

South Asia

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Macro Poverty Outlook

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

Spring Meetings 2022

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South Asia



Spring Meetings 2022



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Bangladesh
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India

Maldives
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Sri Lanka

AFGHANISTAN

Economic conditions continue to deteriorate following the political crisis of August 2021. Cessation of international grant support is driving a major collapse in aggregate demand, difficult macroeconomic adjustments, and disruptions to service delivery. Disruption to international financial relationships, the freezing of the central bank's overseas assets, and loss of confidence in the banking system is driving a financial sector crisis. Renewed international support for humanitarian activities and basic service delivery is now underway, but a broader program of action will be required for economic stabilization and eventual recovery.

Key conditions and challenges

Afghanistan is experiencing a worsening fiscal, macroeconomic, and financial sector crisis. The sudden cessation of international grants (previously equivalent to 45 percent of GDP and financing 75 percent of public expenditure) has caused a collapse in public spending and aggregate demand. Many frontline public service workers remain unpaid. Declines in aid and government spending have undermined private sector activity, especially in the aid-driven services sector which has accounted for a large proportion of output and growth since 2001. Loss of grant inflows has also left a shortage of hard currency with which to finance imports (Afghanistan was heavily dependent imports for critical items including food, fuel, and electricity, with a trade deficit equal to around 35 percent of GDP). Afghanistan's offshore central bank assets have been frozen, undermining the capacity of the central bank to smooth the required macroeconomic adjustment, while international banking relationships have been heavily disrupted due to international sanctions and associated Anti-Money Laundering (AML) concerns. These factors combined with a shortage of both USD and AFN cash notes have triggered a crisis of confidence in the banking sector, crippling cash shortages, and severe disruptions to domestic and international payments, with severe impacts on the private sector and humanitarian agencies. Disruptions to the banking sector are particularly impairing the operations of businesses that rely on formal financial flows to import necessary inputs, placing their ongoing viability at risk. Rapidly deteriorating economic conditions in the context of severe drought are driving a humanitarian crisis. Afghans are suffering from rapidly increasing unemployment, deepening impoverishment, and worsening food insecurity. A largescale international humanitarian response is being mobilized, while efforts are underway to restore international development support to critical service delivery functions. Dysfunction of the financial sector, however, continues to both constrain the effective mobilization of aid support and limit prospects for economic stabilization and recovery.

Recent developments

Official GDP statistics are not being produced. Economic output is expected to decline by between 20-30 percent over the year from August 2021. According to a recent private sector survey, firms have laid off more than half of their staff on average. More than one third of small businesses have temporarily or permanently closed operations, while more than three-quarters of large companies report decreased demand for their outputs. Despite reduced incomes and domestic demand, prices have increased rapidly. Headline y-o-y inflation reached 12.7 percent in December reflecting depreciation, increasing international prices, and import constraints arising from disruptions to international transactions. Food inflation reached 17.7 percent, reflecting heavy reliance on imported wheat. More recent data collected by the World Food Program shows y-o-y inflation for a basket of basic household goods reaching 42 percent in the first week of February. According to official data, goods imports declined by around 47 percent over the second half of 2021 relative to the same period in 2020, in line with contracting domestic demand, disruptions to international payments, and the central bank's loss of access to overseas assets. Import contraction was broad-based, reflecting lower imports for all categories of goods. Recent data from the Pakistan authorities show imports from Pakistan in January 2022 were only around one-third of 2021 levels. Goods exports, on the other hand, declined only moderately over the second half of 2021 (4.7 percent lower than during the same period in 2020). Positive impacts of improved security and depreciation were offset by the closure of aid-subsidized air corridors for agricultural exports to India and China. The Afghani has depreciated against most major trading currencies since August, reflecting the decline in aid inflows and heightened uncertainty. The Afghani fell by 14 percent against the USD, 10 percent against the Euro, and 4 percent against the Pakistani Rupee between the end-July 2021 and mid-February 2022. The market value of the AFN is being buoyed by a tightening of the domestic money supply driven by shortages of AFN banknotes and recent injections of USD cash through humanitarian cash shipments. The abrupt cessation of aid inflows and difficult economic conditions are driving a significant fiscal contraction, with public spending expected to decline by around

75 percent. All development and security aid has ceased (previously equal to around US\$8.5 billion per year), leaving only relatively limited humanitarian flows. The interim administration collected US\$ 0.5 billion between September-December 2021 – around half of revenue collections over the same period in 2019. In its quarterly budget (December 21-March 21), the interim administration plans spending equal to around only 50 percent of 2019 levels, with the budget including ambitious revenue projections and a significant unfinanced deficit (equal to around US\$60 million).¹

Recent indicators of monetary poverty are not available, but a recent household survey shows that living conditions have deteriorated and food insecurity has worsened since August 2021. 70 percent of households report insufficient incomes to meet basic food and non-food needs (compared to about 35 percent reported for May 2021). A substantial decline in labor earnings and destruction of employment in the public and private sectors are driving increased unemployment and increased informal and casual work. The economic crisis is also weakening safety nets, with disruptions to international financial flows

1/ The quarterly budget includes large cuts to security and development project allocations, while maintaining allocations for recurrent health and education expenditures at close to previous levels. It remains unclear whether the budget will be effectively implemented.

leading to a reduction from 10 to five percent in the share of households receiving remittances. Extreme poverty had led to the widespread adoption of harmful coping mechanisms such as reducing food consumption, borrowing at high interest rates and the sale or consumption of assets. This will have long-term consequences given Afghanistan's very young population.

