accounted for 60 percent of the collection. In contrast, revenue collection from inland sources saw a marginal 0.9 percent uptick compared to the prior year. Although the banking system remains under stress, there are signs that the sharp decline in deposits has been halted. Publicly available data shows that in the first quarter of 2023, deposits increased by five percent after a nine percent decrease in the previous year. The banks are strategically shifting their asset base towards more liquid assets, a move prompted by diminishing prospects in interest income. Banks have intensified their focus on fee and commission-based revenues. Nevertheless, the sector is vulnerable. Without the prevailing forbearance measures, many banks would face undercapitalization.

Outlook

The outlook is uncertain amid a mix of economic indicators and subject to significant downside risk. Poor sentiments and uncertainty may lead to hesitancy on the part of the private sector to invest, and the ongoing deflation is expected to result in more layoffs in the short to medium term. In a baseline scenario with limited humanitarian and basic service aid compared to 2022, the economy is projected to remain stagnant at best, with a wide confidence interval skewed towards the downside. Per capita income will decline due to an increasing population. Under this scenario, poverty is likely to remain high, and vulnerability to falling into poverty is a genuine concern

until the economy can find new indigenous sources of growth that address unemployment and job quality challenges. However, there are notable downside risks to this baseline scenario. The regime's exclusionary nature and gender policies could trigger more external support cuts and hinder recovery. If deflation persists, a further downward adjustment of aggregate demand could cause the economy to contract significantly compared to the baseline. While the ban on growing Poppy can limit production, it can result in farmers losing income and lead to social unrest. Stability concerns in the banking sector are also a risk. If these risks materialize, the projected GDP path will shift downwards, potentially creating negative regional and global spillovers and pushing more people into deprivation and food insecurity.

BANGLADESH

Table 1 **2022**

Population, million	171.2
GDP, current US\$ billion	460.2
GDP per capita, current US\$	2688.4
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	72.4
Total GHG emissions (mtCO2e)	265.3

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2016), 2017 PPPs.

b/ Most recent WDI value (2021).

The post-pandemic recovery is expected to slow from 6.0 percent real GDP growth in FY23 to 5.6 percent in FY24, as elevated inflation weighs on spending and import restrictions, and financial sector vulnerabilities constrain private investment. Poverty is projected to continue to decline, and inequality to remain stagnant. Export diversification and domestic revenue mobilization remain key policy priorities ahead of Least Developed Country (LDC) graduation.

Key conditions and challenges

Macroeconomic stability and strong export performance underpinned real GDP growth, averaging 6.6 percent over the decade preceding the COVID-19 pandemic. Growth remained positive during the pandemic, supported by an extensive stimulus package and accommodative monetary policy. From 2016 to 2022, poverty incidence declined by 2.1 percentage points (at the US\$ 3.65 poverty line) and 0.7 percentage points (at US\$ 2.15) annually. Non-monetary dimensions of well-being, such as health and access to services, improved significantly. Multidimensional poverty declined from 45.3 percent to 30.6 percent over the same period, but inequality based on the Gini coefficient remained unchanged. The proportion of poor households with social protection increased from 31 percent in FY16 to 48 percent in FY22.

Economic conditions deteriorated in FY22, as inflation accelerated, and the balance of payments (BoP) turned into deficit. A multiple exchange rate regime introduced in September 2022 contributed to a financial account deficit. FX rationing measures restricted letters of credit for imports, leading to rolling electricity blackouts to conserve energy. Rising financial sector vulnerabilities have emerged as a challenge to the growth outlook. The unemployment rate, at 3.6 percent, was low in 2022 and the female labor force participation rate, at 42.7 percent, was almost half that of males.

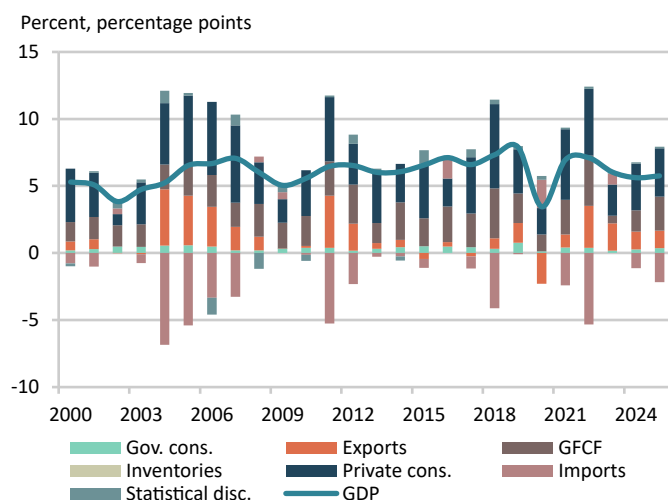
Bangladesh's expected graduation from UN LDC status in 2026 will gradually result in a loss of preferential access to external markets. Export diversification away from ready-made garments (RMG) and negotiation of free trade agreements are key medium-term objectives. A coordinated reform program of revenue mobilization, tariff modernization, and elimination of non-tariff barriers would promote export diversification and boost growth. Addressing financial sector vulnerabilities and streamlining business regulations would support greater foreign investment inflows. Improving governance, building human capital, and mitigating climate risks are key long-term challenges. Increasing domestic resource mobilization is critical as revenue collection is very low at 7.9 percent of GDP.

Recent developments

Real GDP growth declined to 6.0 percent in FY23 as private consumption and investment growth slowed to 3.5 and 1.7 percent from 7.5 and 11.7 percent, respectively, in FY22. On the supply side, industrial growth moderated as energy shortages and import restrictions offset the steady external demand for RMG. The services sector slowed as domestic purchasing power declined. Agricultural growth remained modest.

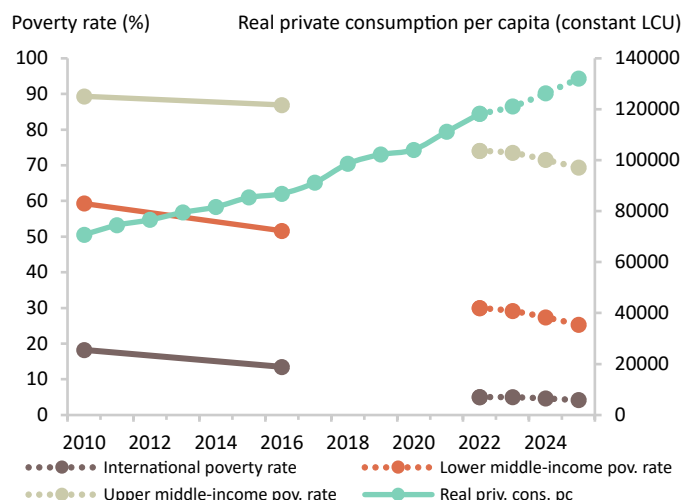
Inflation reached 9.6 percent in July 2023, driven by upward adjustments of domestic energy prices, rising food prices, and depreciation of the Taka. This likely

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 private consumption per capita



Source: World Bank. Notes: see Table 2.

moderated the relatively rapid poverty reduction rate as poor households allocate more than half of their budget to food. Bangladesh Bank (BB) raised the main policy rate by a cumulative 175 basis points since May 2022. However, monetary policy transmission was impaired by caps on lending rates and rising financial sector vulnerabilities. The nonperforming loan ratio increased to 8.2 percent in FY22 from 7.9 percent in FY21. Reflecting these trends, the growth rate of bank credit to the private sector continued to moderate in FY23.

The current account deficit (CAD) narrowed sharply to 0.8 percent of GDP in FY23 as exports grew by 15.7 percent and imports contracted by 3.9 percent. The growth of official remittance inflows remained muted at 2.8 percent. However, the financial account deficit surged to US\$ 2.1 billion, led by a decline in net commercial bank assets and short-term lending. As a result, the BoP deficit widened to 1.9 percent of GDP. Official exchange rates depreciated within a narrower range, remaining insufficient to clear the FX market. BB intervened heavily in the market to maintain exchange rate caps. Gross FX reserves declined to US\$ 24.8 billion at end-June 2023, providing a cover of 3.5 months of prospective imports.

As expenditure growth outpaced revenue growth, the fiscal deficit increased to an estimated 5.3 percent of GDP in FY23 from 4.3 percent in FY22. The public debt to GDP ratio is estimated to have increased to 35.3 percent but remained sustainable, with a low risk of debt distress.

Outlook

Growth is expected to decelerate to 5.6 percent in FY24 before returning gradually to its long-term trend. Elevated inflation will weigh on consumer spending, and private investment will remain constrained by import restrictions, FX rationing, and uncertainty ahead of upcoming elections. As consumption recovers to its long-term path, it is expected to contribute to a marginal decrease in extreme poverty (based on the international poverty line) from 5.0 percent in FY23 to 4.7 percent in FY24, and moderate poverty (based on the lower middle-income poverty line), from 29.1 to 27.4 percent. Inequality is expected to remain unchanged (Figure 2).

