South Asia

Macro Poverty Outlook

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

Spring Meetings 2024

WORLD BANK GROUP
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1818 H Street NW, Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

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AFGHANISTAN

The economic crisis continues, causing decreased activity and persistent poverty. A combination of better supply and depressed demand results in ongoing deflation. Off-budget transfers were reduced in 2023, shrinking the economy and raising concerns about pro-poor expenditure sustainability. The Interim Taliban Administration's (ITA) revenue collection remains slightly below target. The Afghani (AFN) depreciated against USD during Jan-Feb 2024 after strengthening throughout 2023. Poverty affects half of the population, with persistent high unemployment and underemployment amid contracting job and business opportunities.

Key conditions and challenges

Afghanistan's economy remains weak, reflecting the lack of endogenous sources of growth compensating for the decline in international aid after the Taliban takeover. The deflationary process that started in April 2023 continued into January 2024, sustained by the appreciation of the local currency and the negative income shock brought about by the enforcement of the opium ban. This ongoing deflation reflects a troubling inability of both private and public sectors to stimulate sufficient demand. While falling prices may offer temporary financial relief to the most vulnerable households by reducing the cost of living, it can also harm the broader macroeconomy. Prolonged deflation can lead to a damaging cycle where consumers delay purchases, businesses reduce investment, and economic growth stalls, ultimately impeding more sustainable poverty alleviation and employment opportunities. The economic hardship has increased labor force participation, leading to a rise in unemployment as jobs are not available. About half of the country's population is living in poverty, and around 15 million people are facing food insecurity.

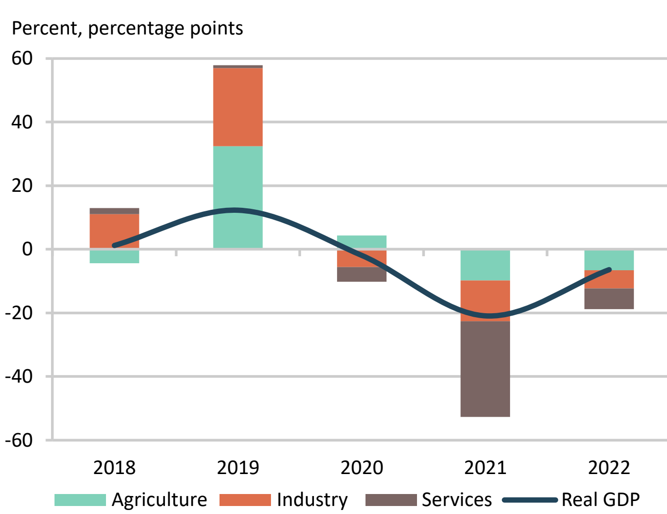
Foreign aid is entirely off-budget, given the ITA's position on human rights, gender, and inclusion. While most off-budget spending is aimed at helping the poor, the global experience highlights sustainability challenges and increased service delivery costs. In the medium term, the anticipated reduction in off-budget transfers (OBT) will negatively affect social sector service delivery for a vulnerable population. ITA is prioritizing non-productive security sector spending, and its insufficient policy response to the OBT cut will exacerbate the service delivery vacuum. The private sector remains burdened by the central bank's commitment to an overvalued currency and a fragile banking sector.

Recent developments

The real GDP shrank by a cumulative 26 percent during the last two fiscal years, with economic activity remaining stagnant during the ongoing fiscal year 2023-24. While supply conditions have eased, aggregate demand remains low, resulting in a sharp decline in the general price level. The headline inflation turned negative in April 2023, and in January 2024, it reached -10.2 percent YoY, primarily driven by negative inflation in the food group (-15.1 percent) and the non-food segment (-4.8 percent). Core inflation, excluding food and energy prices, also fell to -6.5 percent YoY. A significant appreciation of AFN against the USD during 2023 contributed to the falling price of imported commodities.

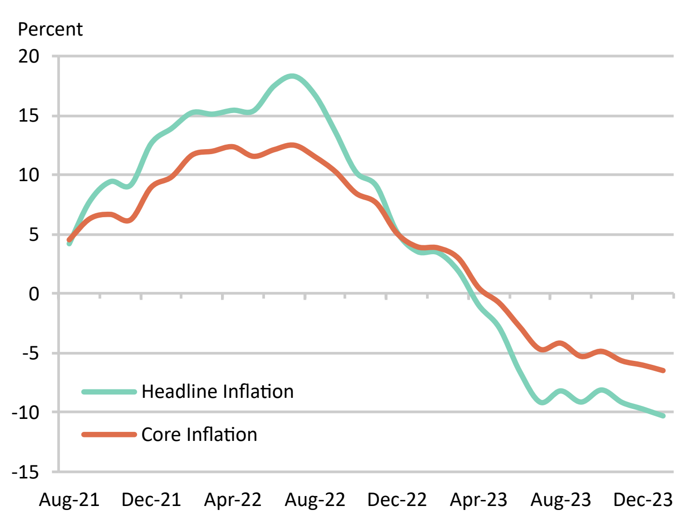
The opium cultivation ban may be causing additional deflationary pressure due to a decrease in farmers' incomes, estimated to be around $1.3 billion (about 8 percent of GDP) by the United Nations Office on Drugs and Crime, and a reduction in domestic food prices as approximately

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



Source: National Statistics and Information Authority.

FIGURE 2 Afghanistan / The country is facing deflation



Source: National Statistics and Inflation Authority.

200,000 hectares of land is estimated to be converted from illicit to licit crops. Moreover, since opium cultivation is more labor-intensive than other crops, the ban is likely to put additional upward pressure on unemployment. While declining prices might have contributed to improving the welfare of most vulnerable households, the overall weakness of the economy and the lack of employment opportunities are likely holding back more sustainable poverty reduction.

The country's total exports in CY2023 reached $1.9 billion, almost the same as in CY2022. While coal exports fell by 46 percent, increased exports of food and textiles partially compensated for this. In CY2023, Afghanistan's imports surged 23 percent YoY to $7.8 billion, resulting in a trade deficit of $5.9 billion, 34 percent higher than the previous year. Analysis suggests that approximately a quarter of these imports were intended for the Pakistani market and financed by Pakistani importers as authorities implemented direct controls to lower imports. This explains a significant increase in imports in specific categories despite an overall decrease in real GDP and deflation. These imports subsequently enter Pakistan. Accounting for these, estimates suggest that imports for Afghanistan are approximately $5.5 billion instead of $7.8 billion, resulting in a de facto trade deficit of ~$3.5 billion. The UN cash shipments of ~$1.8 billion and estimated remittances at ~$2 billion more than covered the de facto trade deficit of ~ $3.5 billion. The local forex market was in surplus, resulting in a 27 percent AFN appreciation in 2023. Recently, during Jan-Feb 2024, there has been some correction, with the AFN depreciating by 5.4 percent against the USD.

Revenue collection for the eleven months of FY2023-24 (from March 22, 2023, to February 21, 2024) totaled AFN 189 billion, narrowly missing the target by 2 percent but marking a 5.6 percent increase from the same period of the previous fiscal year. The shortfall is mainly due to border taxes, which saw a mere one percent rise despite a 22 percent surge in imports. The AFN appreciation, reduced tariffs on some food items, and lower Business Receipt Tax on manufacturing inputs have contributed to this modest increase. Conversely, Inland revenues increased 11.8 percent YoY, driven by the Small Taxpayer Office and provincial collection. The growth was mainly due to improved compliance and collection of arrears. For the FY2023-24 budget, around AFN 295 billion is earmarked for expenses, representing a 43 percent YoY increase, mainly due to the planned new hiring and increased development projects. Non-productive security spending is prioritized over social sectors, significantly impacting health, agriculture, and social protection. However, attainment seems unlikely due to limited own-source collection.

The Afghan financial sector cannot support the private sector through financial intermediation. Banks face limitations in international payments. Due to the mandatory transition to Islamic Finance and legal uncertainties around loan recoveries, banks are not lending, and deposit withdrawal limits remain in place. Banks are reliant on commission-based business rather than core banking activities. The private sector is thus deprived of meaningful access to finance and standard banking services. In addition, the capacity of the Central Bank to monitor emerging risks, particularly around AML/CFT, remains unclear.

Outlook

The current ban enforced by the ITA on female education is endangering the economy's future. Continuing the ban will cause a shortage of educated and skilled females in the country and may induce a further reduction in OBT. The economy is projected to remain stagnant, with no growth in the baseline. In 2025, GDP is projected to barely reach 2022's level with 2-3 percent annual growth after contracting 2-3 percent in 2023, resulting in a decrease in real per capita income. The baseline assumes a 15 percent decline in OBT in 2023 and 10 percent in the subsequent years, with domestic revenues only partially offsetting OBT decline amid contracting economic activity. Inflation will bounce back and will, on average, remain between 6-10 percent in 2024 and 2025 because of the base effect and correction in the exchange rate. Inflation and low growth will result in high poverty, while decreased pro-poor spending due to reduced off-budget transfers may cause a decline in service delivery for health and education and heighten vulnerability to falling into poverty. Unemployment and underemployment are expected to persist amid limited job and business prospects.

There are significant downside risks to the baseline scenario. A higher-than-projected decline in off-budget transfers will have substantial implications for pro-poor spending, having ripple effects on businesses and economic activities and thereby worsening the economic downturn. Insufficient investment in the country's human capital will have long-term consequences on the country's growth prospects and capacity to reduce poverty sustainably. Faster-than-expected depreciation of the Afghani will limit imports, taking a toll on economic growth, while a subsequent surge in inflation will intensify economic hardships. In addition, the lack of a country-wide strategy and necessary financial support to invest in climate adaptation will add additional downward risks to economic activity and poverty reduction.