Outlook

Afghanistan's economic outlook is stark. Under any scenario, Afghanistan will face a smaller economy, significantly higher rates of poverty, and more limited economic opportunities for the 600,000 Afghans reaching working age every year. Human development outcomes are likely to deteriorate in the context of substantial disruptions to basic services and increased poverty. The Russian invasion of Ukraine, war, and associated sanctions may have significant exacerbating impacts via increased prices for imported food and fuel. Recent moves by the international community will mitigate human impacts. The United Nations is mobilizing a largescale humanitarian response to reach more than 24 million Afghans at a total cost over CY2022 of US\$4.4 billion. The international community is also working towards renewed development assistance for basic

services, including health, education, food security, and community development, to be delivered through off-budget channels. In the context of financial sector dysfunctions, USD cash shipments managed by the United Nations are providing a vital source of funding for humanitarian activities and an important source of USD liquidity.

All parties acknowledge, however, that current provision of humanitarian and basic services assistance is unsustainably expensive and cannot substitute for a functioning economy and private sector (current humanitarian needs exceed previous levels of civilian aid assistance). Economic stabilization or medium-term recovery would require: i) restoration of core financial sector functions, including effective operation of the central bank; ii) sound economic management; iii) restoration of confidence; and iv) maintenance of adequate security conditions. Such progress would likely require coordinated action between the international community and the interim administration, including in relation to the utilization of frozen assets, provision of technical assistance support for economic management, and measures to restore international banking relationships. Meanwhile, the world bank continues to provide analytical support to inform international community on engagement priorities.

BANGLADESH

Key conditions and challenges

Table 1 **2021**

Population, million	166.3
GDP, current US\$ billion	415.3
GDP per capita, current US\$	2497.0
International poverty rate (\$1.9) ^a	14.3
Lower middle-income poverty rate (\$3.2) ^a	52.3
Upper middle-income poverty rate (\$5.5) ^a	84.2
Gini index ^a	32.4
School enrollment, primary (% gross) ^b	119.6
Life expectancy at birth, years ^b	72.6
Total GHG Emissions (mtCO2e)	247.0

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2016), 2011 PPPs.
 b/ WDI for School enrollment (2020); Life expectancy (2019).

After decelerating to 3.4 percent in FY20, real GDP growth rebounded to 6.9 percent in FY21. While pandemic disruptions are waning, GDP growth is projected to decelerate moderately to 6.4 percent in FY22 with higher commodity prices. Poverty is expected to decline modestly. Downside risks include commodity price volatility, new waves of COVID-19, and worsening financial sector vulnerabilities. Addressing longstanding structural challenges could accelerate the post-COVID-19 recovery and support longer term development objectives.

GDP has grown rapidly over the past two decades, supported by a demographic dividend, sound macroeconomic policies, and an acceleration in readymade garment (RMG) exports. Job creation and remittance inflows contributed to a sharp decline in poverty. However, the pace of job creation and poverty reduction has slowed since 2013, even as GDP growth accelerated. Persistent structural weaknesses include low institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, unbalanced urbanization, and a business climate that lags peer economies. Bangladesh is also highly vulnerable to the effects of climate change. After graduation from the UN's Least Developed Country status in 2026, Bangladesh will begin to lose preferential access to advanced economy markets. Bangladesh's economy performed well during the pandemic compared to peer countries. The lockdown negatively impacted the work status of approximately half the population. High frequency phone survey data collected in mid-2021 underscore the disproportionate impact of COVID-19 job losses on women. However, restrictions were progressively less stringent with each wave of COVID-19, including the omicron variant, and economic activity gradually recovered from an initial contraction. Bangladesh entered the pandemic with adequate buffers to mitigate

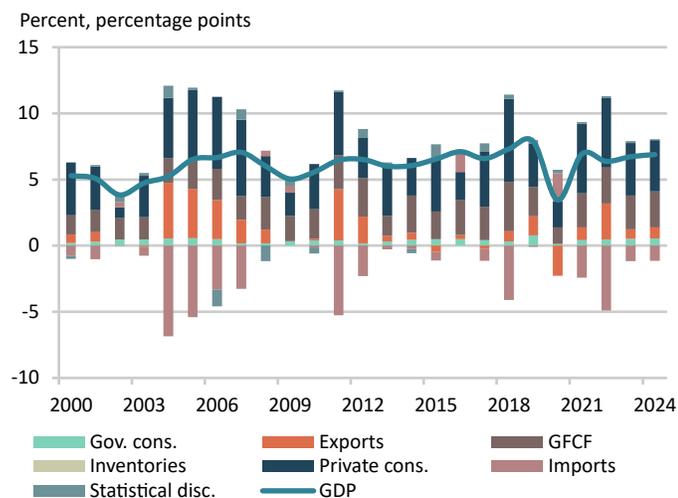
the negative impacts of the pandemic, including relatively low debt. A stimulus program protected productive capacity in the manufacturing sector, while monetary policy was accommodative.