External sector pressure will ease gradually, with export growth remaining resilient. The CAD is expected to narrow further in

FY24 as import restrictions persist, prior to widening over the medium term as policies normalize. Remittance inflows are expected to rise, underpinned by a higher outflow of workers. The financial account is expected to return to surplus with the resumption of trade credit flows and a higher volume of external financing. Additional exchange rate flexibility would accelerate the stabilization of FX reserves.

The fiscal deficit is projected to stay below 5.0 percent of GDP over the medium term. Nominal revenues will rise with increasing trade, improving domestic activity, and ongoing efforts to strengthen the tax administration. Over the longer term, rising public expenditure requirements to meet infrastructure needs, mitigate climate vulnerabilities, and accelerate human capital investment will require the mobilization of additional revenues, as trade-based taxes decline with tariff modernization.

Downside risks to the growth outlook have increased substantially. The pace of monetary reforms may be insufficient, leading to further decumulation of FX reserves. Tighter liquidity conditions could exacerbate banking sector vulnerabilities. Reforms to expedite the recognition and resolution of stressed assets will enable efficient financial intermediation and reduce downside risks to growth.

TABLE 2 Bangladesh / 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^a	3.4	6.9	7.1	6.0	5.6	5.8
Private consumption	3.0	8.0	7.5	3.5	5.3	5.6
Government consumption	2.0	6.9	6.2	3.1	4.7	6.3
Gross fixed capital investment	3.9	8.1	11.7	1.7	4.9	7.9
Exports, goods and services	-17.5	9.2	29.4	15.7	9.4	8.9
Imports, goods and services	-11.4	15.3	31.2	-3.9	6.0	11.4
Real GDP growth, at constant factor prices^a	3.8	7.0	7.2	6.3	5.7	5.8
Agriculture	3.4	3.2	3.1	2.6	2.2	3.1
Industry	3.6	10.3	9.9	8.2	7.4	7.4
Services	3.9	5.7	6.3	5.9	5.2	5.2
Inflation (consumer price index)	5.6	5.6	6.1	9.0	8.5	7.7
Current account balance (% of GDP)	-1.5	-1.1	-4.1	-0.8	-0.3	-0.6
Net foreign direct investment inflow (% of GDP)	0.3	0.3	0.4	0.4	0.4	0.4
Fiscal balance (% of GDP)	-4.8	-3.7	-4.6	-5.3	-5.0	-4.6
Revenues (% of GDP)	8.5	9.4	8.5	7.9	8.3	8.5
Debt (% of GDP)	31.7	32.4	33.7	35.3	36.0	36.4
Primary balance (% of GDP)	-2.9	-1.7	-2.6	-3.1	-2.6	-2.2
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	..	..	5.0	5.0	4.7	4.2
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	..	..	30.0	29.1	27.4	25.3
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	..	..	74.1	73.5	71.6	69.3
GHG emissions growth (mtCO₂e)	1.9	4.7	4.5	3.6	3.2	3.2
Energy related GHG emissions (% of total)	39.4	40.8	42.0	42.6	43.4	44.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ FY23 estimates based on BBS provisional estimates.

b/ Calculations based on SAR-POV harmonization, using 2022-HIES. Actual data: 2022. Forecasts are from 2023 to 2025.

c/ Projections using microsimulation methodology.

BHUTAN

Table 1 **2022**

Population, million	0.8
GDP, current US\$ billion	2.6
GDP per capita, current US\$	3321.7
International poverty rate (\$2.15) ^a	0.0
Lower middle-income poverty rate (\$3.65) ^a	0.5
Upper middle-income poverty rate (\$6.85) ^a	8.4
Gini index ^a	28.5
School enrollment, primary (% gross) ^b	105.7
Life expectancy at birth, years ^b	71.8
Total GHG emissions (mtCO2e)	-5.4

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2022), 2017 PPPs.

b/ Most recent WDI value (2021).

Output is estimated to have grown by 4.6 percent in FY22/23, supported by the re-opening of borders for tourism in September 2022. However, twin deficits remained high in FY22/23. Election-related spending and the materialization of financial sector contingent liabilities could further erode buffers in FY23/24. High unemployment rates since the COVID-19 pandemic, particularly among the youth, contributed to significant emigration. An estimated 0.5 percent of the population lived below the \$3.65/day poverty line in 2022.

Key conditions and challenges

Rapid economic growth has contributed to substantial poverty reduction over the last two decades. Annual real GDP growth has averaged 7.5 percent since the 1980s, driven by the public sector-led hydropower sector and strong performance in services, including tourism. The ongoing poverty and equity assessment shows that extreme poverty based on \$2.15/day was eliminated by 2022, and the population living below the \$6.85/day poverty line for upper-middle-income countries decreased from 39.5 percent to 8.5 percent between 2017 and 2022. The reduction in poverty can be attributed to the growth in labour and agriculture productivity and income, as well as remittances, which led to an increase in real per capita consumption, especially in rural areas. Multidimensional poverty has also declined, which is reflected in the reduction of food poverty and improved access to education, water, and sanitation. The Gini index, which measures income inequality, decreased from 37 in 2017 to 28 in 2022. Despite this progress, vulnerability to poverty and spatial inequality remains a significant challenge. Moreover, youth unemployment increased to 29 percent in 2022, which contributed to an increase in emigration and loss of human capital from the country.

The economy has been significantly affected by the series of external shocks of the COVID-19 pandemic and the global ramifications of Russia's invasion of Ukraine.

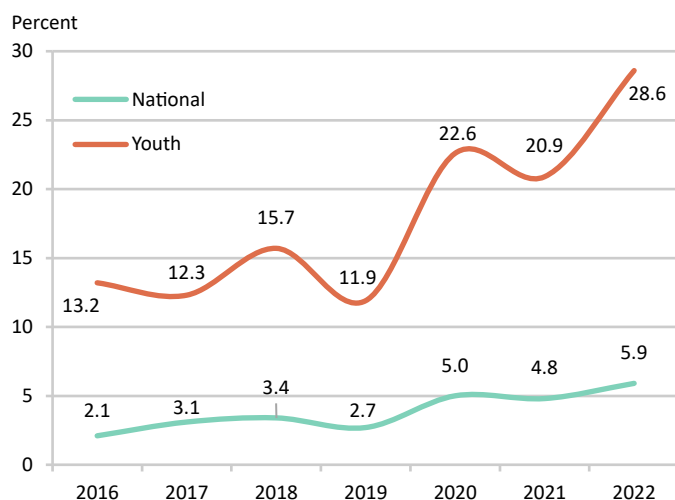
Pandemic-related relief measures and weak public revenue performance have resulted in high fiscal deficits and public debt. Financial sector vulnerabilities remain substantial due to high non-performing loans. The state holding company—Druk Holding and Investments—invested in crypto-mining operations to accelerate digital transformation towards diversifying the economy, which resulted in a significant decline of international reserves and a widening of the current account deficit (CAD) due to imports of information technology (IT) equipment.

Election-related spending and the materialization of financial sector contingent liabilities could further erode buffers in FY23/24, given that about 60 percent of assets of the financial sector are controlled by the public sector. Additional delays in the commissioning of hydro projects could further constrain the country's ability to narrow fiscal and external balances.

Recent developments

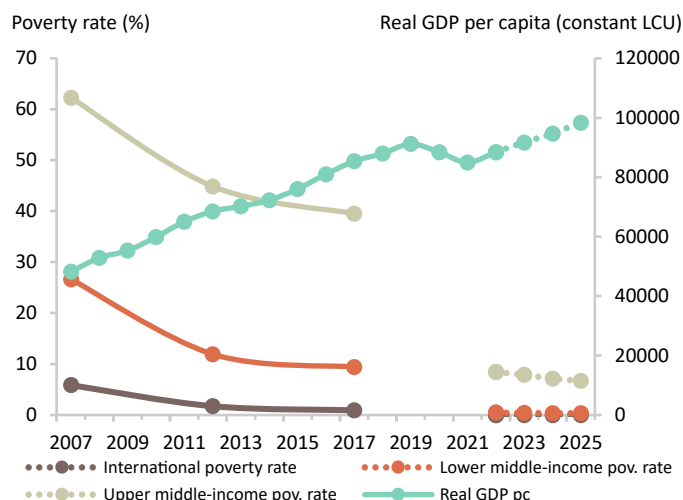
The economy has grown by 4.6 percent in FY22/23 (July 2022 to June 2023), supported by the reopening of borders for tourism in September 2022. The industry sector grew by 5.1 percent, reflecting a strengthening of construction and manufacturing activities, but the electricity sector contracted. The services sector grew by 5.0 percent, supported by transport and trade-related services, resulting in more employment opportunities in the sector, including an increase in hotel and

FIGURE 1 Bhutan / Unemployment indicators



Sources: Labour Force Survey and National Statistics Bureau (NSB).