BANGLADESH

Table 1	2023
Population, million	173.0
GDP, current US$ billion	437.4
GDP per capita, current US$	2529.1
International poverty rate ($2.15)[a]	5.0
Lower middle-income poverty rate ($3.65)[a]	30.0
Upper middle-income poverty rate ($6.85)[a]	74.1
Gini index[a]	33.4
School enrollment, primary (% gross)[b]	117.7
Life expectancy at birth, years[b]	72.4
Total GHG emissions (mtCO2e)	256.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Real GDP growth is expected to slow from 5.8 percent in FY23 to 5.6 percent in FY24, as inflation weighs on consumption and import restrictions and financial sector vulnerabilities constrain private investment. Poverty is projected to rise marginally in FY24, with stagnant inequality. External buffers need to be rebuilt to ensure macroeconomic stability. Export diversification, financial sector reforms, and revenue mobilization are key policy priorities ahead of Least Developed Country (LDC) graduation in 2026.

Key conditions and challenges

Macroeconomic stability and strong exports underpinned 6.6 percent average real GDP growth over the decade preceding the COVID-19 pandemic. A stimulus program and accommodative monetary policy sustained modest growth during the pandemic. From 2016 to 2022, poverty incidence declined by 2.1 percentage points (US$ 3.65 poverty line) and 0.7 percentage points for extreme poverty (US$ 2.15) annually. Thirty percent of the population (51.3 million people) currently lives in poverty (US$ 3.65). Multidimensional poverty declined from 45.3 to 30.6 percent over the same period, lifting 20 million people out of deprivation of basic services. Inequality based on the Gini coefficient remained unchanged at 33.4.

Economic conditions deteriorated in FY23 as inflation accelerated and the balance of payments (BoP) deficit widened, driven by a financial account deficit. FX rationing restricted imports, leading to electricity blackouts. Rising financial sector vulnerabilities have dampened growth prospects. Unemployment was low in 2022 (3.6 percent), and the female labor force participation rate (42.7 percent) was almost half that of males. However, job quality deteriorated between 2016 and 2022 as employees earning more than US$ 3.65/day fell from 77.9 to 50.2 percent.

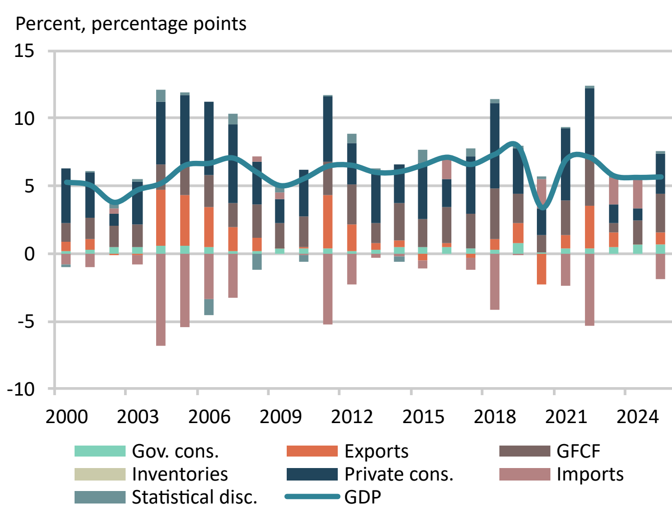
Bangladesh's expected graduation from UN LDC status in 2026 will gradually result in a loss of trade preferences. Export diversification away from garments and negotiation of trade agreements are key medium-term objectives. Revenue mobilization, tariff modernization, and elimination of non-tariff barriers would promote diversification and boost growth. Addressing financial sector vulnerabilities and streamlining regulations would support foreign investment inflows. Improving governance, building human capital, and mitigating climate risks are key long-term challenges.

Recent developments

Estimated real GDP growth slowed in the first half of FY24 as private consumption and investment growth stagnated. On the supply side, industrial growth moderated as energy shortages and import restrictions offset steady external demand for RMG. The services sector slowed as domestic purchasing power declined, while agricultural growth remained modest. This has impacted labor income, especially for vulnerable populations working in services and agriculture.

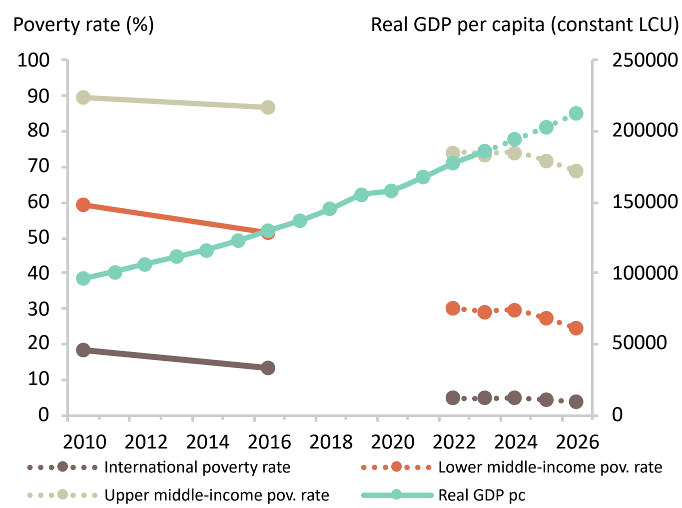
Inflation remained elevated in the first half of FY24, declining marginally to 9.7 percent in February 2024, driven by rising food and electricity prices. Weak private consumption growth and high inflation have halted poverty reduction. Higher food prices particularly impacted poor households, which allocate over half of their budget towards food expenditures. Bangladesh Bank (BB) raised the policy rate by a cumulative 325 basis points

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



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

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



Source: World Bank. Notes: see Table 2.

since May 2022. However, policy transmission has been impaired by a cap on lending rates. The nonperforming loan ratio increased to 9.2 percent in FY23, although this ratio understates vulnerabilities due to lax regulatory definitions and reporting standards.

The current account moved into a US$ 3.1 billion surplus in the first seven months of FY24 as exports grew by 0.2 percent and imports contracted by 16.3 percent. Official remittance growth remained muted at 3.6 percent. The financial account deficit surged to US$ 7.4 billion, led by a decline in short-term lending. The BoP deficit narrowed to US$ 4.7 billion over the first seven months of FY24, compared to US$ 7.4 billion over the same period of FY23. Official exchange rates depreciated modestly, remaining insufficient to clear the FX market. BB intervened heavily in the market to maintain exchange rate caps. Gross FX reserves declined to US$ 20.0 billion at end-January 2024, a $4.8 billion decline in FY24, providing 3.4 months of import coverage.

The fiscal deficit narrowed modestly to 4.4 percent of GDP in FY23, down from 4.6 percent in FY22, as weak revenue growth was offset by deferred capital investment and limited public sector wage growth. The public debt to GDP ratio increased to 35.0 percent but remained sustainable, with a low risk of debt distress.

Outlook

Growth is expected to decelerate to 5.6 percent in FY24 from 5.8 percent in FY23 before returning gradually to its long-term trend above 6.0 percent. Elevated inflation will weigh on consumption, while private investment will remain constrained by FX rationing. As consumption growth slows and the population increases, almost half a million Bangladeshis are projected to fall into extreme poverty (at US$ 2.15) between FY23 and FY24, while moderate poverty (at US$ 3.65) increases from 29.3 to 29.4 percent, rising by around 0.84 million. Inequality is forecasted to remain stagnant.

External sector pressure will ease gradually, with resilient export growth. The CAD is expected to narrow further in FY24 as import restrictions persist before widening over the medium term as policies normalize. Remittance inflows are expected to rise, underpinned by a higher outflow of workers and greater exchange rate flexibility. 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, with a weak global outlook. The pace of monetary and exchange rate reforms may be insufficient, depleting FX reserves. Tighter liquidity could exacerbate banking vulnerabilities. Fiscal risks include revenue underperformance, realization of financial sector contingent liabilities, and monetization of the deficit.

TABLE 2 Bangladesh / 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[a]	6.9	7.1	5.8	5.6	5.7	5.9
Private consumption	8.0	7.5	2.0	1.4	4.9	5.3
Government consumption	6.9	6.2	8.5	10.6	9.9	7.4
Gross fixed capital investment	8.1	11.7	2.2	5.6	8.8	8.6
Exports, goods and services	9.2	29.4	8.0	0.1	7.2	6.4
Imports, goods and services	15.3	31.2	-9.8	-12.2	12.5	10.2
Real GDP growth, at constant factor prices[a]	7.0	7.2	6.2	5.7	5.7	5.9
Agriculture	3.2	3.1	3.4	3.1	3.1	3.2
Industry	10.3	9.9	8.4	6.6	7.2	6.8
Services	5.7	6.3	5.4	5.6	5.1	5.8
Inflation (consumer price index)	5.6	6.1	9.0	9.6	8.5	6.5
Current account balance (% of GDP)	-1.1	-4.0	-0.6	0.9	0.7	-0.2
Net foreign direct investment inflow (% of GDP)	0.3	0.4	0.4	0.3	0.4	0.4
Fiscal balance (% of GDP)	-3.7	-4.6	-4.4	-4.6	-4.7	-4.8
Revenues (% of GDP)	9.4	8.5	8.2	8.6	9.0	9.3
Debt (% of GDP)	32.4	33.7	35.0	35.0	35.3	36.3
Primary balance (% of GDP)	-1.7	-2.6	-2.5	-2.1	-2.2	-2.3
International poverty rate ($2.15 in 2017 PPP)[b,c]	..	5.0	4.9	5.1	4.5	3.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	..	30.0	29.3	29.4	27.2	24.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	..	74.1	73.5	73.8	71.6	68.7
GHG emissions growth (mtCO2e)	5.9	5.1	2.6	1.8	2.0	2.6
Energy related GHG emissions (% of total)	41.3	43.0	43.6	43.7	43.9	44.3

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

BHUTAN

Table 1	2023
Population, million	0.8
GDP, current US$ billion	2.9
GDP per capita, current US$	3707.1
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.5
Upper middle-income poverty rate ($6.85)[a]	8.4
Gini index[a]	28.5
School enrollment, primary (% gross)[b]	103.8
Life expectancy at birth, years[b]	71.8
Total GHG emissions (mtCO2e)	-5.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2021).