Downside risks to the outlook persist and external risks remain elevated. The war in the Ukraine may contribute to rising commodity prices (oil, natural gas, fertilizer, grains), which could increase the current account deficit. Fiscal expenditures on subsidies may rise, depending on the extent of price adjustments, which may also increase inflationary pressure. New waves of COVID-19 could necessitate additional movement restrictions, hampering domestic economic activity. Although not fully reflected in official data due to continued regulatory forbearance, the pandemic has deepened longstanding financial sector vulnerabilities, including high levels of non-performing loans (especially in state-owned banks) and weak capital buffers.

Recent developments

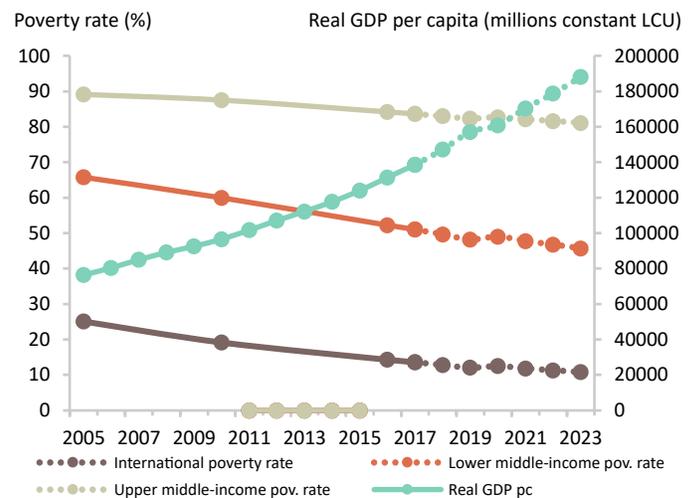
High frequency macroeconomic indicators point to a continued recovery in July-December 2021 (H1 FY22) as COVID-19 infections moderated and global economic growth accelerated. On the demand side, merchandise exports rose by 28.4 percent (y-o-y) in H1 FY22 as RMG exports rebounded strongly. Imports of consumer, capital, and intermediate goods rose by 52.4 percent over the same period, as the recovery accelerated. On the supply side, the industrial production index shows

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



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

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



Sources: World Bank. Notes: see Table 2.

strong growth in manufacturing, while services growth was supported by a decline in COVID-19 movement restrictions. Modest agricultural growth was sustained, with no major flooding events.

Inflation rose to 6.1 percent in December 2021, driven by rising global commodity prices, and upward adjustments in administered prices of gas and diesel. Bangladesh Bank (BB) maintained its expansionary monetary policy stance since the beginning of the pandemic. Following a downward trend in FY21, private sector credit growth accelerated modestly to 11.1 percent (y-o-y) by January 2022 but remained below the 14.8 percent target set by the BB.

The current account deficit reached US\$ 8.2 billion in H1 FY22, compared to a surplus of US\$ 3.5 billion in the same period of FY21. The rising deficit was driven by a 55.4 percent increase in imports and a 20.9 percent decline in official remittance inflows, as the use of informal payment channels resumed with relaxation of international travel restrictions. The balance of payment deficit reached US\$ 1.8 billion in H1 FY22, compared to a surplus of US\$ 6.1 billion over the same period of FY21. The interbank exchange rate depreciated modestly to 86.0 BDT/US\$ in January 2022. Foreign exchange

reserves remained adequate at US\$ 46.1 billion in December 2021, or 6.7 months of imports.

The estimated fiscal deficit moderated to 3.6 percent of GDP in FY21, as revenues outpaced expenditure growth. Tax revenues increased by 16.8 percent (y-o-y) in H1 FY22, primarily supported by trade-related taxes on rising imports. Estimated expenditure increased due to higher subsidy payments in the energy and agriculture sectors. Deficit financing from the banking sector increased, as the sale of National Savings Certificates (NSCs) declined due to stringent application of eligibility regulations and a reduction in NSC rates.

The COVID-19 pandemic has put the substantial poverty reduction gains of the past two decades at risk. After rising during the COVID-19 pandemic, estimated poverty declined to 11.9 percent in FY21, using the international poverty rate (\$1.9 in 2011 PPP). A gradual reduction in poverty is projected to continue, reaching 11.3 percent in FY22.

Outlook

GDP growth is expected to decelerate modestly to 6.4 percent in FY22. While

economic disruptions related to the COVID-19 pandemic are waning, a sharp increase in commodity prices and rising uncertainty in European export markets are expected to weigh on growth. Notwithstanding these challenges, GDP growth is expected to remain resilient in FY23, supported by a recovery in investment, and strong domestic demand. Inflation is projected to reach 6.2 percent in FY22, with a high degree of uncertainty in FY23 due to commodity price volatility. Official remittance inflows are expected to grow in FY23, as higher oil prices underpin demand for workers in the GCC. This, in turn, is likely to reduce the current account deficit.