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



Source: World Bank. Notes: see Table 2.

restaurant jobs. Tourist arrivals remained below pre-COVID-19 levels because of weaker consumer confidence globally and the new tourism levy act, which tripled the sustainable development fee (SDF) for international tourists. However, the SDF was halved starting in September 2023 to attract more high-end tourists.

Average inflation moderated from 5.9 percent in FY21/22 to 4.6 percent in FY22/23, driven by a slowdown in imported food inflation. Non-food inflation remained elevated at 5.9 percent.

The fiscal deficit narrowed from 7.7 percent of GDP in FY21/22 to 5.1 percent in FY22/23 due to higher domestic revenue and lower capital spending. Total revenue increased due to higher non-hydro revenue, reflecting the gradual recovery in the industry and services sectors. Total expenditures declined because of lower capital spending in the last year of the Twelfth Five Year Plan (FYP).

The CAD has remained elevated at 27.8 percent in FY22/23, due to imports of IT equipment and a slow recovery of tourism. Exports increased, reflecting higher tourism receipts (albeit from a low base given near-zero tourism receipts in FY21/22). Goods imports are expected to remain high, reflecting the import of crypto mining equipment and elevated commodity

prices. As a result, gross international reserves are expected to decline further from US\$833 million in June 2022 to US\$533 million in June 2023, equivalent to 4.3 months of FY22/23 imports.

Outlook

The real GDP growth rate is projected to decline to 4 percent in FY23/24. Overall growth is expected to be supported by higher growth in tourism-related services. On the demand side, growth is supported by private and public consumption, reflecting higher government spending. However, public investment is contributing negatively to growth due to a decline in capital spending. Medium-term growth is expected to be supported by a recovery in the non-hydro industry and services sectors, and by the commissioning of a new hydro plant. Inflation is expected to remain elevated in the short term owing to higher import prices, before moderating in the medium term. The incidence of poverty is estimated to decrease slightly to 0.4 percent and 7.9 percent in 2023, based on \$3.65/day and \$6.85/day, respectively. However, about 7 percent of the population will still be vulnerable to poverty.

The fiscal deficit is expected to increase to 6.1 percent of GDP in FY23/24 due to an increase in current spending following a major salary hike to address significant staff attritions. An increase in tax revenue will be offset by lower hydro profit transfers and external grants. Capital expenditures are projected to decline as the 12th FYP ended in June 2023, and capital spending is typically lower in the first two years of a new FYP. The fiscal deficit is expected to decline beyond FY24/25, reflecting a moderation in primary recurrent expenditure and increased hydro revenue.

Despite a decline in hydro debt, public debt is projected to remain elevated as a share of GDP in the 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.

The CAD is projected to decline to 17 percent of GDP in FY23/24 due to a large reduction in IT equipment imports, and to moderate further in the medium term, supported by an increase in tourism and electricity exports. International reserves are expected to increase to 6.2 months of import coverage in FY23/24.

TABLE 2 Bhutan / 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^a	-2.3	-3.3	4.8	4.6	4.0	4.6
Private consumption	0.1	-1.2	-3.8	-0.6	5.8	6.5
Government consumption	7.3	4.9	2.0	-3.7	6.0	-7.1
Gross fixed capital investment	-16.5	-3.0	23.1	10.9	-8.4	2.1
Exports, goods and services	-4.1	-7.3	12.1	7.5	0.5	3.4
Imports, goods and services	-9.2	0.8	9.8	2.4	-7.1	-1.1
Real GDP growth, at constant factor prices	-0.7	-2.2	4.8	4.6	4.0	4.6
Agriculture	2.9	3.3	0.5	1.2	3.4	3.4
Industry	-5.5	-5.9	3.7	5.1	2.4	5.6
Services	2.5	-0.5	6.6	5.0	5.3	4.2
Inflation (consumer price index)	3.0	8.2	5.9	4.6	4.4	4.0
Current account balance (% of GDP)	-15.8	-11.9	-32.4	-27.8	-17.0	-8.5
Fiscal balance (% of GDP)	-1.9	-6.2	-7.7	-5.1	-6.1	-4.5
Revenues (% of GDP)	31.1	33.2	27.7	28.2	24.3	27.0
Debt (% of GDP)	122.8	132.4	131.1	130.5	129.2	124.6
Primary balance (% of GDP)	-1.5	-5.2	-6.1	-3.2	-3.9	-2.1
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	..	..	0.0	0.0	0.0	0.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	..	..	0.5	0.4	0.4	0.3
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	..	..	8.4	7.9	7.2	6.7
GHG emissions growth (mtCO₂e)	1.5	1.6	-1.3	-1.6	-1.1	-2.0
Energy related GHG emissions (% of total)	-15.1	-14.5	-15.2	-16.0	-16.6	-17.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ The GDP estimates in the AM23 MPO reflect the base year 2000. The National Statistics Bureau has recently updated the base year from 2000 to 2017. The SM24 MPO will reflect the rebased NIA estimates for 2017 to 2022.

b/ Calculations based on SAR-POV harmonization, using 2022-BLSS. Actual data: 2022. Forecasts are from 2023 to 2025.

c/ Projection using neutral distribution (2022) 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	3388.5
GDP per capita, current US\$	2391.0
School enrollment, primary (% gross) ^a	102.1
Life expectancy at birth, years ^a	67.2
Total GHG emissions (mtCO ₂ e)	3700.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Growth moderated to 7.2 percent in FY22/23. The post-COVID rebound faded, and the government consolidated recurrent spending. Growth is projected to decline further in FY23/24 as it reverts to its potential rate (6-6.5 percent), with external downside risks. Extreme poverty hovers around 11 percent, while moderate poverty is around 45 percent. To increase potential growth and reduce poverty, structural reforms should seek to improve human capital, key infrastructure, the business environment, and jobs, particularly for women.

Key conditions and challenges

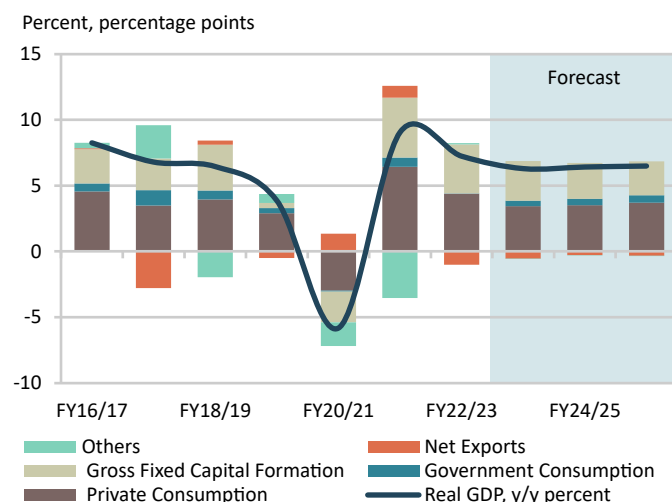
Between 2000 and 2019, India enjoyed rapid economic growth averaging 6.6 percent per annum. GDP per capita more than doubled and extreme poverty (at \$2.15 2017 PPP) fell from 39.9 percent in 2004 to 12.7 percent in 2019. This strong performance reflected a demographic dividend, steps taken to integrate India into the global economy and improve the business environment, and prudent monetary and fiscal management. Output contracted by 5.8 percent in FY20/21 due to the COVID-19 shock but rebounded swiftly by 9.1 percent in FY21/22 and returned to its pre-pandemic level. Extreme poverty declined by 3.4 percentage points in FY22/23 relative to FY20/21, to 11.3 percent. Meanwhile, moderate poverty (at \$3.65 2017 PPP – the threshold typically used for L-MICs) declined by 4.6 percentage points to 45.1 percent. Even though growth helped reduce monetary poverty, 16.4 percent of the population faces deprivations that classify them as multidimensionally poor, and one in three Indians is malnourished. Consumption inequality remained stagnant at 0.35 (using the GINI coefficient). Growth decelerated to 7.2 percent in FY22/23 and is projected to slow to 6.3 percent in FY23/24, with external downside risks. The moderation of growth reflects base effects (as the post-COVID rebound fades), weak external demand, and domestic price pressures. Risks include slower-than-expected

global growth, higher oil prices, and more persistent inflationary pressures. However, they remain manageable given India's large and diversified economic base and significant reserves buffers. For India to achieve the national goal of becoming a high-income country by 2047, real growth would need to rise sustainably to around 8 percent per annum on average. This requires more ambitious structural reforms to enhance the quality of education, generate more and better jobs (in terms of remuneration, stability, and labor conditions), increase the economic participation of women and youth, improve infrastructure, and strengthen the business environment.