Output grew by 4.5 percent in FY22/23 and growth rate is projected to increase in the medium term, due to recovery in industry and services sectors. Fiscal deficit is anticipated to increase in FY23/24 before moderating in the medium term. Current account deficit is expected to improve with increased hydropower exports, tourism, and reduced crypto equipment imports. In 2022, about 9 percent of the population lived below $6.85/day but a substantial share of Bhutanese is vulnerable to falling into poverty.

Key conditions and challenges

Annual real GDP growth has averaged 7.5 percent since the 1980s, driven by the hydropower sector and in services, including tourism. Rapid economic growth has contributed to poverty reduction over the last two decades. Extreme poverty based on $2.15/day was eliminated by 2022. Less than one percent of people live on less than $3.65/day international poverty line and 8.5 percent of people live with less than $6.85/day. Poverty reduced significantly in the last five years, partly driven by growth in real per capita consumption, social transfers and increases in remittances. Declines were particularly salient in rural areas. Access to food, education, water, and sanitation also improved in the last five years. Inequality, measured by the Gini index, decreased from 37 in 2017 to 28 in 2022. However, vulnerability to shocks and spatial inequalities remain a challenge, with a poverty rate as high as 41 percent in Zhemgang district and as low as 1.5 percent in Thimphu district, while Gini is as high as 0.32 in Zhemgang and as low as 0.24 in Punakha and Thimphu. Sluggish job creation with high youth unemployment rate (15.9 percent in 2023) has prompted an increase in emigration and contributed to a loss of skilled workforce.

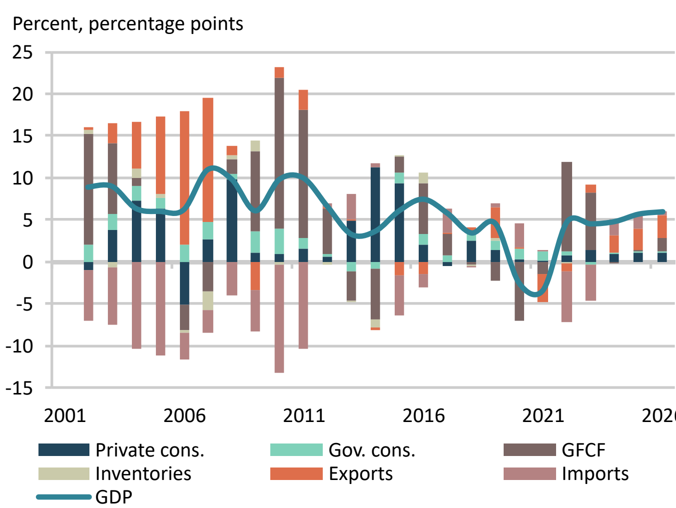
The economy has recovered from the shocks resulting from the pandemic and Russia's invasion of Ukraine. The fiscal deficit declined as pandemic-related relief measures were phased out and capital expenditures decreased. However, a major national investment in cryptocurrency mining resulted in a decline in international reserves and a widening of the current account deficit (CAD) to 34.3 percent of GDP in FY22/23. The government announced plans to establish a Special Economic Zone known as the Gelephu megacity project, aiming to mobilize significant foreign investments.

The downside risks to the economic outlook persist. Delays in hydropower projects could affect fiscal and external balances. Delayed fiscal consolidation and the materialization of financial sector contingent liabilities could further erode fiscal buffers. Rising and volatile commodity prices due to geopolitical tensions could exert further pressure on the external balance. Continued emigration of skilled labor could also weigh on the economy.

Recent developments

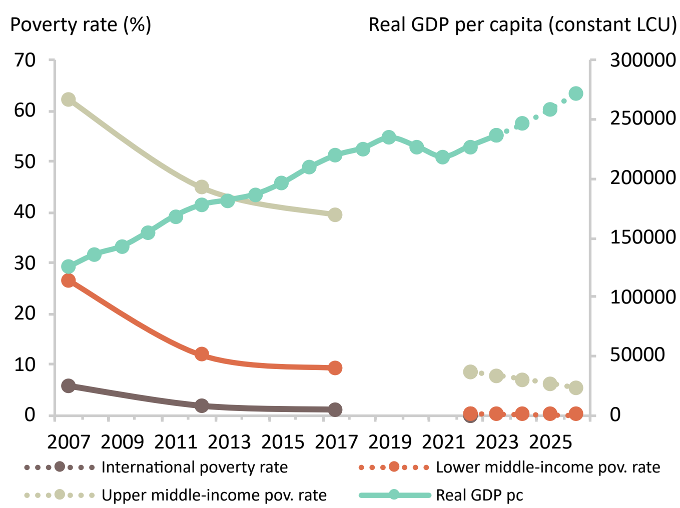
Real GDP is estimated to have grown by 4.5 percent in FY22/23, supported by the reopening of borders for tourism. The industry sector grew by 5.6 percent, driven by construction, mining, and manufacturing activities. The services sector grew by 4.9 percent, supported by transport- and trade-related services.

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



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

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



Source: World Bank. Notes: see Table 2.

Growth in agriculture has been moderate, primarily due to reduced crop production. Demand side growth was driven by non-hydro goods and services exports and private investment, with potential positive effects on employment and wages.

The headline inflation rose marginally since March 2023 to reach 5.0 percent in December 2023. The pickup was driven by the increase in food prices locally and rising prices in India. This is expected to have negative effects on household consumption, particularly in poor urban households.

The fiscal deficit declined to 4.1 percent of GDP in FY22/23, primarily due to reduced capital spending. Although corporate income taxes, driven by hydro revenues, remained subdued, non-hydro revenues increased, reflecting the gradual recovery of the industrial and services sectors. Capital expenditure remained low in FY22/23 due to frontloading of the 12th Five-Year Plan in FY20/21.

The current account deficit (CAD) widened significantly to 34.3 percent of GDP in FY22/23. Tourist inflow supported export services growth, and imports declined with the fall in crypto-related IT equipment imports. Hydropower exports declined due to increased domestic consumption, reflecting the higher electricity needs for crypto-mining operations. Gross international reserves stood at US$533 million as of November 2023.

Outlook

The economy is projected to grow by 4.9 percent in FY23/24, supported by higher growth in tourism. Net trade is expected to improve due to rising services exports and a fall in crypto-related IT equipment imports. Medium-term growth is expected to be supported by the services sectors and the commissioning of the Puna II hydropower plant. The growth is expected to improve household income and create new jobs.

The incidence of poverty is estimated to decrease slightly to 7.8 percent in 2023 based on $6.85/day. However, a large share of the population will remain vulnerable to falling into poverty.

The fiscal deficit is projected to increase in FY23/24. Current expenditure is expected to increase due to a major salary hike for public sector employees and capital expenditures are likely to remain robust, but close monitoring of the expenditure will keep the fiscal deficit at 5 percent of GDP. The fiscal deficit is expected to decline beyond FY24/25, driven by higher revenue from the Puna II hydropower plant and lower capital expenditure due to declining grants. Public debt is expected to remain elevated at 110.9 percent of GDP in FY23/24.

The CAD improved in the first quarter of FY23/24 and is expected to improve further to 15.7 percent of GDP in FY23/24 driven by a lower trade deficit. Export growth is expected to be driven by hydro exports and services exports fuelled by increased tourist arrivals. Conversely, the import of goods is expected to decrease, primarily due to the decline in imports of crypto IT equipment, which constituted approximately 6 percent of GDP in 2022. International reserves are expected to decline by US$63 million since FY22/23 to US$516 million in FY23/24 (3.8 months of import).

TABLE 2 Bhutan / 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[a]	-3.3	4.8	4.6	4.9	5.7	6.0
Private consumption	0.3	1.5	2.9	2.0	2.2	2.3
Government consumption	5.4	1.9	-1.2	0.5	0.9	1.4
Gross fixed capital investment	-3.4	25.4	13.3	-0.5	0.4	3.2
Exports, goods and services	-10.4	-3.6	3.7	7.7	9.3	9.7
Imports, goods and services	-0.5	13.2	8.9	-4.0	-3.9	-1.0
Real GDP growth, at constant factor prices	-2.3	4.9	4.6	4.9	5.7	6.0
Agriculture	2.7	0.1	0.3	1.7	1.6	1.7
Industry	-5.9	4.8	5.6	5.0	9.1	9.6
Services	-1.2	6.3	5.0	5.6	4.7	4.7
Inflation (consumer price index)	8.2	5.3	4.6	4.9	4.1	4.0
Current account balance (% of GDP)	-11.1	-28.1	-34.3	-15.7	-9.7	-9.6
Fiscal balance (% of GDP)	-5.8	-7.0	-4.1	-5.0	-3.5	-2.2
Revenues (% of GDP)	30.9	25.1	25.2	24.6	25.1	24.1
Debt (% of GDP)	123.3	118.8	116.5	110.9	103.4	112.0
Primary balance (% of GDP)	-4.8	-5.6	-2.4	-3.8	-2.0	-0.3
International poverty rate ($2.15 in 2017 PPP)[b,c]	..	0.0	..	..	..	..
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	..	0.5	0.4	0.3	0.3	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	..	8.4	7.8	7.0	6.3	5.3
GHG emissions growth (mtCO2e)	0.1	-1.2	-1.5	-1.4	-1.4	-1.4
Energy related GHG emissions (% of total)	-14.6	-15.3	-16.4	-17.3	-18.3	-19.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ 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. Nowcast: 2023. Forecasts are from 2024 to 2026.
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	2023
Population, million	1428.6
GDP, current US$ billion	3610.5
GDP per capita, current US$	2527.2
School enrollment, primary (% gross)[a]	108.1
Life expectancy at birth, years[a]	67.2
Total GHG emissions (mtCO2e)	3620.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2022); Life expectancy (2021).