The fiscal deficit is projected to remain within the government's 5.0 percent of GDP target. Gradual revenue growth will be supported by rising imports and modest policy reforms, expenditure growth will be led by infrastructure spending. To sustain GDP growth over the medium term, longstanding structural challenges must be addressed, including increasing domestic revenues, modernizing the tariff regime, resolving sector vulnerabilities, and improving the business climate.

TABLE 2 Bangladesh / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices	7.9	3.4	6.9	6.4	6.7	6.9
Private Consumption	4.9	3.0	8.0	7.9	5.9	5.8
Government Consumption	13.4	2.0	6.9	7.7	8.3	8.8
Gross Fixed Capital Investment	6.9	3.9	8.1	8.4	7.7	8.1
Exports, Goods and Services	11.5	-17.5	9.2	25.5	5.8	6.8
Imports, Goods and Services	0.5	-11.4	15.3	28.8	5.7	5.6
Real GDP growth, at constant factor prices	8.0	3.8	7.0	6.4	6.7	6.9
Agriculture	3.3	3.4	3.2	3.2	3.5	3.6
Industry	11.6	3.6	10.3	10.4	10.2	9.9
Services	6.9	3.9	5.7	4.3	4.9	5.3
Inflation (Consumer Price Index)	5.5	5.6	5.6	6.2	6.0	5.8
Current Account Balance (% of GDP)	-1.3	-1.5	-1.1	-4.0	-3.5	-3.2
Net Foreign Direct Investment (% of GDP)	0.7	0.3	0.3	0.4	0.5	0.6
Fiscal Balance (% of GDP)	-4.7	-4.8	-3.6	-4.1	-4.0	-3.5
Debt (% of GDP)	28.5	31.7	32.1	32.8	33.2	33.1
Primary Balance (% of GDP)	-3.0	-2.9	-1.5	-2.1	-1.9	-1.4
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	12.1	12.5	11.9	11.3	10.8	10.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	48.2	49.0	47.8	46.8	45.7	44.7
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	82.3	82.7	82.1	81.6	81.1	80.6
GHG emissions growth (mtCO₂e)	5.8	2.5	3.1	3.8	4.1	4.2
Energy related GHG emissions (% of total)	40.6	41.4	42.3	43.7	45.1	46.5

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

a/ Calculations based on SAR-POV harmonization, using 2010-HIES and 2016-HIES. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.

b/ Projection using annualized elasticity (2010-2016) with pass-through = 1 based on GDP per capita in constant LCU.

BHUTAN

Table 1 **2021**

Population, million	0.8
GDP, current US\$ billion	2.4
GDP per capita, current US\$	3069.5
International poverty rate (\$1.9) ^a	1.5
Lower middle-income poverty rate (\$3.2) ^a	12.2
Upper middle-income poverty rate (\$5.5) ^a	38.9
Gini index ^a	37.4
School enrollment, primary (% gross) ^b	105.8
Life expectancy at birth, years ^b	71.8
Total GHG Emissions (mtCO2e)	-5.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

Output is estimated to have contracted by 3.7 percent in FY20/21, with broad based contractions in the non-hydro industrial and services sector, reflecting COVID-19-related disruptions. The fiscal deficit has increased to 6.3 percent in FY20/21 due to fiscal measures to support livelihoods and the recovery of the economy, amid subdued revenue performance. Poverty is expected to have increased with the economic contraction translating into lower household incomes.

Key conditions and challenges

Economic growth had been strong prior to the COVID-19 pandemic, fueled by the public sector-led hydropower sector and strong performance in the services sector, including tourism. Annual real GDP growth averaged 7.5 percent since the 1980s, and the poverty rate dropped from 36 percent to 12 percent from 2007 to 2017, based on the \$3.20/day poverty line. While the hydro sector has provided a reliable source of growth, it did not create many jobs, which remain concentrated in agriculture and the public sector. Growth constraints related to the country's unique geographic and economic characteristics, including high trade costs and a small domestic market, have limited competitiveness of non-hydro sectors.