Recent developments

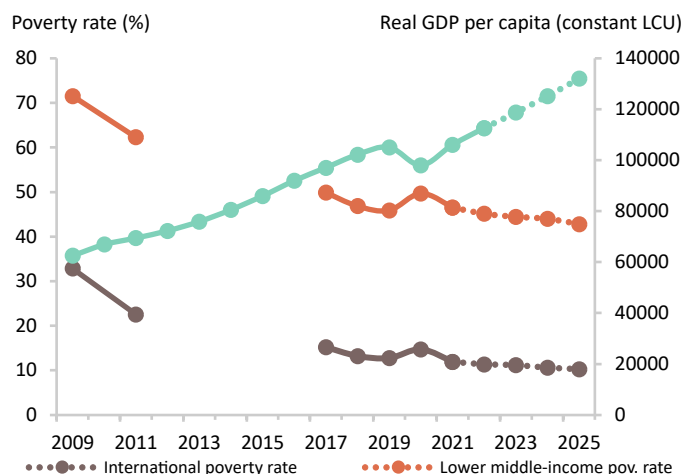
Real GDP growth decelerated to 7.2 percent in FY22/23, from 9.1 percent in the previous year, mainly due to waning base effects. Private consumption and investment growth moderated as the post-pandemic catch-up tapered off, and public consumption stagnated due to fiscal consolidation of recurrent spending (though public investment expanded). Total consumption moderated further, and exports shrank, in Q1 FY23/24 (April-June), but investment –especially public investment– continued to grow at a robust pace. The services sector drove growth on the supply side, with fast expansion in high-contact services like retail trade, tourism, and transportation. To address inflationary pressures (inflation reached 7.8 percent in April 2022) the RBI's Monetary Policy Committee raised

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



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Notes: 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.

the policy rate by 250 basis points in FY22/23 and held the rate unchanged at 6.5 percent since February 2023. Both headline and core inflation trended down until May 2023, to 4.3 and 5.1 percent, respectively. However, recent abnormal monsoon rainfall pushed up food prices, driving headline inflation to 7.4 percent in July 2023. The increase in food prices disproportionately affects the poor and could aggravate malnutrition which already affects one-third of the population.

Urban unemployment fell to 7.2 percent in FY22/23 from 9.8 percent in FY21/22, but the share of regular salaried workers declined, with possible implications for income stability. The rural labor market showed signs of continued distress as demand for employment under the rural employment guarantee program exceeded pre-pandemic levels in FY22/23, and real earnings remained stagnant. One in three youths aged 15-29 and over half of the young women were outside employment, education, or training in FY21/22.

The general government fiscal deficit narrowed to 9.0 percent of GDP in FY22/23, thanks to strong tax revenue growth (15 percent) and consolidation of the central government's recurrent spending, through the gradual withdrawal of remaining pandemic-related measures. This created

room to ramp up capital expenditure while decreasing total spending. Healthy growth and a narrower fiscal deficit brought public debt down from 84.8 percent of GDP in FY21/22 to 82.9 percent in FY22/23. The current account deficit widened to 2.0 percent of GDP in FY22/23. Services exports and remittance inflows increased, but the balance of trade in goods deteriorated with rising global crude oil prices. Net foreign direct investment fell below 1 percent of GDP, from 1.2 percent in FY21/22, and net portfolio investment turned negative. As a result, foreign exchange reserves fell to US\$578 billion, equivalent to 7 months of import cover.

Outlook

Growth is projected to moderate to 6.3 percent in FY23/24, as consumption growth continues to decelerate, and external headwinds depress foreign demand. Over the medium term, growth should hover around its potential rate of 6.5 percent. Investment growth is projected to remain robust, supported by high public investment and improved corporate and banking sector balance sheets. The current account

deficit is expected to narrow to around 1.5 percent of GDP over the forecast period as commodity prices decline relative to FY22/23, while services exports and remittances remain buoyant. Foreign exchange reserves are projected to remain adequate at around seven months of imports.

Headline inflation should decline over the medium term as domestic demand moderates and global commodity prices normalize. Inflationary pressures from food prices will abate gradually as domestic supply constraints are resolved.

The overall fiscal deficit is projected to narrow, bringing down public debt slowly to around 82 percent of GDP over the medium term. Revenues are projected to return to pre-pandemic levels as a share of GDP, thanks to improving compliance and healthy corporate profits. Current spending should continue to fall as a share of GDP, with capital spending elevated at over 5 percent of GDP. However, any fiscal measures to mitigate the current inflationary pressures may affect this projection.

Growth should still drive further declines in extreme and moderate poverty, to 11.2 percent and 44.4 percent in FY23/24, respectively. However, the pace of poverty reduction will depend on the inflation trajectory and how growth translates into incomes for the most vulnerable.

TABLE 2 India / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	-5.8	9.1	7.2	6.3	6.4	6.5
Private consumption	-5.2	11.2	7.5	5.9	6.0	6.4
Government consumption	-0.9	6.6	0.1	4.1	5.1	5.8
Gross fixed capital investment	-7.3	14.6	11.4	8.9	7.8	7.3
Exports, goods and services	-9.1	29.3	13.6	0.9	6.7	8.2
Imports, goods and services	-13.7	21.8	17.1	3.0	7.2	8.7
Real GDP growth, at constant factor prices	-4.2	8.8	7.0	6.3	6.4	6.5
Agriculture	4.1	3.5	4.0	3.5	3.6	3.7
Industry	-0.9	11.6	4.4	5.7	6.4	6.4
Services	-8.2	8.8	9.5	7.4	7.2	7.3
Inflation (consumer price index)	6.2	5.5	6.7	5.9	4.7	4.1
Current account balance (% of GDP)	0.9	-1.2	-2.0	-1.4	-1.2	-1.6
Net foreign direct investment inflow (% of GDP)	1.6	1.2	0.8	1.1	1.4	1.5
Fiscal balance (% of GDP)	-12.6	-9.6	-9.0	-8.7	-8.1	-7.9
Revenues (% of GDP)	18.5	19.5	18.9	19.5	19.9	20.0
Debt (% of GDP)	89.3	84.8	82.9	82.9	82.5	82.4
Primary balance (% of GDP)	-7.2	-4.4	-3.9	-3.3	-2.7	-2.5
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	14.7	11.9	11.3	11.2	10.6	10.3
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	49.7	46.5	45.1	44.4	44.0	42.8
GHG emissions growth (mtCO₂e)	-4.0	8.3	5.8	3.6	3.6	3.6
Energy related GHG emissions (% of total)	69.3	71.5	72.8	73.4	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 the approach 1 imputation methodology from Roy & van der Weide (2022), with 200 simulations. Projections using annual growth rates for three sectors of employment with pass-through = 0.65 and inflation rates for food, fuel and other consumption. Based on GDP per capita at constant factor prices. Baseline distribution taken from one imputed consumption vector matching the national poverty rates.

b/ Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.

MALDIVES

Table 1 **2022**

Population, million	0.5
GDP, current US\$ billion	6.2
GDP per capita, current US\$	11777.6
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)	2.9

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2019), 2017 PPPs.

b/ WDI for School enrollment (2020); Life expectancy (2021).

The economy has maintained its strong growth momentum in 2023 due to rising tourist arrivals. The growth and poverty outlook remains positive, although concerns around vulnerability to shocks and inequalities remain. Commodity price volatility exerts pressure on external and fiscal balances, through costlier imports and higher subsidies. Elevated levels of spending sustain high fiscal deficits and debt vulnerabilities. Comprehensive subsidy and public investment reforms are needed for debt sustainability while mitigating related impacts on the vulnerable.

Key conditions and challenges

Tourism has maintained its robust performance in the first half of 2023. Despite the Russian invasion of Ukraine, arrivals from Russia remain strong. An earlier-than-expected reopening of the Chinese market in January has compensated for fewer tourists from India and Gulf countries, while arrivals from Europe remained high. This supported employment opportunities, which are particularly important for the poorest.

Heavy reliance on tourism and limited diversification remain a key structural challenge. As an economy that is heavily import-dependent, Maldives is also facing significant external and inflationary pressures due to high global commodity prices, negatively affecting public finances – given the government's blanket provision subsidies to help contain domestic price increases. This is further compounded by continued high capital expenditure and public debt, an increasing wage bill, and a costly health insurance scheme.

Targeted austerity measures could mitigate risks to vulnerable households, particularly in the atolls, where 93 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, pensions, health insurance, and income support programs – which contribute to a larger share of income for poorer households. Additional challenges

to welfare include differential access to economic opportunities in Male relative to atolls – mirrored by a higher Gini index over the whole population (29.3) than within Male (25.2) or within atolls (24.2), higher vulnerability among the self-employed, and overcrowding affecting poorer urban households.

To promote development, Maldives has scaled up infrastructure investments since 2016. Although these investments have contributed towards growth and better living standards, financing of these large investments through non-concessional sources has led to growing debt vulnerabilities.