Buoyant construction, manufacturing, and services drove strong growth in India in FY23/24 and will continue to anchor growth at high levels over the medium term despite the muted global outlook. In recent years, high growth and recovery in the labor market have been accompanied by declining rates of extreme and moderate poverty, and improvements in non-monetary poverty. Critical structural reforms for sustained development include promoting trade and private investments, improving the business climate, supporting the catch-up growth of lagging states, and creating conditions for more and better jobs, particularly for the youth and women.

Key conditions and challenges

Between 2000 and 2019, India's economy grew by 6.6 percent annually on average; per capita GDP doubled, and the extreme poverty rate decreased from 40 percent in 2004 to 13.2 percent in 2019. Non-monetary poverty (deprivation in health, education, and living standards) fell by 70 percent from 2005-06 to 16.4 percent in 2019-21. These developments were underpinned by India's deeper integration into the global economy, improvements in the business environment, basic services expansion, and prudent macroeconomic management. However, inequality persisted, with a consumption-based Gini index of 33 percent, and around 44 percent of the population lived below the lower middle-income poverty line in FY21/22. Regional disparities in non-monetary poverty and access to basic services remain largely unchanged.

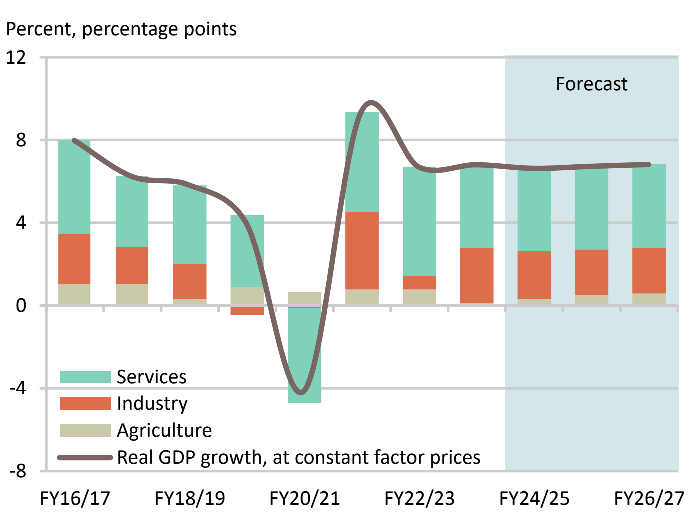
The economy contracted by 5.8 percent in FY20/21, due to COVID-19 related mobility restrictions, before rebounding by 9.7 percent in FY21/22 to above its pre-pandemic level. Over the same period extreme poverty spiked temporarily to 15.5 percent before dropping to 13 percent. Labor market outcomes improved notably in FY22/23, with the urban unemployment rate decreasing to 7.2 percent in FY22/23 from 9.8 percent in FY21/22. The labor force participation rate improved, particularly for women, as self-employment and unpaid work increased, albeit raising concerns about the quality and sustainability of these improvements.

Risks to the growth and poverty reduction outlook are balanced. Global growth has remained subdued; there are signs of recovery, although geopolitical tensions could cause supply chain disruptions. Indian manufacturing firms have benefited from lower input costs as global commodity prices eased. While not immune to international developments, India's economy is resilient with its vast domestic market, diversified structure, and substantial foreign exchange reserves providing external buffers. Achieving higher growth would require enhancing the efficiency of public investment in human capital, addressing constraints to the participation of women in the labor market, further deepening the transition to green energy, expanding infrastructure, and easing trade, investment, job creation, and doing business more generally through the next generation regulatory reforms.

Recent developments

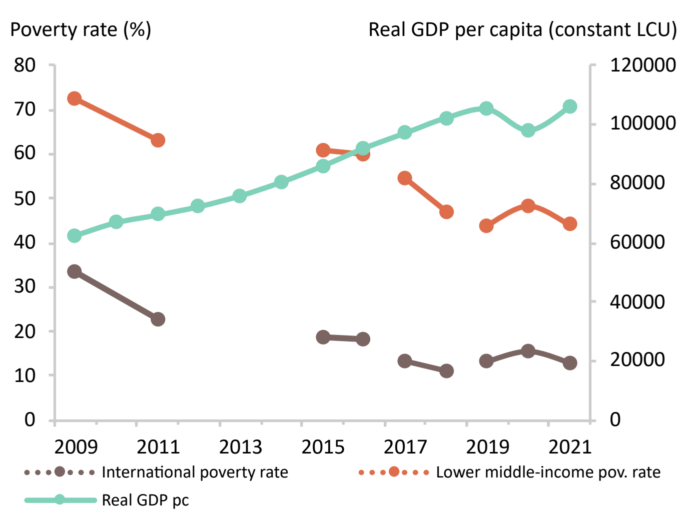
Growth is projected to reach 7.5 percent in FY23/24. Buoyant services and industry activity, especially in construction and manufacturing, offset a slowdown in agriculture due to uneven monsoons. Investment is projected to grow by 10.8 percent, fueled by significant public infrastructure spending and increased private investment. Private consumption is forecast to moderate as weak agriculture

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



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

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



Source: World Bank. Notes: see Table 2.

performance depressed rural incomes and post-pandemic pent-up demand waned.

Inflation is expected to fall to 5.5 percent in FY23/24. Core inflation fell below 4 percent, while food inflation remained around 8 percent as of February 2024. The RBI's Monetary Policy Committee maintained the policy rate unchanged at 6.5 percent and its "withdrawal of accommodation" stance. The sustainability of poverty reduction and consumption spending by poorer households are constrained by weak agriculture, stagnant real wages for casual labor, food price volatility, and better utilization of social schemes like PM Awas Yojna and PM Ayushman Bharat can help sustain the achievement.

The fiscal deficit is expected to narrow to 8.6 percent of GDP in FY23/24 from 9.1 percent in FY22/23. At the central level, gross tax revenues increased by 12.5 percent in FY23/24, surpassing the 10.5 percent budget target, thanks to continued efforts to broaden the base and improve tax services. Non-tax revenues were buoyed by higher-than-expected dividends from the RBI and other financial institutions. Current expenditure grew by 2.5 percent y-o-y, allowing a sizeable expansion of public investment by 28 percent. The aggregate fiscal deficit of states increased to 2.8 percent from 2.7 percent in FY22/23. Despite a lower overall deficit, the debt-to-GDP ratio is expected to rise from 82.5 in FY22/23 to 84.3 percent in FY23/24 as nominal growth was significantly lower in FY23/24 at 9.2 percent from 14.2 percent in FY22/23.

The current account deficit is expected to narrow to 1.1 percent of GDP in FY23/24, from 2.0 percent in the previous year. Strong services exports and declining international fuel prices drove the improvement. Net Foreign Direct Investment is estimated to remain subdued at 0.8 percent of GDP as repatriation surged, but foreign portfolio inflows rebounded in FY23/24. Thus, international reserves rose to US$622 billion as of February 2024, amounting to around 10 months of import cover.

Outlook

Growth is expected to decelerate to 6.6 percent in FY24/25, before picking up in subsequent years. Growth will be dampened in FY24/25 by the subdued external environment, the unwinding of the post-COVID-19 rebound, and the general slowdown of activity, particularly capex, during the election period. The medium-term outlook is positive as past public investment will crowd-in corporate investment, and private consumption growth will be supported by the recovery of agriculture and declining inflation. Under the baseline scenario, headline inflation is projected to decline to 4 percent over the medium term. These developments are expected to be accompanied by further reductions in extreme and moderate poverty. New official data on household expenditures from 2022/23 and 2023/24 household surveys will allow to reassess poverty and inequality rates.

The overall fiscal deficit is projected to narrow, helping to gradually reduce public debt. Revenues are projected to remain robust, thanks to improving tax administration and healthy corporate profits. Current spending should continue to increase in absolute terms but decline as a share of GDP, with capital spending remaining high (at over 5 percent of GDP). The debt-to-GDP ratio is projected to decline gradually to around 81 percent by FY26/27.

The current account deficit is expected to remain at around 1.5 percent of GDP over the forecast period supported by declining commodity prices, vibrant services exports, and continued progress in high and medium-technology goods exports. The deficit should be adequately financed by foreign (direct and portfolio) investment flows, with foreign exchange reserves providing ample cover against any adverse external development.

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

	2021/22	2022/23	2023/24e	2024/25f	2025/26f	2026/27f
Real GDP growth, at constant market prices	9.7	7.0	7.5	6.6	6.7	6.8
Private consumption	11.7	6.8	3.8	5.1	6.3	6.8
Government consumption	0.0	9.0	3.1	5.8	5.9	6.1
Gross fixed capital investment	17.5	6.6	10.8	9.7	7.6	7.4
Exports, goods and services	29.6	13.4	3.1	4.5	7.2	8.2
Imports, goods and services	22.1	10.6	10.4	4.9	7.1	8.5
Real GDP growth, at constant factor prices	9.4	6.7	6.8	6.6	6.7	6.8
Agriculture	4.6	4.7	0.7	2.1	3.7	4.0
Industry	12.2	2.1	8.8	7.6	7.1	7.1
Services	9.2	10.0	7.4	7.3	7.3	7.3
Inflation (consumer price index)	5.5	6.7	5.5	4.7	4.1	4.0
Current account balance (% of GDP)	-1.2	-2.0	-1.1	-1.4	-1.5	-1.5
Net foreign direct investment inflow (% of GDP)	1.2	0.8	0.8	1.2	1.4	1.5
Fiscal balance (% of GDP)	-9.5	-9.1	-8.6	-8.0	-7.5	-7.4
Revenues (% of GDP)	20.6	19.2	19.6	20.2	20.4	20.4
Debt (% of GDP)	84.8	82.5	84.2	83.1	81.8	80.6
Primary balance (% of GDP)	-4.2	-3.9	-3.4	-2.8	-2.4	-2.3
International poverty rate ($2.15 in 2017 PPP)[a]	12.9	..	..	..	..	..
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a]	44.1	..	..	..	..	..
GHG emissions growth (mtCO2e)	6.2	5.0	2.5	4.2	3.1	3.2
Energy related GHG emissions (% of total)	69.1	70.3	70.9	71.9	72.7	73.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Estimates based on World Bank Poverty and Inequality Platform. Ministry of Statistics and Programme Implementation (MOSPI) has recently released a Factsheet on the 2022/23 Household Consumption Expenditure Survey. The survey is part 1 of a two-year consecutive survey effort (2022-23 and 2023-24) that should fill a long gap in official poverty statistics in India. The official poverty numbers for 2022-23 will be available when the microdata is released.