Bhutan has achieved mass vaccination (almost 90 percent of its adult total population has received a booster dose by early March 2022), and managed to contain the virus, despite a recent surge in cases due to the Omicron variant. However, the government's strict zero-COVID policy has significantly constrained livelihoods and economic activity in the non-hydro industrial and services sectors, as stringent social and mobility restrictions – including for inbound tourism and foreign workers – remained in place. This has had a direct impact on worker earnings and contributed to an increase in the estimated

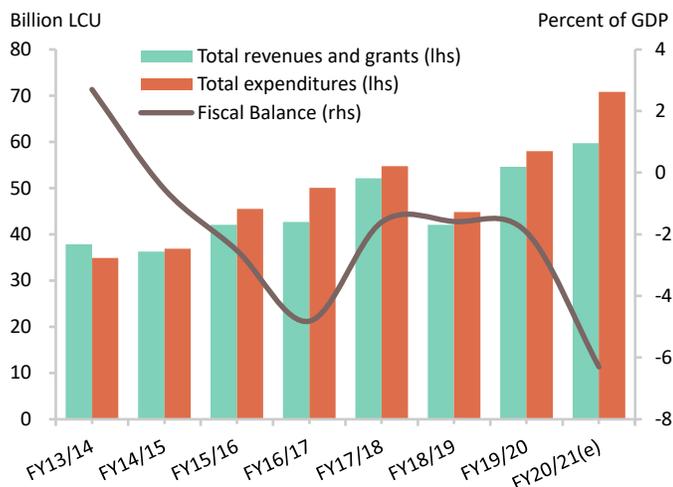
\$3.20 poverty rate from 11.0 percent in 2019 to 12.6 percent in 2021.

The short term outlook is largely dependent on the speed of return to economic normalcy, and the efficacy of fiscal support, both through COVID-19 relief measures (which includes a partial interest waiver on loans and temporary income support to individuals directly affected by the pandemic) and the scale up of capital expenditures. Addressing vulnerabilities in the financial sector is crucial, as pressures on asset quality are likely to increase once the forbearance measures are phased out. Other risks include delays in hydro projects (the generation capacity is expected to double in the medium term with the completion of four projects), which would have significant impacts on growth, fiscal revenues, and exports. The economic impact from the war in Ukraine on Bhutan will likely be felt through higher energy and food prices, as direct trade with Russia and Ukraine is negligible.

Recent developments

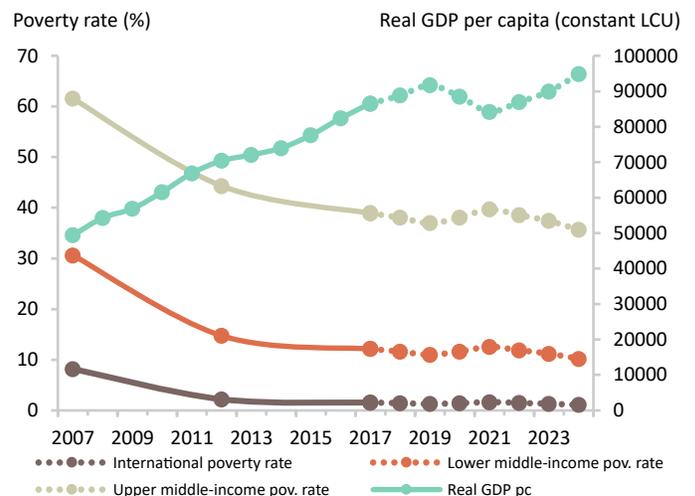
The economy has further contracted by 3.7 percent in FY20/21 (July 2020 to July 2021), after a negative growth of 2.4 percent in FY19/20. The industry sector contracted by 5.5 percent, despite positive growth in the hydro sector. Construction, manufacturing, and mining sectors were adversely affected by foreign labor shortages and high input prices. Services sector output fell by 2.2 percent, as the

FIGURE 1 Bhutan / Fiscal indicators



Source: Ministry of Finance and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

tourism industry remained largely inactive in FY20/21. On the demand side, private investment and consumption contracted sharply due to domestic COVID-19 containment measures and lower incomes.

Average inflation moderated from 8.2 percent in FY20/21 to 6.0 percent in the first half of FY21/22, driven by a slowdown in food inflation. However, non-food inflation remains high, reflecting higher fuel and transport prices, and food inflation has picked up in line with price developments in India.

The current account deficit (CAD) has further narrowed to 11.8 percent of GDP in FY20/21, driven by a smaller trade deficit than in FY19/20. Goods exports (as a share of GDP) increased, supported by an increase in hydro exports and trade facilitation measures for non-hydro goods, mainly mineral products and base metals. Goods imports also increased compared to FY19/20, but to a lesser extent, as private investment projects, including hydro construction, remained subdued. The services deficit deteriorated further, reflecting the standstill in tourism-related services in FY20/21. Gross international reserves stood at US\$1.6 billion in November 2021, equivalent to 19.5 months of goods and services imports.

The fiscal deficit widened to 6.3 percent in FY20/21, reflecting fiscal support and subdued revenue performance. The increase

in spending was driven by COVID-19 relief measures (6.6 percent of GDP), as well as an increase in capital expenditures. Revenues also increased, but to a lesser extent, driven by hydro profit transfers from the on-streaming of Mangdechhu (4.2 percent of GDP). Tax revenues declined in FY20/21, reflecting the slowdown in the non-hydro economy. Public debt increased to 134.9 percent of GDP in FY20/21 (up from 123 percent in FY19/20). However, risks to debt sustainability remain moderate as the bulk of the debt is linked to hydro project loans from India (to be paid off from future hydro revenues) with low refinancing and exchange rate risks.