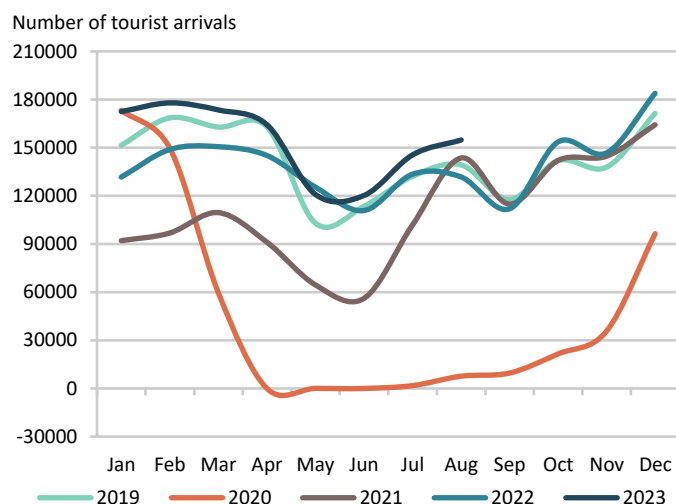
Despite an increased cost of external borrowing, the government continued to use foreign financing for infrastructure investments in 2023, while also relying on domestic borrowing to support recurrent spending. This has led to a concerning rise in the financial sector's exposure to the sovereign. The debt stock and debt servicing risks are expected to remain high.

Recent developments

The economy grew by 13.9 percent (y-o-y) in 2022 and 5.5 percent (y-o-y) in Q12023, surpassing the pre-pandemic nominal GDP level and translating into projected poverty rates below 2019 levels. Tourist arrivals reached 1.2 million by August 2023 and are projected at 1.9 million in 2023 – 13.8 percent higher than in 2022.

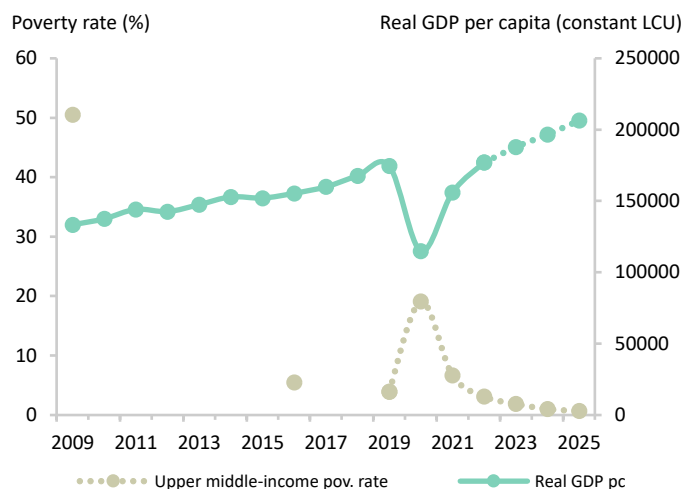
Along with the Goods and Services Tax (GST) increase in January 2023, higher global commodity prices led to rising domestic

FIGURE 1 Maldives / Tourist arrivals



Sources: Ministry of Tourism and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

inflation, which reached an average of 3.5 percent (y-o-y) in H12023 – higher than the historical average of 0.5 percent. Price increases were particularly acute in the food –climbing to 8.0 percent in March before falling to 4.5 percent in June–, transport, health, and restaurant services sectors. Despite growth in tourism earnings, the current account deficit doubled to 16.7 percent of GDP in 2022, due to far costlier oil imports and capital imports for large investment projects. High import costs and external debt repayments put significant pressure on gross reserves, which fell from US\$790 million in January to US\$594.1 million in July (from 2.8 to 2.0 months of imports). Given subsidy reforms were not implemented and capital spending cuts have not happened – both of which were proposed in the Budget – spending rose in 2023. However, this was somewhat offset by higher tax collections owing to the robust growth and increased tourism GST. Consequently, the 12-month rolling fiscal deficit declined in May to an estimated level of around 11 percent of GDP compared to 14.4 percent in 2022. MMA’s asset exposure to the government further rose to 52 percent of its total financial assets in mid-2023, from 47.3 percent in 2022.

Outlook

The economy is projected to grow by 5.6 percent on average in the medium term, supported by robust tourism performance. The return of Chinese tourists, together with increasing arrivals from new and existing markets are expected to lead to sustained growth. Tourism will further be supported by the expansion of Velana International Airport (planned to be completed by 2025), a diversified tourism sector, and investments in new resorts. Despite the recent increase in GST collections, in the absence of fiscal reforms, any meaningful improvement in the fiscal balance will be offset by continued high levels of spending. Public debt will, therefore, remain high. A larger fiscal adjustment is required to build external buffers and reduce fiscal vulnerabilities, including reducing spending on untargeted subsidies and bulk procurement for pharmaceutical purchases, and more effective public investment management. Better targeted transfers – including redirecting inefficiently allocated resources – would help mitigate the negative impacts of subsidy reforms on the poor.

High levels of consumption, elevated global commodity prices, and the GST rate hike are projected to keep inflation above the historical average in the medium term. Without targeted support, higher prices passed onto households could worsen the poverty outlook. Therefore, future subsidy reforms need to be carefully designed to minimize welfare risks.

The current account deficit is expected to remain elevated given commodity price pressures and continued capital imports to complete ongoing and planned public infrastructure projects. Volatile oil prices and rising external financing needs – including debt servicing – are expected to sustain pressure on official reserves.

Downside risks persist. Tourism could be adversely impacted by an extended global slowdown. Any further widening of the current account deficit could put additional pressure on reserves. The government faces external debt servicing payments of US\$570 million on average over the next two years amidst tighter global financing conditions. On the upside, the global tourism sector outlook is robust, and with strong economic growth, poverty rates are expected to decline.

TABLE 2 Maldives / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-32.9	37.7	13.9	6.5	5.2	5.5
Real GDP growth, at constant factor prices	-30.1	33.8	15.0	6.5	5.2	5.5
Agriculture	6.6	-0.7	3.1	2.3	3.1	2.8
Industry	-34.1	-4.6	25.2	9.7	7.7	3.1
Services	-31.7	43.4	14.7	6.4	5.0	6.0
Inflation (consumer price index)	-1.4	0.5	2.3	3.2	2.7	2.5
Current account balance (% of GDP)	-35.8	-8.7	-16.7	-17.6	-20.9	-19.4
Net foreign direct investment inflow (% of GDP)	11.9	12.2	11.7	12.2	12.0	11.5
Fiscal balance (% of GDP)	-23.7	-14.2	-14.4	-12.4	-11.8	-10.4
Revenues (% of GDP)	26.7	26.4	27.8	30.4	30.1	30.0
Debt (% of GDP)	151.6	112.1	113.5	113.7	115.1	116.3
Primary balance (% of GDP)	-20.9	-11.6	-11.0	-8.9	-8.2	-6.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	19.1	6.7	3.1	1.9	1.0	0.7
GHG emissions growth (mtCO₂e)	-10.9	12.2	13.2	12.1	9.7	9.2
Energy related GHG emissions (% of total)	82.4	84.4	87.0	87.9	88.7	89.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.

b/ Projections using microsimulation methodology.

NEPAL

Table 1 **2022**

Population, million	30.5
GDP, current US\$ billion	40.8
GDP per capita, current US\$	1336.5
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	127.4
Life expectancy at birth, years ^b	68.4
Total GHG emissions (mtCO2e)	52.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2010), 2017 PPPs.

b/ WDI for School enrollment (2022); Life expectancy (2021).

Nepal's economy slowed in FY23 due to monetary tightening, sluggish capital expenditure, and import restriction measures. The sharp drop in imports led to a historic contraction in fiscal revenues and a wide fiscal deficit. Foreign reserves rose as remittance inflows surged, while inflation remained high. Basic commodity prices, and a structural vulnerability to falling back into poverty, are likely to increase poverty in the short term. With the lifting of import restrictions mid-FY23, growth is expected to recover through FY25.

Key conditions and challenges

Nepal's economic growth averaged 4.3 percent annually between FY13 and FY23, 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. 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. The jobs recovery following COVID-19 was slow and unequal, with international remittances and domestic labor mobility being the key factors supporting the economic recovery. Structural economic vulnerability, exposure to a wide range of shocks, and spatial inequality define human development, poverty, inequality, and outcomes in Nepal. Social protection programs are currently limited in scope and will need to be re-designed to reach the poor and economically vulnerable, especially in response to economic and climate-related shocks. Spatial inequalities in access to basic child opportunities such as health and education remain relevant despite sustained progress on key indicators of non-monetary welfare. Improvements over the last decade in access to basic services, including in electricity, health, and education, have likely been accompanied by a reduction in poverty. The recently concluded fourth

Nepal Living Standards Survey will update trends in national poverty and produce provincial poverty estimates.