MALDIVES

Table 1	2023
Population, million	0.5
GDP, current US$ billion	6.6
GDP per capita, current US$	12624.9
Upper middle-income poverty rate ($6.85)[a]	3.9
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	97.8
Life expectancy at birth, years[b]	79.9
Total GHG emissions (mtCO2e)	2.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

Economic growth is slowing, despite rising tourist arrivals. Large external imbalances, combined with external financing gaps have led to declining foreign exchange reserves and substantial liquidity pressures. These add to solvency concerns that reflect a high public debt stock, large fiscal deficits, and expenditure arrears. Sustaining macroeconomic stability and growth will require a major fiscal adjustment and implementation of a multi-year reform plan. Protecting the poor and vulnerable from income and welfare losses will be crucial.

Key conditions and challenges

Tourism, which directly accounts for a quarter of the economy, has continued to expand driven by arrivals from Russia, India, and China, as well as new markets such as the USA. However, a decline in the average duration of stay and lower per capita tourist spending has led to slower economic growth in 2023.

Following substantial increases in public spending in recent years, economic imbalances and vulnerabilities have reached critical levels in the Maldives. Persistent large current account and fiscal deficits have depleted external buffers. With a heavy reliance on imports, the nation faces significant external and fiscal pressures due to substantial level of construction-related imports, and limited official reserves. Pressure on public finances is exacerbated by government support for underperforming State-Owned Enterprises (SOEs), blanket provision of subsidies, continued high levels of capital spending, and a generous public health scheme. Hard-to-sustain subsidies and in-kind transfers play a vital role in boosting household incomes, particularly among the economically disadvantaged and those living in the atolls, raising concerns about the welfare impact of fiscal vulnerabilities.

While infrastructure projects have boosted long-term growth prospects, they have largely been financed from external non-concessional sources and sovereign guarantees. The rising cost of external borrowing has also forced the government to turn towards domestic financing sources, increasing the exposure of the monetary and financial sector to the sovereign.

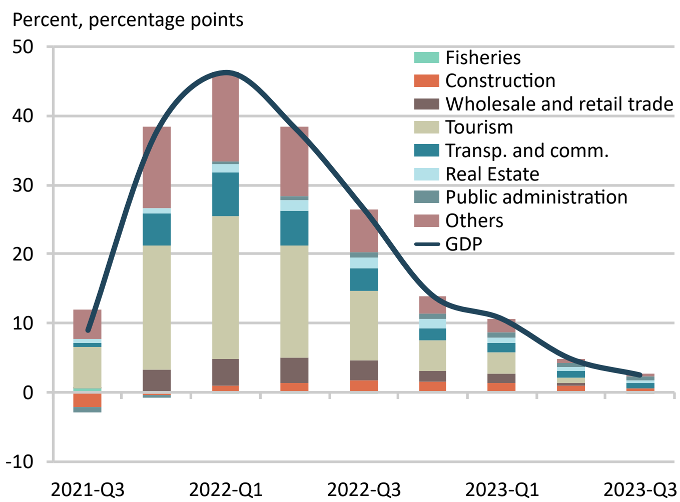
As a positive step, the government recently announced its commitment to a fiscal reform agenda that aims to address economic vulnerabilities. Details of this agenda still need to be released but will likely include reforms to subsidies, SOEs, the public health insurance (Aasandha) scheme, and capital spending. Revenues saved could be partially recycled to mitigate poverty and inequality increases. Without a meaningful fiscal adjustment, public and publicly guaranteed (PPG) debt is forecast to remain high.

Recent developments

Tourist arrivals climbed by 12 percent (y-o-y) and reached 1.88 million in 2023, an all-time high. However, this did not translate into higher GDP growth due to decreased spending per tourist linked to a growing preference for guest houses over high-end resorts. Real GDP grew by only 2.5 percent (y-o-y) on a 4-quarter rolling basis in 2023Q3, as the tourism and trade sectors contracted by, respectively, 0.4 and 0.9 percent (y-o-y) in the quarter. Overall, the Maldivian economy is estimated to have grown by 4.0 percent in 2023.

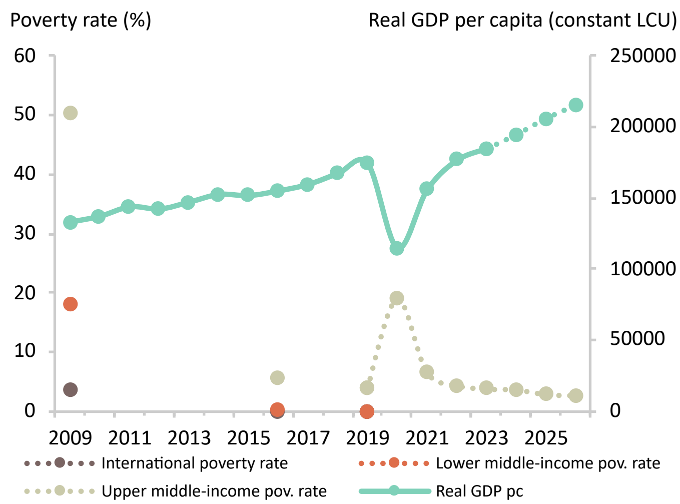
Compared to its historical average of 0.5 percent, domestic inflation remained elevated at 2.9 percent (y-o-y) in 2023, given high global commodity prices and

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



Sources: Maldives Bureau of Statistics and World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

a fiscally prudent increase in the goods and services tax (GST) rate. Price increases were particularly acute in the food, education, and restaurant and accommodation services sectors. The poverty impact of food inflation alone could be 0.4 percentage points, and higher in atolls (0.6 percentage points).

Travel export receipts contracted by 6.8 percent (y-o-y) in 2023, while merchandise imports remained elevated at US$3.5 billion, driven by high commodity and capital goods imports. As a result, the current account deficit widened considerably to an estimated 23.4 percent of GDP. High import costs and external debt repayments also put significant pressure on gross reserves, which fell to US$551.1 million (1.9 months of imports) in January 2024, from US$790.0 million a year earlier.

Failure to implement planned subsidy reforms and rapidly rising recurrent and capital spending led to a sharp rise in overall expenditure and an increase in the fiscal deficit to an estimated 13.2 percent of GDP in 2023. This was despite raising GST rates, which resulted in overall revenues growing by 17 percent (y-o-y). A supplementary budget (6.1 percent of GDP) was approved to cover rapidly rising expenditure.

Outlook

Supported by tourism, the economy is projected to grow by 4.7 percent on average over the medium term – significantly lower than the pre-pandemic average of 7.4 percent. This outlook is predicated on a significant expected fiscal adjustment – including the negative impact on real household incomes from the planned subsidy reforms and a reduction in government consumption and investments – and more moderate tourist spending. Slower projected growth also translates into slowing poverty reduction in 2024.

The fiscal deficit is expected to remain elevated in 2024, as the approved Budget includes ambitious spending plans with an unidentified financing gap of over US$700 million. As a result, PPG debt is projected to remain around 120 percent of GDP over the medium term. A fiscal reform package was announced, but a larger fiscal adjustment is required – particularly through higher cuts in non-essential capital and untargeted recurrent spending – to lower public debt and substantially address fiscal and external vulnerabilities. Inflation is projected to rise due to the planned removal of blanket subsidies. In the absence of mitigation, this could drive poverty to increase by 2.5 percentage points. Higher prices could impact the labor market and increase existing inequalities in employment opportunities.

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

Major downside risks exist. Any shock to the tourism sector could threaten the already modest levels of projected economic growth and lead to larger welfare losses. Limited domestic and external financing may further exacerbate liquidity and solvency risks, especially considering the approaching spike in external debt servicing payments. A further widening of the current account deficit could exacerbate external vulnerabilities. Sustaining macroeconomic stability will require a major fiscal adjustment and the implementation of a multi-year reform plan which needs to be accompanied by targeted transfer mechanism to offset welfare losses among vulnerable groups.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	37.7	13.9	4.0	4.7	5.2	4.1
Real GDP growth, at constant factor prices	33.8	15.0	4.0	4.7	5.2	4.1
Agriculture	-0.7	3.1	3.2	3.0	2.8	2.7
Industry	-4.6	25.2	8.5	2.0	4.7	1.8
Services	43.4	14.7	3.5	5.1	5.4	4.5
Inflation (consumer price index)	0.5	2.3	2.9	7.5	6.5	5.0
Current account balance (% of GDP)	-8.7	-16.7	-23.4	-19.4	-18.0	-14.3
Net foreign direct investment inflow (% of GDP)	12.2	11.9	12.1	11.7	12.3	11.5
Fiscal balance (% of GDP)	-14.2	-12.0	-13.2	-12.2	-11.0	-9.5
Revenues (% of GDP)	26.4	30.0	33.0	31.8	31.5	31.9
Debt (% of GDP)	117.1	114.5	122.9	122.1	119.7	118.4
Primary balance (% of GDP)	-11.6	-8.3	-9.6	-8.3	-7.2	-6.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	6.7	4.5	3.9	3.7	2.9	2.8
GHG emissions growth (mtCO2e)	11.1	13.8	8.9	6.6	6.0	5.9
Energy related GHG emissions (% of total)	74.7	77.0	78.1	78.8	79.4	79.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

NEPAL

Table 1	2023
Population, million	30.9
GDP, current US$ billion	41.2
GDP per capita, current US$	1332.2
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]	118.8
Life expectancy at birth, years[b]	68.4
Total GHG emissions (mtCO2e)	49.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2010), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

GDP growth is projected to increase from 1.9 percent in FY23 to 3.3 percent in FY24, driven by revived tourism and improved electricity generation. Decreased expenditure is anticipated to trim the fiscal deficit, while a current account surplus is expected due to reduced merchandise imports and increased remittances. Monetary easing could also support medium-term growth. Despite significant reduction in poverty over the past decade, concerns persist over vulnerability to relapse and short-term risks such as high inflation and other shocks.