Outlook

The economy is expected to grow by 4.4 percent in FY21/22, supported by Bhutan's rapid vaccination campaign, the easing of mobility restrictions, and ongoing fiscal support. On the demand side, public investment and a recovery in domestic and external demand (in particular from India) underpin growth. Output is expected to return to pre-pandemic levels in FY22/23 with a gradual recovery in tourism and a pick up in services sector growth. In the medium term, growth will be driven by the new hydro plants coming on stream

and the resulting increase in exports, as well as a recovery in non-hydro industries and the services sector. Inflation is projected to remain elevated in the short and medium term, owing to continued supply disruptions and higher energy and commodity prices.

The CAD is expected to remain low relative to pre-COVID levels, and to moderate further in the medium term due to a sharp increase in electricity exports and a gradual decline in hydro-related imports after the completion of projects.

The fiscal deficit is expected to increase to 10.1 percent of GDP in FY21/22 due to the scale up in capital expenditures and subdued revenue performance, including a decline in hydro profit transfers, and would then decline to 7.4 percent of GDP in FY22/23 as pandemic-related fiscal measures are gradually phased out. Domestic revenues are expected to increase over the medium term, supported by hydro revenues and policies aimed at mobilizing non-hydro revenues, including the introduction of the Goods and Services Tax (GST) in FY22/23. Public debt is projected to remain elevated as a share of GDP in the short term due to high fiscal deficits.

The \$3.20 poverty rate is expected to decline from 2021 onwards, although a full recovery to poverty headcount rates estimated before the pandemic is not likely to be achieved until 2023.

TABLE 2 Bhutan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices	4.4	-2.4	-3.7	4.4	4.7	6.7
Private Consumption	10.3	-0.5	-3.5	4.0	2.5	2.0
Government Consumption	7.0	7.3	24.0	-5.6	-11.4	2.8
Gross Fixed Capital Investment	-11.2	-15.2	-18.6	19.1	3.0	2.1
Exports, Goods and Services	9.6	-4.1	-1.2	5.2	20.7	20.8
Imports, Goods and Services	0.0	-9.2	-2.1	8.9	3.8	6.7
Real GDP growth, at constant factor prices	4.6	-0.8	-2.6	4.4	4.7	6.7
Agriculture	2.7	2.9	5.7	3.5	3.5	3.5
Industry	-1.6	-5.6	-5.5	7.5	5.4	11.9
Services	11.1	2.6	-2.2	2.3	4.3	3.2
Inflation (Consumer Price Index)	2.8	3.0	8.2	7.3	5.5	3.9
Current Account Balance (% of GDP)	-20.5	-12.4	-11.8	-11.4	-9.5	-5.2
Fiscal Balance (% of GDP)	-1.6	-1.9	-6.3	-10.1	-7.4	-4.5
Debt (% of GDP)	106.5	123.0	134.9	134.6	131.4	128.1
Primary Balance (% of GDP)	-0.7	-1.5	-5.3	-8.3	-5.8	-2.2
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	1.3	1.4	1.6	1.5	1.3	1.1
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	11.0	11.6	12.6	11.9	11.2	10.2
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	37.0	38.1	39.7	38.6	37.4	35.7
GHG emissions growth (mtCO₂e)	-0.2	1.6	1.5	-2.0	-1.8	-3.8
Energy related GHG emissions (% of total)	-15.6	-15.1	-14.4	-15.2	-16.0	-17.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

a/ Calculations based on SAR-POV harmonization, using 2007-BLSS, 2019-, and 2017-BLSS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.

b/ Projection using average elasticity (2007-2019) with pass-through = 1 based on GDP per capita in constant LCU.

INDIA

Table 1	2021
Population, million	1393.4
GDP, current US\$ billion	3085.4
GDP per capita, current US\$	2214.3
School enrollment, primary (% gross) ^a	99.9
Life expectancy at birth, years ^a	69.7
Total GHG Emissions (mtCO ₂ e)	3254.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

The rebound in FY22 was strong despite the two 'waves' of COVID-19, supported by increased vaccination coverage. The recovery, however, is not broad based with private consumption growth constrained by subdued income and employment. Investment strengthened due to the government's capex push and accommodative financing conditions. However, growth is expected to moderate in FY23 due to rising inflation, supply disruptions stemming from intensifying geo-political tensions, and moderating global growth outlook.

Key conditions and challenges

The growth recovery in FY22 was driven by a strong growth in investment and a rebound in private consumption. The economic impact of the surging COVID-19 infections in January-February 2022 (the 'third wave') was much less pronounced, in contrast to the deep contraction in FY21 due to the national lockdown. The recovery has been strong but not broad-based. Restrictions on activity and sectoral nature of the crisis have hampered the income prospects of low-income households, unskilled labor, and the informal sector. Growth was driven mainly by investment, underpinned by a targeted fiscal stimulus, as well as the exports of services. Latest data shows that the economy expanded by 5.4 percent in the third quarter (October-December) of FY22.