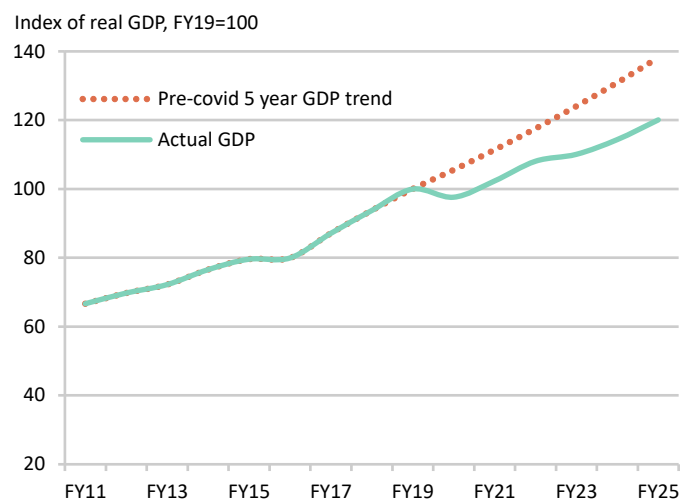
Recent developments

The economy slowed to 1.9 percent GDP growth in FY23, reflecting a 150 basis points increase in the policy rate and import restriction measures to stem foreign exchange losses under the fixed exchange rate regime. Manufacturing, construction, and the wholesale and retail trade sectors all contracted. Despite the slowdown, inflation accelerated to 7.8 percent, exceeding the central bank's policy ceiling of 7 percent notwithstanding tighter monetary policy, reflecting in part India's export ban on wheat and flour. Lower and erratic monsoon rainfall could further increase food prices and headline inflation, with the negative impact of increased food prices falling disproportionately on poorer and more vulnerable households.

The current account deficit narrowed from 12.6 percent to 1.3 percent of GDP between FY22 and FY23, reflecting a significant decline in goods imports and a strong rebound in remittances. In the context of low external debt amortizations, foreign reserves rose to 10 months of import cover as of end-FY23.

As goods imports declined, fiscal revenue fell from 23.1 percent to 19.2 percent of GDP, leading to almost a doubling of the fiscal deficit from 3.2 percent to 6.1 percent of GDP between FY22 and FY23. Expenditures also declined but by much

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.

less, reflecting lower transfers to subnational governments. The deficit was financed through external concessional borrowing, domestic borrowing, and balances in other government accounts. The May 2023 Joint World Bank-IMF Debt Sustainability Analysis finds that the country's risk of debt distress remains low.

Outlook

The baseline forecast assumes that: i) monetary policy will gradually ease; ii) lumpy skin disease affecting livestock – which has infected 1.3 million animals since April 2023 – will be under control by mid-January 2024; iii) India's export food bans will be lifted by FY25; and, iv) electricity exports will reach 1000 megawatts annually by FY25. Under these conditions, growth is expected to rebound to 3.9 percent in FY24 and 5 percent in FY25. The lagged impact of lifting import restriction measures in January 2023 and monetary policy loosening are expected to

support the industrial and services sectors. Agricultural growth is projected to slow in FY24 partly due to livestock losses, then provide a boost in FY25.

Inflation is expected to remain above the FY24 policy ceiling of 6.5 percent, reflecting the recent taxation of select basic food items, India's food export restrictions, and higher fuel prices. The removal of VAT exemptions on basic food items and necessities is expected to increase the poverty headcount by up to 1 percentage point and increase economic vulnerability for the second and third consumption quintiles. Continued high inflation in FY24 will weigh on household disposable income and private consumption growth and lead to decreased welfare, particularly for poor and economically vulnerable households. A weak domestic labor market that relies on informal and subsistence jobs could exacerbate this negative welfare impact.

Exports and FDI are small relative to remittances and imports. Electricity exports will support export growth while imports will rise more quickly, widening

the current account deficit. Near-record worker out-migration in FY23 will support remittance inflows in FY24 and FY25.

Revenue growth should increase in FY24 with stronger GDP and import growth. The FY24 budget envisions lower capital spending, lower transfers to subnational governments, and higher debt servicing costs. Public investment should rise in FY25 as revenues grow. Public debt is expected to peak in FY24 and then recede slightly to 41.2 percent of GDP by FY25. The fiscal deficit is projected to narrow to 3.3 percent of GDP by FY25.

The forecast is subject to multiple downside risks. An erratic monsoon could dampen agricultural growth. Alongside potential livestock losses, this is likely to result in a negative economic outlook for the poor. Political uncertainty could hold back investment. A renewed spike in commodity prices or continued food export bans by India would raise prices and widen the current account deficit. Higher inflation could keep policy rates elevated, increase domestic debt servicing costs, and drag on growth.

TABLE 2 Nepal / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.4	4.8	5.6	1.9	3.9	5.0
Private consumption	3.6	8.0	6.8	4.1	3.7	4.5
Government consumption	3.8	-1.7	9.6	-35.2	-19.3	8.1
Gross fixed capital investment	-8.9	9.8	3.8	-10.9	14.5	8.6
Exports, goods and services	-15.9	-21.3	34.1	5.5	12.1	18.4
Imports, goods and services	-20.8	18.8	15.1	-17.2	10.3	9.7
Real GDP growth, at constant factor prices	-2.4	4.5	5.3	2.2	3.9	5.0
Agriculture	2.4	2.8	2.2	2.7	2.1	2.5
Industry	-4.0	6.9	10.8	0.6	3.2	6.3
Services	-4.5	4.7	5.3	2.3	5.1	5.9
Inflation (consumer price index)	6.1	3.6	6.3	7.8	7.5	6.4
Current account balance (% of GDP)	-0.9	-7.7	-12.6	-1.3	-3.7	-4.6
Net foreign direct investment inflow (% of GDP)	0.5	0.4	0.4	0.1	0.3	0.5
Fiscal balance (% of GDP)	-5.4	-4.0	-3.2	-6.1	-3.5	-3.3
Revenues (% of GDP)	22.2	23.3	23.1	19.2	19.8	20.8
Debt (% of GDP)	36.9	39.9	40.8	41.3	41.4	41.2
Primary balance (% of GDP)	-4.7	-3.2	-2.3	-4.7	-1.8	-1.9
GHG emissions growth (mtCO₂e)	3.2	0.8	4.4	3.8	11.1	5.9
Energy related GHG emissions (% of total)	30.0	28.8	29.9	31.4	36.8	39.1

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	375.4
GDP per capita, current US\$	1592.1
International poverty rate (\$2.15) ^a	4.9
Lower middle-income poverty rate (\$3.65) ^a	39.8
Upper middle-income poverty rate (\$6.85) ^a	84.5
Gini index ^a	29.6
School enrollment, primary (% gross) ^b	95.5
Life expectancy at birth, years ^b	66.1
Total GHG emissions (mtCO2e)	492.2

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ WDI for School enrollment (2019); Life expectancy (2021).

Pakistan's economy is estimated to have contracted in FY23 amid the catastrophic floods, high inflation, and tight macroeconomic policy. Import controls exacerbated supply chain disruptions and undermined confidence. Poverty is estimated to have increased due to record-high food and energy prices, weak labor markets, and flood-related damages. An IMF Stand-by Arrangement (SBA) was recently approved, unlocking new external financing. While recovering slightly, GDP growth will remain below potential over the medium term.

Key conditions and challenges

Pakistan's strong post-pandemic recovery came to a halt in FY23 with large economic imbalances that resulted from the delayed withdrawal of accommodative policy, and a series of domestic and external economic shocks. Pressures on domestic prices, external and fiscal balances, the exchange rate, and foreign exchange reserves mounted amid surging world commodity prices, global monetary tightening, recent catastrophic flooding, and domestic political uncertainty. Confidence and economic activity collapsed due to import controls, periodic exchange rate fixing, creditworthiness downgrades, and ballooning interest payments. Poverty is estimated to have increased due to deteriorating wages and job quality, along with high inflation that eroded purchasing power, particularly for the poor.

An IMF-SBA was recently approved, unlocking new external financing. Still, risks are exceptionally high, with the outlook predicated on remaining on track with the SBA, fiscal restraint, and continued external financing. Financial sector instability and policy slippages due to social tensions pose significant risks. Continued high inflation, localized insecurity, and weak growth increase vulnerability to falling into poverty and worsen the situation of the existing poor. More than 10 million people are currently just above the poverty line,

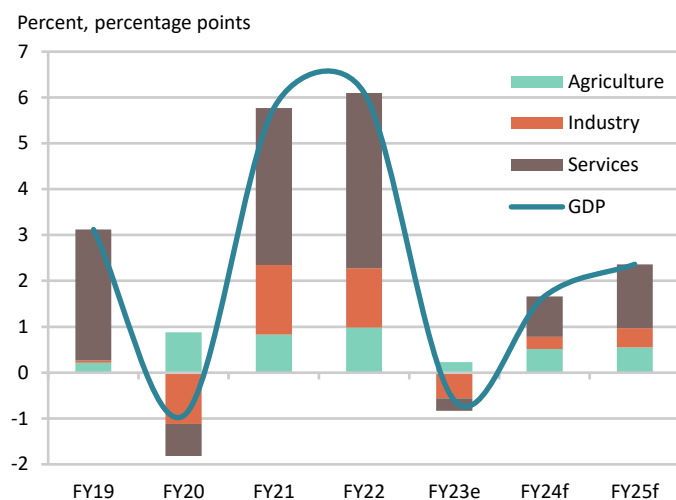
and at risk of becoming classified as poor if the situation deteriorates.