Key conditions and challenges

Nepal's economy experienced an average growth rate of 4.5 percent over the past decade, punctuated by four significant external shocks in 2015 (earthquake), 2016 (India blockade), 2017 (landslide), and 2020 (COVID-19). Remittances, accounting for approximately one-quarter of the country's GDP for a decade, have driven private consumption. The new household survey data shows a 66 percent increase in average real per capita consumption between FY11 and FY23, alongside a significant decline in the poverty rate by 21.6 percentage points to 3.6 percent over the same period (based on the 2011 national poverty line). Remittances were a major factor in poverty reduction, contributing an estimated 32 percent.

Despite these positive developments and achieving lower-middle-income country status in FY20, Nepal's per capita income level still lags its peer countries. Persistent challenges such as low productivity and fiscal pressures from the transition to fiscal federalism impede progress. Sluggish private sector growth, geographic and environmental challenges, weak international competitiveness, and governance issues pose further obstacles. Although both the inequality and prosperity gap have decreased, about 20.3 percent of the population still live below the new national poverty line, which is 70 percent higher than the 2011 poverty threshold. The incidence of poverty varies across the seven provinces of Nepal, reflecting spatial disparities across the country.

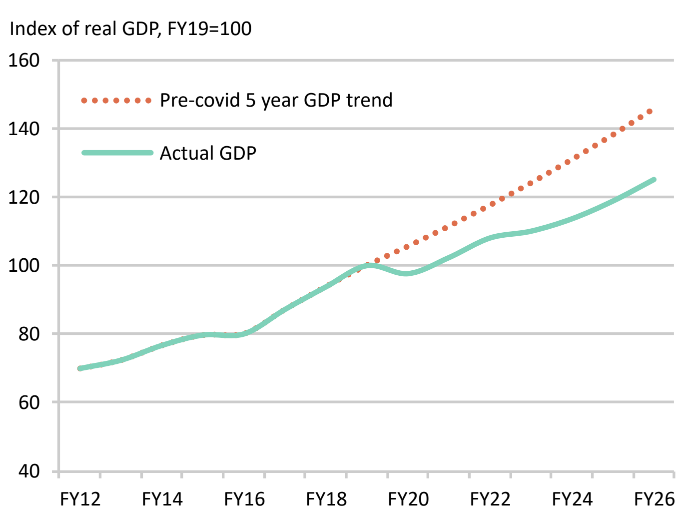
Limited job opportunities are another characteristic of Nepal's economy. Consequently, emigration remains a preferred option for Nepalis across the income distribution, with poorer households benefiting increasingly more from remittances over the past decade. On average, migrant workers earned three times more than domestic workers. Self-employment or unpaid work comprised a third of all employment in FY23, while over half of those with secondary education and a quarter with tertiary education were unemployed.

Recent developments

After a 1.9 percent growth in FY23, high-frequency indicators show improvement in growth in the first half of FY24 (H1FY24) compared to H1FY23. Industrial growth benefited from higher hydropower generation, while services saw gains from a 46.8 percent (year-on-year) increase in tourism arrivals. Agriculture grew due to increased paddy production. However, weak domestic demand persists despite a 1 percentage point policy interest rate cut in December 2023.

Average inflation cooled to 6.5 percent in H1FY24 from 8 percent in H1FY23, driven by an easing in prices of transportation and housing and utilities. However, inflation expectations appear persistent, and poor households may face rising prices

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



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

FIGURE 2 Nepal / Current account deficit

Sources: World Bank staff calculations and Nepal Rastra Bank.

due to increased shipping costs from Red Sea supply disruptions.

The current account balance turned from a deficit in FY23 to a surplus in H1FY24, the first time since H1FY16. This was supported by (a) strong remittance inflows, which grew by 22.6 percent year-on-year, and (b) declining imports of food, beverages, and industrial supplies, which narrowed the trade deficit. Additionally, exports increased due to higher earnings from tourism. Consequently, official foreign exchange reserves grew and reached 12.1 months of import cover by the end of H1FY24.

The fiscal deficit widened to 6.2 percent of GDP in FY23, driven by lower revenues owing to import restrictions. However, the deficit declined in H1FY24, reflecting improvement in income tax collections following provisions in the FY24 budget requiring banks and financial institutions to pay income tax on profits received through mergers or acquisitions and issuance of Further Public Offerings at a premium rate, and a decrease in expenditure, partly due to lower capital budget execution and austerity measures.

Outlook

Growth is projected to recover from 1.9 percent in FY23 to 3.3 percent in FY24, and further accelerate to an average of 5 percent in FY25-FY26, supported by monetary policy easing. The services sector is expected to remain the primary driver of real GDP growth and job creation over the medium term. However, most service sector jobs remain low productivity and informal. Industrial growth, particularly in the electricity sub-sector, is projected to strengthen due to significant additions in hydroelectric capacity, which could boost productivity. The economy could also benefit in the medium term from increased private investment if reforms are implemented to improve the business environment.

Consumer price inflation is expected to remain elevated in FY24 compared to the FY17-23 average, increasing short-term poverty and vulnerability risks, before gradually declining, reflecting moderation in global commodity prices and lower inflation expectations.

The current account balance is projected to turn into a surplus in FY24, the first since FY16, due to robust remittances growth and lower merchandise imports. The surplus will narrow in subsequent years as import growth outpaces that of exports. While electricity exports are set to continue, the recent surge in remittances, from record migration in FY23, is projected to subside.

Tax revenues are expected to decline further in FY24, despite some tax reforms, due to lower merchandise imports and revenue loss from increases in electric vehicle imports at lower tax rates. Spending is also forecast to decline driven by lower capital spending, as well as reduced fiscal transfers to subnational governments and administrative spending. The overall fiscal deficit is projected to narrow to 3.1 percent of GDP in FY24. Buoyed by strong GDP and merchandise imports growth, revenues are expected to expand over the medium term. Public investment is also expected to rise post-FY24, supported by the implementation of the National Project Bank. The fiscal deficit is projected to further narrow in FY25 and FY26. This would stabilize the debt below 41 percent of GDP by the end of FY26.

The forecast is subject to both domestic and external risks. Externally, geopolitical uncertainty may lead to a rebound in international commodity prices, affecting all sectors. A slowdown in partner countries could reduce remittance inflows and tourism, hindering growth and poverty reduction progress. In addition, the social protection programs are largely untargeted, have limited reach among the poor, and lack shock responsiveness. This poses fiscal risks and hinders social program effectiveness. These pressures, along with a weak domestic labor market, could further impact the poor and vulnerable population. Furthermore, persistent inflation expectations and lower domestic demand will weigh on the economy and the people. Natural disasters pose additional risks to sustaining welfare gains.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	4.8	5.6	1.9	3.3	4.6	5.3
Private consumption	8.0	6.8	4.1	3.5	3.7	3.7
Government consumption	-1.7	9.6	-35.2	-16.5	9.2	9.3
Gross fixed capital investment	9.8	3.8	-10.9	-4.4	15.4	12.1
Exports, goods and services	-21.3	34.1	5.5	5.4	12.5	14.7
Imports, goods and services	18.8	15.1	-17.2	-4.5	13.1	9.7
Real GDP growth, at constant factor prices	4.5	5.3	2.2	3.3	4.6	5.3
Agriculture	2.8	2.2	2.7	2.2	2.4	2.5
Industry	6.9	10.8	0.6	2.9	5.7	8.6
Services	4.7	5.3	2.3	4.0	5.4	5.8
Inflation (consumer price index)	3.6	6.3	7.7	6.7	6.0	5.5
Current account balance (% of GDP)	-7.7	-12.6	-1.3	3.9	1.6	1.0
Net foreign direct investment inflow (% of GDP)	0.4	0.4	0.1	0.2	0.4	0.6
Fiscal balance (% of GDP)	-4.0	-3.7	-6.2	-3.1	-2.8	-2.7
Revenues (% of GDP)	23.3	23.1	19.2	18.7	19.6	20.1
Debt (% of GDP)	39.9	40.8	42.7	42.5	41.7	40.8
Primary balance (% of GDP)	-3.2	-2.7	-4.8	-1.7	-1.6	-1.7
GHG emissions growth (mtCO2e)	3.2	-0.5	-1.1	1.6	2.4	2.9
Energy related GHG emissions (% of total)	34.1	32.8	31.1	31.1	31.8	32.8

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

PAKISTAN

Table 1	2023
Population, million	240.5
GDP, current US$ billion	338.4
GDP per capita, current US$	1407.0
International poverty rate ($2.15)[a]	4.9
Lower middle-income poverty rate ($3.65)[a]	39.8
Upper middle-income poverty rate ($6.85)[a]	84.5
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	84.4
Life expectancy at birth, years[b]	66.1
Total GHG emissions (mtCO2e)	499.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2021).