The focus of fiscal policy shifted from mitigating the socio-economic impact of COVID-19, towards increasing capital spending to facilitate the recovery by crowding-in private investment and bolstering revenue to facilitate gradual fiscal consolidation. Despite rising inflationary pressures, the RBI has indicated continuation of the accommodative monetary policy stance.

Major headwinds to growth in FY23 include persistently elevated inflation—exacerbated by rising oil and commodity prices and supply disruptions following the conflict in Eastern Europe—denting

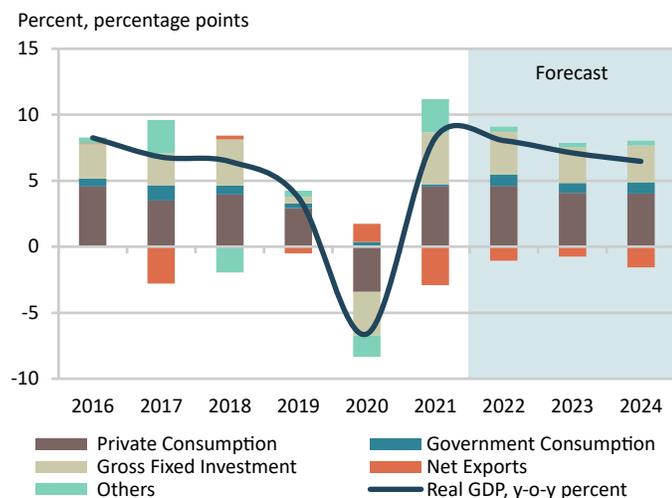
consumer spending further, localized stress in the financial sector following the withdrawal of regulatory forbearance, moderating global growth and the emergence of new 'variants' of COVID-19 necessitating stringent restrictions on activity vis-a-vis those witnessed in recent months.

Recent developments

The economy expanded by 8.3 percent in FY22 following a contraction of 6.6 percent in FY21. On the demand side, private consumption was supported by the release of pent-up demand post the 'second wave' and investment was spurred by increased government capital spending. Imports increased more than exports, leading to a negative contribution from trade in FY22. On the supply side, mining and manufacturing sectors benefited from the global rally in commodity prices and robust external demand. The services sector expanded but remained below the pre-pandemic level due to slower recovery in contact-intensive segments.

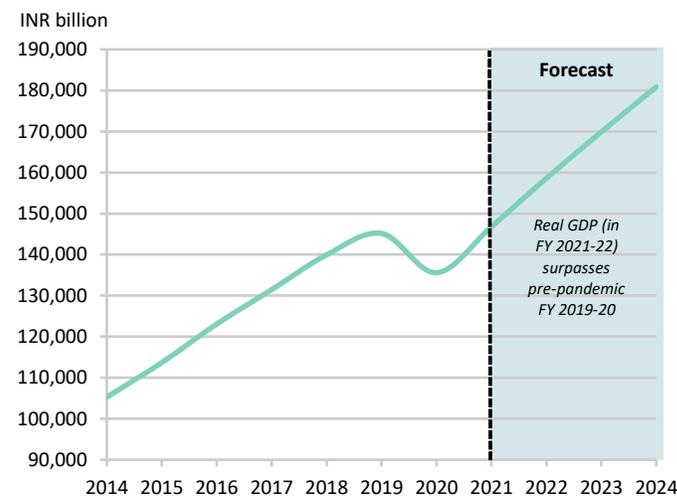
Headline inflation averaged above the midpoint of the tolerance range (2-6 percent) at 5.5 percent in FY22 due to cost-push pressures from higher commodity prices and supply disruptions. Although the RBI maintained an accommodative stance, it has undertaken steps towards gradual policy normalization by pausing the government securities acquisition program and rebalancing liquidity from the overnight to term money market. The financial sector remained resilient with

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



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

FIGURE 2 India / Real GDP



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

improvement in the performance and asset quality of banks, especially the public sector banks.

The current account balance was in modest deficit of 0.2 percent in Q1-Q2 FY22 as import growth outpaced export growth, despite the buoyant exports of computer and professional services. Further, robust foreign investment inflows and RBI intervention in the foreign exchange market, resulted in a record high accumulation of foreign exchange reserves of USD 622 billion by mid-March 2022 (15 months of FY21 imports).

The general government fiscal deficit, after peaking at 13.3 percent in FY21, declined to 10.9 percent in FY22 driven by stronger growth in revenue vis-à-vis expenditure. The capital expenditure of the union government grew by 27 percent y-o-y over Q1-Q3 FY22, while current spending increased at a relatively modest pace (8 percent). Consequently, public debt declined to 86.9 percent of GDP in FY22 from 88.6 percent in FY21.