Recent developments

Pakistan's economy is estimated to have contracted by 0.6 percent y-o-y in FY23, after growing by an average of 5.6 percent over FY21-22. The impact of devastating floods on agriculture and difficulties securing inputs, including fertilizers, slowed agriculture output growth to a modest 1.0 percent. With 44 percent of poor workers relying on agriculture, weak agricultural performance had significant poverty impacts. Supply chain disruptions due to import restrictions and flood impacts, high fuel and borrowing costs, political uncertainty, and weak demand affected industry and service sector activity and are estimated to have contracted by around 3 and 0.5 percent, respectively. This likely reduced the labor incomes of millions of workers, especially those who moved to lower-productivity informal jobs.

Average headline inflation rose to a multi-decade high of 29.2 percent y-o-y in FY23, up from 12.2 percent in FY22, owing to the weaker currency, reduced domestic fuel and electricity subsidies, and supply chain disruptions. Food inflation nearly tripled to 38.7 percent, particularly affecting poorer households that spend half their budget on food. Due to differing consumption patterns, households in the poorest decile experienced a higher inflation rate (seven percentage points higher) than the richest decile. Poverty is

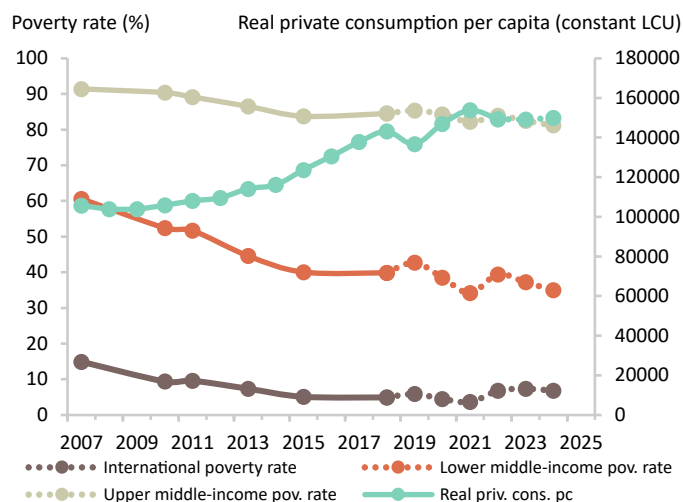
FIGURE 1 Pakistan / Real GDP growth and sectoral contributions to real GDP growth



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

Notes: Pakistan reports data on fiscal year (FY) basis. The fiscal year runs from July 1 through June 30.

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



Source: World Bank. Notes: see Table 2.

estimated to have increased by five percentage points to 39.4 percent (US\$3.65/day 2017 PPP) in FY23, with 12.5 million more poor Pakistanis relative to FY22. Poverty rose despite government efforts, including a 25 percent increase in cash payments under the Benazir Income Support Program, a one-off targeted fuel subsidy, and payments to flood-affected families.

Reflecting lower remittances, sizeable debt servicing payments, and no access to international capital markets, Pakistan's external account weakened, with foreign reserves falling significantly, equivalent to just one month of total imports at the end of FY23. Reflecting the imposition of import controls to preserve reserves and a weaker currency, the current account deficit shrank to a ten-year low, equivalent to 0.7 percent of GDP in FY23 from 4.7 percent in FY22. With large debt repayments amid limited foreign investment, the financial account saw a deficit for the first time since FY04. The official exchange rate depreciated by 28.6 percent against the U.S. dollar over FY23.

In line with some fiscal consolidation and rapid nominal GDP growth, the primary deficit narrowed to an estimated 0.8 percent of GDP in FY23. The overall fiscal deficit, however, is estimated to have

remained high at 7.8 percent of GDP, reflecting larger interest payments with higher domestic interest rates and the weaker currency.

Overall, the economic contraction, high inflation, and flood-related devastation affected poorer households disproportionately, leading to greater inequality, with the Gini index estimated to have increased by 1.5 points to 30.7 in FY23. Moreover, the floods, which caused extensive damage to public infrastructure, including schools and clinics, coupled with maladaptive economic coping strategies such as removing children from schools, have likely worsened disparities in human development outcomes within and across regions.

Outlook

Even with the SBA, reserves are expected to average less than one month of total imports over FY24-FY25, necessitating continued import controls and constraining economic recovery. Real GDP growth is expected to only reach 1.7 percent in FY24, with tight fiscal and monetary policy, persistent inflation,

and weak confidence due to political uncertainty surrounding upcoming elections. With the resumption of growth, poverty is expected to decline to 37.2 percent in FY24. The current account deficit is projected to gradually widen to 1.5 percent of GDP in FY25.

Inflation is projected to remain high at 26.5 percent in FY24 and moderate to 17.0 percent in FY25 amid high base effects and lower global commodity prices. However, the higher petroleum levy and energy tariff adjustments will maintain domestic energy price pressures and contribute to growing social and economic insecurity. Protracted and elevated food and energy price inflation, in the absence of substantial growth, could cause social dislocation and have negative welfare impacts, especially on the worse-off households with already depleted savings and reduced incomes.

The fiscal deficit is forecasted to narrow marginally, averaging 7.6 percent of GDP over FY24 and FY25, reflecting high-interest payments. The primary deficit will remain modest at an average of 0.3 percent of GDP, reflecting consolidation efforts. Despite liquidity pressures, the public debt-to-GDP ratio is projected to decline over the medium term.

TABLE 2 Pakistan / 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	-1.3	6.5	4.7	-0.6	1.7	2.4
Private consumption	-2.8	9.4	6.7	-1.0	1.9	2.6
Government consumption	8.5	1.8	-1.3	-7.2	1.9	2.8
Gross fixed capital investment	-6.7	3.7	5.7	-17.8	0.8	2.2
Exports, goods and services	1.5	6.5	5.9	-8.6	0.7	2.0
Imports, goods and services	-5.1	14.5	11.0	-17.8	1.7	3.2
Real GDP growth, at constant factor prices^a	-0.9	5.8	6.1	-0.6	1.7	2.4
Agriculture	3.9	3.5	4.3	1.0	2.2	2.4
Industry	-5.7	8.2	6.8	-2.9	1.4	2.3
Services	-1.2	5.9	6.6	-0.5	1.5	2.4
Inflation (consumer price index)	10.7	8.9	12.2	29.2	26.5	17.0
Current account balance (% of GDP)	-1.5	-0.8	-4.7	-0.7	-1.4	-1.5
Net foreign direct investment inflow (% of GDP)	0.9	0.5	0.5	0.1	0.1	0.4
Fiscal balance (% of GDP)	-7.0	-6.0	-7.8	-7.8	-7.6	-7.5
Revenues (% of GDP)	13.3	12.4	12.1	11.6	11.9	12.3
Debt (% of GDP)^b	81.1	75.6	80.7	82.3	72.4	70.3
Primary balance (% of GDP)	-1.5	-1.1	-3.1	-0.8	-0.4	-0.2
International poverty rate (\$2.15 in 2017 PPP)^{c,d}	5.9	4.5	3.6	6.8	7.4	6.8
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{c,d}	42.7	38.5	34.2	39.4	37.2	35.0
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{c,d}	85.4	84.3	82.2	83.9	82.5	81.2
GHG emissions growth (mtCO₂e)	1.2	5.2	5.2	2.0	1.8	2.6
Energy related GHG emissions (% of total)	42.6	43.7	44.5	43.8	43.8	43.9

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 FY23 estimate of real GDP growth (at 2015-16 prices) is 0.3 percent.

b/ Prior to FY22, public debt does not include Central Bank deposits and bilateral SWAP liabilities.

c/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.

d/ Poverty projections based on microsimulations using 2018-HIES and aggregate macroeconomic indicators (see Caruso et al 2017).

SRI LANKA

Table 1 **2022**

Population, million	22.2
GDP, current US\$ billion	74.4
GDP per capita, current US\$	3348.0
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)	45.8

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2019), 2017 PPPs.

b/ WDI for School enrollment (2020); Life expectancy (2021).

The economy has shown initial signs of stabilization, albeit at a low-level equilibrium, with moderating inflation, easing foreign exchange liquidity pressures, and some progress in debt restructuring. However, the path to recovery remains narrow, with limited fiscal and external buffers. A successful debt restructuring and continued implementation of structural reforms remain essential to restore stability and put the country back on a sustainable growth and poverty reduction path.