Despite some recovery, Pakistan's economy remains under stress with low foreign reserves and high inflation. Policy uncertainty remains elevated and economic activity is subdued, reflecting tight fiscal and monetary policy and import controls. Growth is projected to remain below potential with heightened social vulnerability and limited poverty reduction in the medium term. Financial sector risks, policy uncertainty, and stronger external headwinds pose significant risks to the outlook.

Key conditions and challenges

Pakistan's economy contracted by 0.2 percent in FY23 on surging world commodity prices, global monetary tightening, catastrophic flooding, and inadequate macroeconomic management (Figure 1). These headwinds led to pressures on domestic prices, external and fiscal accounts, the currency, and foreign reserves. Import and capital controls were consequently imposed, disrupting domestic supply chains, fueling inflationary pressures, and smothering economic activity. In response to deteriorating real wages and declining job quality, poverty rose by 4.5 percentage points in FY23, with approximately 10 million people just above the poverty line at risk of poverty in the face of shocks (Figure 2).

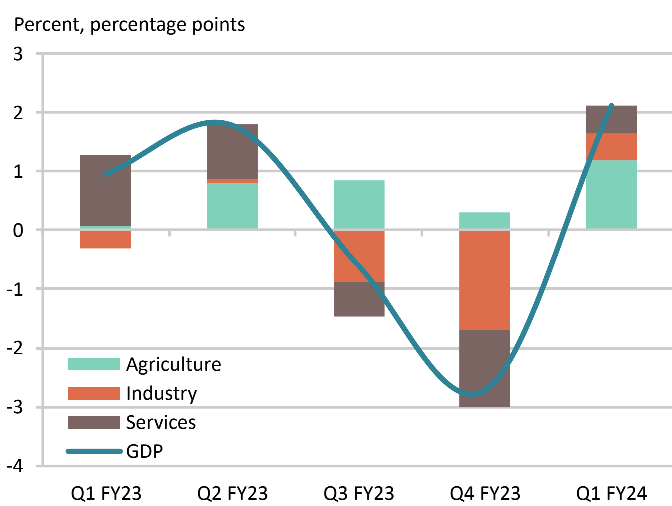
New multilateral external financing this year improved the foreign reserve position and permitted the easing of import controls. The economy has shown broad-based but still nascent signs of a recovery. Despite this, risks remain high, with the outlook predicated on the IMF-SBA program remaining on track, continued fiscal restraint, and additional external financing. Financial sector risks, policy uncertainty, and stronger external headwinds pose significant risks.

Recent developments

After contracting for two consecutive quarters, real GDP at factor cost rose by 2.1 percent y-o-y over July to September 2023 on strong agricultural growth and some improvement in confidence. Agricultural output expanded by 5.1 percent in Q1 FY24, the highest quarterly growth on record, as conducive weather conditions led to strong yields. On easing import controls, the industry sector grew by 2.5 percent in Q1 FY24, the strongest growth in five quarters, while service sector output rose by 0.8 percent. However, daily wages for unskilled labor, in which most of the poor are engaged, grew by just 5 percent in H1 FY24, much lower than inflation. Because of falling real wages, growth did not translate into poverty reduction.

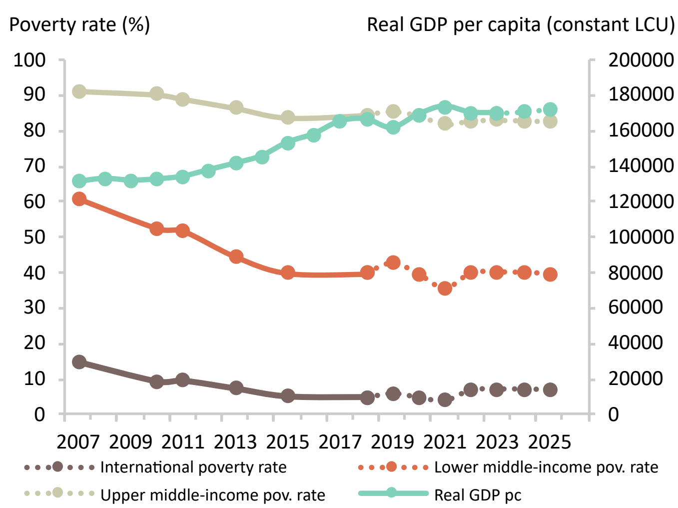
Pakistan's current account deficit (CAD) narrowed to US$0.8 billion in H1 FY24 from US$3.6 billion in H1 FY23, on import controls, reduced domestic demand, and lower global commodity prices. Meanwhile, official remittances fell by 6.8 percent y-o-y in H1 FY24 due to exchange rate rigidities earlier in the year. Fresh external inflows led to a balance of payments (BOP) surplus of US$3.0 billion. Consequently, international reserves increased to US$9.4 billion at the end of December 2023, equivalent to 1.7 months of imports. With the BOP surplus and regulatory reforms in the forex market, the rupee appreciated modestly against the U.S. dollar over H1 FY24.

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



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

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



Source: World Bank. Notes: see Table 2.

Headline consumer price inflation rose to a multi-decade high of an average of 28.8 percent y-o-y in H1 FY24, up from 25.0 percent in H1 FY23, reflecting higher domestic energy prices and supply chain disruptions, which in turn raised overall production costs. Food inflation remained high, particularly impacting poor and vulnerable households who spend half of their budgets on food, leading to inflation inequality and increased food insecurity, especially in Sindh, Khyber Pakhtunkhwa, and Balochistan. Transportation costs rose faster in rural areas, increasing the cost of accessing markets, schools, and health centers for the rural poor, potentially leading to children being taken out of school and delayed medical treatments as households cope with the rising cost of living. The policy rate was held at 22.0 percent, implying negative real interest rates throughout H1 FY24.

With fiscal consolidation efforts, the primary fiscal surplus doubled to PKR1.8 trillion in H1 FY24. Supported by higher direct taxes and the petroleum development levy hikes, total revenue rose more than non-interest expenditure. The overall fiscal deficit stood at PKR2.4 trillion for H1 FY24.

The estimated consolidation of the Public Sector Development Program in real terms likely reduced public spending on construction, which employs many poor and vulnerable. In addition, federal public pensions grew while Benazir Income Support Programme (BISP) spending declined in H1 FY24, contributing to rising inequality.

Outlook

Economic activity is expected to remain subdued, with real GDP growth estimated at 1.8 percent in FY24, reflecting continued tight macroeconomic policy, import controls, high inflation, and continued policy uncertainty. Output growth is expected to increase to around 2.5 percent over FY25-26, remaining below potential. Poverty reduction is projected to stall in the medium term, owing to weak growth, limited increase in real labor incomes, and persistently high food and energy inflation. Poverty is expected to remain close to 40 percent until FY26.

Inflation is projected to remain elevated at 26.0 percent in FY24 due to higher domestic energy prices, with little respite for poor and vulnerable households with depleted savings and lower real incomes. With high base effects and lower projected global commodity prices, inflation is expected to moderate over the medium term. With continued import controls, the CAD is expected to remain low at 0.7 percent of GDP in FY24 and to further narrow to 0.6 percent of GDP in FY25 and FY26.

The fiscal deficit is projected to widen to 8.0 percent of GDP due to higher interest payments but gradually decline as fiscal consolidation takes hold and interest payments fall over time. Fiscal consolidation will likely lead to continued high energy inflation and restricted public spending on development and social sectors, which may worsen monetary, welfare, and human development outcomes. While targeted transfers are critical in protecting the poorest, the 20 percent increase in BISP cash transfers in H2 FY24 may not be enough. The macroeconomic outlook is predicated on the successful completion of the IMF-SBA program, continued fiscal restraint, and external financing, but limited progress with major structural reforms and continued policy uncertainty.

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

	2020/21	2021/22	2022/23	2023/24e	2024/25f	2025/26f
Real GDP growth, at constant market prices	6.5	4.8	0.0	1.8	2.3	2.7
Private consumption	9.4	7.1	2.4	1.7	2.2	2.5
Government consumption	1.8	-1.3	-4.9	0.9	1.4	2.0
Gross fixed capital investment	3.7	3.3	-16.3	-0.5	1.2	2.0
Exports, goods and services	6.5	5.9	2.4	2.1	3.2	3.7
Imports, goods and services	14.5	11.0	-0.3	0.3	1.2	1.6
Real GDP growth, at constant factor prices	5.8	6.2	-0.2	1.8	2.3	2.7
Agriculture	3.5	4.3	2.3	3.0	2.2	2.7
Industry	8.2	6.9	-3.8	1.8	2.2	2.4
Services	5.9	6.7	0.1	1.2	2.4	2.9
Inflation (consumer price index)	8.9	12.1	29.2	26.0	15.0	11.5
Current account balance (% of GDP)	-0.8	-4.7	-0.7	-0.7	-0.6	-0.6
Net foreign direct investment inflow (% of GDP)	0.5	0.5	0.2	0.3	0.3	0.4
Fiscal balance, including grants (% of GDP)	-6.0	-7.8	-7.7	-8.0	-7.4	-6.5
Revenues (% of GDP)	12.4	12.1	11.5	12.2	12.3	12.4
Debt (% of GDP)	77.6	80.7	81.4	73.1	72.3	72.5
Primary balance, including grants (% of GDP)	-1.1	-3.1	-0.9	-0.1	-0.2	-0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.0	4.2	6.8	7.0	7.0	6.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	39.5	35.5	39.9	40.1	40.0	39.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	84.1	81.9	82.9	83.0	82.9	82.7
GHG emissions growth (mtCO2e)	5.2	5.2	1.5	3.4	3.5	3.7
Energy related GHG emissions (% of total)	43.7	44.5	43.5	43.6	43.7	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/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2023. Forecasts are from 2024 to 2026.
b/ Poverty projections based on microsimulations using 2018-HIES and aggregate macroeconomic indicators (see Caruso et al 2017).

SRI LANKA

Table 1	2023
Population, million	22.2
GDP, current US$ billion	84.4
GDP per capita, current US$	3792.8
International poverty rate ($2.15)[a]	1.0
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	49.3
Gini index[a]	37.7
School enrollment, primary (% gross)[b]	96.9
Life expectancy at birth, years[b]	76.4
Total GHG emissions (mtCO2e)	38.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2021).

The economy has shown initial signs of stabilization with improved fiscal and external balances, supported by a recovery in remittances and tourism and the continued debt service suspension. However, this will be insufficient to reverse crisis-induced welfare losses as poverty levels remain elevated. The narrow path to restoring growth and prosperity will hinge on a successful debt restructuring and continued reform implementation despite the upcoming elections.

Key conditions and challenges

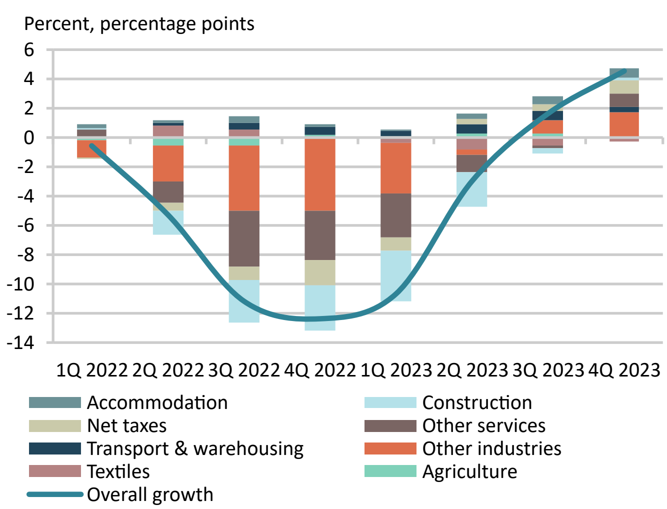
In 2022, Sri Lanka plunged into a severe economic crisis, as longstanding structural weaknesses were exacerbated by exogenous shocks and policy mistakes. After losing access to international financial markets in 2020, official reserves dropped precipitously, and the forex liquidity constraint led to severe shortages of essential goods. The country announced an external debt service suspension in April 2022, pending debt restructuring. The economy contracted by 9.5 percent in total during 2022 and 2023, and public and publicly guaranteed debt ballooned to 119.2 percent of Gross Domestic Product (GDP) in 2022 amid high inflation (46.4 percent, annual average in 2022) and a sharp currency depreciation (81.2 percent, y-o-y, 2022). Food insecurity and malnutrition increased, poverty doubled, and inequality widened. Approximately 60 percent of households experienced a decline in income due to reduced work hours or job losses. The implementation of recent structural reforms, including cost-reflective utility pricing and new revenue measures, helped macroeconomic stability but strained household budgets. Domestic debt restructuring was completed in September 2023, while negotiations with external creditors are progressing. In March 2024, a Staff Level Agreement was reached between the authorities and International Monetary Fund staff on the second review of the Extended Fund Facility program. Key reforms focusing on debt, fiscal management, trade, investment, and State-Owned Enterprises (SOEs) continue to advance.

Recent developments

The economy contracted by 2.3 percent in 2023, despite growth in 3Q and 4Q (1.6 and 4.5 percent, y-o-y, respectively) following six quarters of contraction. This was driven by shrinking construction and mining, financial and IT services, and textile manufacturing, amid weak demand, tight private credit, and shortages of inputs, and was partly offset by growth in transport, accommodation, food, and beverage services, resulting from a rebound in tourism.

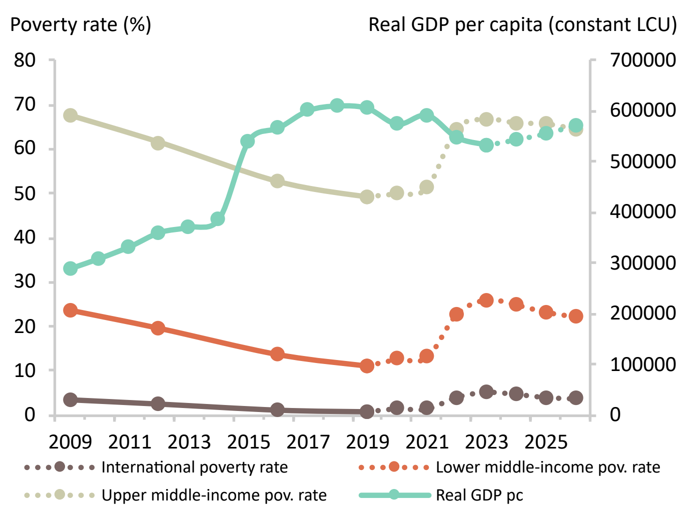
Inflation remained benign, after declining to single-digit levels in July 2023, supported by currency appreciation and improved supply. However, with the recent spike in food prices and pass-through of fuel and utility prices, headline inflation as measured by the Colombo Consumer Price Index increased to 5.9 percent in February 2024 (y-o-y). Labor force participation declined (from 49.8 to 48.8 percent between 2022 and 3Q 2023), especially in urban areas. Households have adopted risky coping strategies to deal with lower incomes and price pressures, including using savings, taking on more debt, and limiting their diets. Food insecurity rose during H2 2023, with 24 percent of households being food insecure.

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



Sources: Department of Census and Statistics and World Bank staff calculations.
Notes: Accommodation includes food and beverage service activities and textiles include wearing apparel and leather-related products.

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



Source: World Bank. Notes: see Table 2.

After almost two years of monetary tightening, the central bank cut policy rates by 650 basis points between June and November 2023. Combined with improvements in liquidity, this resulted in a sharp decline in the government's cost of domestic borrowing. While y-o-y growth rates remain negative, private sector credit has been recovering monthly since June 2023.

In 2023, the current account recorded a surplus for the first time since 1977, as remittances and tourism rebounded sharply, and imports remained subdued. The continued external debt service suspension, inflows from development partners, large purchases of foreign exchange, and postponed repayments on existing credit lines have helped build usable official reserves to about 2 months of imports (US$3.1 billion by end-February 2024, compared to US$500 million in December 2022). The Rupee appreciated by 10.8 percent against the US Dollar in 2023.

Despite the primary balance registering a surplus (due to a significant increase in revenue and the repayment of an on-lent amount by an SOE), a sharp rise in interest payments is estimated to have contributed to a high overall fiscal deficit in 2023. Interest payments absorbed approximately three-fourths of revenue collected.

Outlook

Growth prospects depend on progress with debt restructuring and the continued implementation of structural reforms. The primarily revenue-based fiscal adjustment is, however, likely to further reduce disposable incomes, weaken demand, and weigh down growth in the short term. The modest recovery will be insufficient to reverse welfare losses experienced during the crisis, and poverty is estimated to remain above 22 percent until 2026.

Inflation is likely to rise moderately in the near-term, due to new revenue measures and the waning of favorable base effects, and remain benign in the medium term as demand continues to be subdued. Further increases could reverse the marginal poverty reduction (1.1 percentage points) expected in 2024.

The current account is projected to remain in surplus, with subdued import growth and gradual recovery in tourism and remittances. Although the primary deficit is expected to decline further, the overall fiscal balance will remain high in 2024 due to the large interest bill. Debt restructuring and continued fiscal consolidation are projected to reduce the overall fiscal 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. These risks include a protracted or insufficiently deep debt restructuring, reform fatigue or reversal following the elections, and a weaker recovery linked to scarring effects from the crisis. With declining household expenditure on health and education, concerns over the impact on future human capital remain high. Financial sector risks need to be carefully monitored as elevated non-performing loans and significant exposure to the sovereign continue to hinder financial sector stability and impede credit intermediation. On the upside, a strong and sustained implementation of the structural reform program, could boost confidence and attract fresh capital inflows.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices[a]	4.2	-7.3	-2.3	2.2	2.5	3.0
Private consumption	2.6	-9.0	-3.2	2.4	2.6	3.1
Government consumption	-2.8	1.4	-2.7	-0.3	0.2	1.3
Gross fixed capital investment	6.3	-22.8	-9.1	3.3	3.1	3.9
Exports, goods and services	10.1	10.2	1.8	2.6	2.7	3.1
Imports, goods and services	4.1	-19.9	-2.7	2.3	1.6	2.3
Real GDP growth, at constant factor prices[a]	3.9	-7.0	-2.6	2.2	2.5	3.0
Agriculture	1.0	-4.2	2.6	1.5	1.5	1.5
Industry	5.7	-16.0	-9.2	2.6	2.7	2.9
Services	3.4	-2.6	-0.2	2.1	2.5	3.3
Inflation (consumer price index)	6.0	46.4	17.4	7.8	6.4	5.6
Current account balance (% of GDP)	-3.7	-2.0	1.6	0.7	-0.2	-0.4
Net foreign direct investment inflow (% of GDP)	0.7	1.2	0.7	0.8	0.8	0.9
International poverty rate ($2.15 in 2017 PPP)[b,c]	1.5	4.1	5.2	4.7	4.1	3.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	13.1	22.7	25.9	24.8	23.2	22.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	51.2	64.4	66.6	65.8	65.6	64.4
GHG emissions growth (mtCO2e)	9.1	-3.0	-2.1	3.5	3.3	3.7
Energy related GHG emissions (% of total)	62.9	62.3	61.6	62.7	64.0	65.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Components of GDP by expenditure for 2020-2022 are estimates, as the data published on March 15, 2024, by authorities only included GDP by production.
b/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Microsimulation that models sectoral GDP growth rates, inflation, remittances, employment, and cash transfers 2020-2022. Nowcast and forecast (2023-2026) use nominal GDP growth rates by sector and CPI inflation for food and non-food items.
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

04 / 2024

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