Key conditions and challenges

Sri Lanka's longstanding structural weaknesses were elevated by several shocks, which ultimately plunged the country into an economic crisis. Poor governance, a restrictive trade regime, a weak investment climate, episodes of loose monetary policy, and an administered exchange rate contributed to macroeconomic imbalances. Fiscal indiscipline led to high fiscal deficits and large gross financing needs, which, together with risky commercial borrowing, elevated debt vulnerabilities. Ill-timed tax cuts in 2019 further eroded weak fiscal buffers and led to a rapid growth in debt to unsustainable levels. As Sri Lanka lost access to international financial markets in 2020 and official reserves dropped precipitously thereafter, the forex liquidity constraint ultimately led to severe shortages of essential goods in 2022. The country announced an external debt service suspension in April 2022, pending debt restructuring. Amid the crisis, half a million jobs were lost, food insecurity and malnutrition increased, poverty doubled, and inequality widened.

The government is implementing structural reforms to regain macroeconomic stability and a sustainable growth path, including cost-reflective utility pricing, revenue-enhancing measures, trade, investment, SOE, and social protection reforms. Key legislation is being enacted on monetary

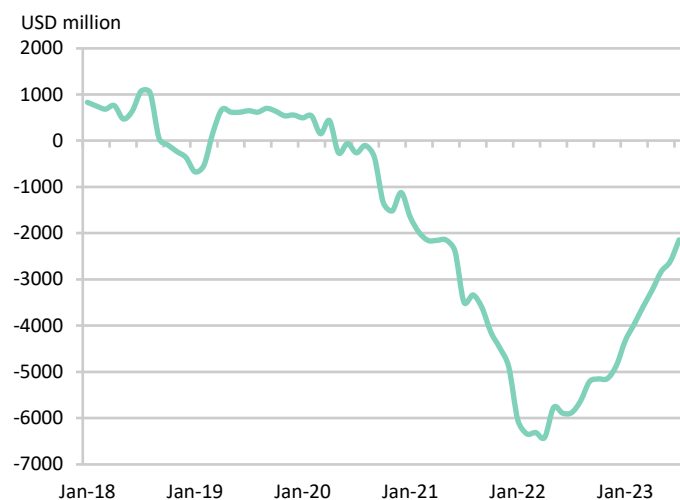
policy, debt, and public financial management. In March 2023, the IMF approved a 48-month Extended Fund Facility of approximately US\$3 billion to support the government's reform program, which was followed by budget support from development partners, including the World Bank. Debt restructuring discussions with external creditors are ongoing. The Parliament approved a domestic debt restructuring strategy in July 2023, which excluded financial sector-held government securities issued under domestic law.

Recent developments

The economy contracted by 7.8 percent (y-o-y) in 2022 and 7.9 percent (y-o-y) in 1H 2023. Construction, manufacturing, real estate, and financial services suffered the most amid shrinking private credit, shortages of inputs, and supply chain disruptions, worsening the negative welfare impacts of income contractions and job losses registered in 2022. Headline inflation, measured by the Colombo Consumer Price Index, peaked at 69.8 percent (y-o-y) in September 2022 and subsequently declined sharply to 4 percent (y-o-y) in August 2023 from a high base amid subdued demand. Decelerating inflation was beneficial for households' welfare, and helped limit further increases in food insecurity and malnutrition, especially among poor households.

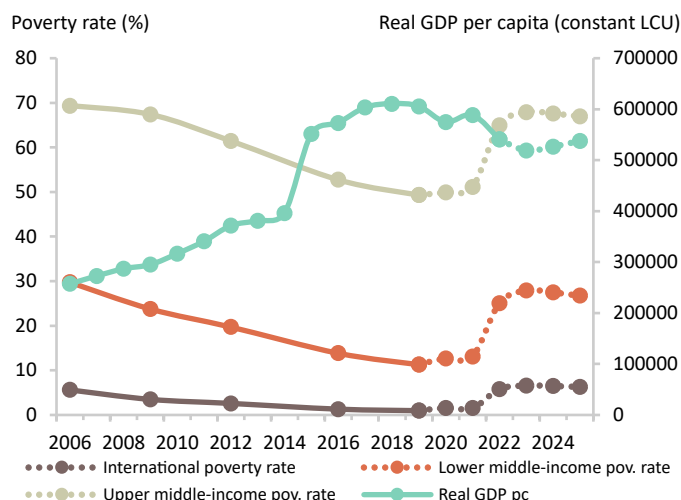
The central bank began to loosen monetary policy as inflation decelerated. Policy rates were cut by 250 basis points in June 2023

FIGURE 1 Sri Lanka / Net foreign assets of the banking system



Sources: Central Bank of Sri Lanka and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

and by a further 200 basis points in July, bringing the Standing Deposit Facility rate down to 11 percent and the Standing Lending Facility rate to 12 percent. Supported by policy rate cuts and better clarity on domestic debt restructuring, the 91-day T-bill rates fell below 20 percent in July 2023 (for the first time since April 2022).

Between January and July 2023, the merchandise trade deficit contracted by US\$1 billion (y-o-y), driven by import restrictions and subdued import demand (primarily for intermediate and investment goods), despite the reduction in exports driven by weak global demand. Foreign exchange liquidity pressures are easing due to the absence of large debt service payments, strong remittance flows, and improved tourism earnings, leading to an accumulation of usable foreign reserves to US\$2.4 billion by end-July 2023 (equivalent to 5-6 weeks of imports of goods and services). Stronger remittance flows contributed to higher non-labor income, although it also reflected an increase in emigration since the start of the crisis. After depreciating by 81 percent against the US Dollar in 2022, the currency (LKR) appreciated by 11 percent from January to August of 2023.

The overall fiscal deficit increased in the first four months of 2023, driven by a sharp rise in interest payments, despite

higher total revenues and, consequently, a near closing of the primary deficit. While some of the necessary fiscal reforms, including new revenue measures, have improved overall progressivity, indirect taxes, and rising energy prices are placing a disproportionate burden on the poor and vulnerable. Unless mitigated with targeted measures, the removal of energy subsidies could lead to further poverty increases.

Outlook

Growth prospects depend on progress with debt restructuring and the implementation of growth-enhancing structural reforms. Inflation is projected to stay in single digits amid weak demand, as monetization of fiscal deficits wanes. Further, monetary loosening and exchange rate pressures could counter this trend. Poverty is projected to increase in 2023 before declining over the medium term, in line with the slow recovery. Despite the removal of import restrictions, the current account deficit is expected to narrow further in 2023, due to continued liquidity constraints, and remain benign thereafter with the recovery in tourism and remittances. Although the primary deficit is expected

to decline in 2023, the overall balance will remain high due to the large interest bill. Debt restructuring and a revenue-based fiscal consolidation are projected to reduce the overall balance in the medium-term.

While recent macroeconomic performance has been better than expected, downside risks remain high, given a narrow path to recovery and limited buffers. A prolonged or insufficiently deep external debt restructuring, a deterioration in the political situation (including a backlash to the reforms), inadequate domestic revenue mobilization, limited external financing support, a sharper global slowdown, and a prolonged recovery from the scarring effects of the crisis are key risks to restoring stability, regaining a sustainable growth path, and bringing Sri Lanka back to pre-crisis rates of poverty. The financial sector needs continuous monitoring, given high exposures to the public sector, rising non-performing assets, and tight liquidity conditions.

The necessary macroeconomic adjustments may initially adversely affect growth, poverty, and inequality, 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.

TABLE 2 Sri Lanka / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices^a	-4.6	3.5	-7.8	-3.8	1.7	2.4
Private consumption	-5.8	2.6	-9.0	-4.1	1.9	2.5
Government consumption	0.0	-2.8	1.4	-2.6	-1.7	0.9
Gross fixed capital investment	-7.9	6.3	-22.8	-4.4	2.0	3.1
Exports, goods and services	-29.6	10.1	10.2	-4.3	2.8	3.1
Imports, goods and services	-20.1	4.1	-19.9	-4.6	1.5	2.8
Real GDP growth, at constant factor prices^a	-2.9	4.0	-6.7	-3.8	1.7	2.4
Agriculture	-0.9	0.9	-4.6	0.8	1.5	1.5
Industry	-5.3	5.7	-16.0	-5.8	1.6	2.4
Services	-1.9	3.5	-2.0	-3.4	1.8	2.5
Inflation (consumer price index)	4.6	6.0	46.4	17.9	5.9	5.9
Current account balance (% of GDP)	-1.4	-3.7	-5.3	-1.0	-0.9	-0.7
Net foreign direct investment inflow (% of GDP)	0.5	0.7	1.2	1.1	1.1	1.2
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	1.6	1.5	5.8	6.6	6.5	6.3
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	12.7	13.1	25.0	27.9	27.5	26.8
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	49.9	51.1	65.0	67.9	67.6	67.0
GHG emissions growth (mtCO₂e)	4.8	9.7	5.1	-10.2	0.2	1.4
Energy related GHG emissions (% of total)	65.5	68.3	70.2	66.5	66.4	66.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ 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/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

Macro Poverty Outlook

10 /
2023



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