After the 'second wave', India's labor market experienced a partial recovery starting

July 2021. Unemployment rates declined to 7.4 percent (monthly average) over July 2021-Feb 2022, from 12 percent in May 2021, but it has been accompanied by workers transitioning into lower-paying and less-secure jobs. Labor force participation has declined from an average of 42.8 percent in 2019, to 40 percent through 2021.¹

Outlook

Real GDP is expected to grow at 8.0 percent in FY23, facing headwinds from geopolitical tensions in Eastern Europe. The recovery in private consumption will be constrained by the incomplete recovery in the labor market, and inflationary pressures weighing on households' purchasing power. Increased government capital spending (especially in infrastructure and logistics), reduced vulnerabilities

1/ Data from Consumer Pyramids Household Survey (2019-2022).

in the financial sector, government initiatives including the production linked incentive scheme and improvement of the investment climate will support investment. Despite this, surging commodity prices, renewed supply disruptions and heightened business uncertainty can delay a sustainable pickup in private investment. Inflation is expected to rise on the back of elevated crude oil and commodity prices and extended global supply disruptions, with upside risks stemming from faster passthrough of elevated input costs to consumer prices. Intensifying inflationary pressures may lead to sooner-than-expected tightening of monetary policy in FY23.

The current account deficit will widen substantially as merchandise trade deficit increases on the back of rising commodity prices and a resumption of, albeit slow, domestic recovery and will be only partially offset by resilient services exports. Capital flows, especially foreign direct investment inflows, are expected to remain steady—given the reforms implemented to improve the business environment.

TABLE 2 India / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	3.7	-6.6	8.3	8.0	7.1	6.5
Private Consumption	5.2	-6.0	7.9	8.1	7.1	7.1
Government Consumption	3.4	3.6	1.5	8.1	7.0	7.9
Gross Fixed Capital Investment	1.6	-10.4	12.9	10.2	8.3	8.5
Exports, Goods and Services	-3.4	-9.2	21.7	6.2	10.8	8.2
Imports, Goods and Services	-0.8	-13.8	33.2	9.2	11.4	12.3
Real GDP growth, at constant factor prices	3.8	-4.8	7.6	8.0	6.8	6.5
Agriculture	5.5	3.3	3.1	4.0	3.8	3.6
Industry	-1.4	-3.3	9.8	6.7	6.8	6.7
Services	6.3	-7.8	7.7	9.9	7.7	7.1
Inflation (Consumer Price Index)	4.8	6.2	5.5	5.5	4.9	4.2
Current Account Balance (% of GDP)	-0.9	0.9	-1.2	-2.5	-2.0	-1.7
Net Foreign Direct Investment (% of GDP)	1.5	1.6	1.6	1.5	1.6	1.6
Fiscal Balance (% of GDP)	-7.2	-13.3	-10.9	-9.6	-8.5	-8.0
Debt (% of GDP)	73.7	88.6	86.9	86.5	85.8	85.0
Primary Balance (% of GDP)	-2.5	-7.8	-5.4	-3.8	-2.7	-2.1
GHG emissions growth (mtCO2e)	1.8	-10.5	6.7	5.2	4.0	3.3
Energy related GHG emissions (% of total)	70.9	67.8	69.0	70.2	71.1	71.8

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

MALDIVES

Table 1 **2021**

Population, million	0.5
GDP, current US\$ billion	4.9
GDP per capita, current US\$	8977.8
Upper middle-income poverty rate (\$5.5) ^a	1.7
Gini index ^a	29.3
School enrollment, primary (% gross) ^b	98.0
Life expectancy at birth, years ^b	78.9
Total GHG Emissions (mtCO2e)	2.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ Most recent WDI value (2019).

Following the recovery in 2021, Maldives is projected to grow at 7.6 percent in 2022, and fully recover to pre-pandemic output levels by 2023. This will be supported by a sustained recovery in tourism, assuming increasing arrivals from traditional markets, such as China and Western Europe, which will partially offset any fall in Russian and Ukrainian tourists. Despite a narrowing of the fiscal deficit, public debt will remain unsustainable.

Key conditions and challenges

Tourism is the main driver of economic growth, fiscal revenues, and foreign exchange earnings in Maldives. After the COVID-19 outbreak in March 2020, Maldives closed its borders for three months, which severely hit the sector. Only 555,494 tourists visited in 2020, a third of the 2019 level. Following a nationwide vaccination campaign that commenced in February 2021, over two-thirds of the population have now been fully vaccinated. This supported a stronger recovery in tourism in the second half of 2021, with total arrivals reaching 1.3 million by the end of the year. However, a high dependence on tourism and limited sectoral diversification remains a key structural challenge as the country is highly vulnerable to external and macroeconomic shocks. Disruptions stemming from the pandemic and shocks due to the Russia-Ukraine war highlight the risks associated with reliance on a single economic sector. Additional long-standing structural weaknesses also remain. To promote faster growth, the government has rightly scaled up infrastructure investments since 2016. This has helped boost construction activity, productivity growth, and medium-term growth prospects. Investments in physical and social infrastructure have also led to a reduction in poverty, with only 1.7 percent of the population estimated to be living below the poverty line (5.5 PPP USD/person/day) in 2019. However, financing of these

large investments through external non-concessional sources and sovereign guarantees has contributed to growing fiscal and debt vulnerabilities, which are unlikely to diminish given significant public investments are expected to continue due to government's commitment to completing these projects before the 2023 presidential elections.

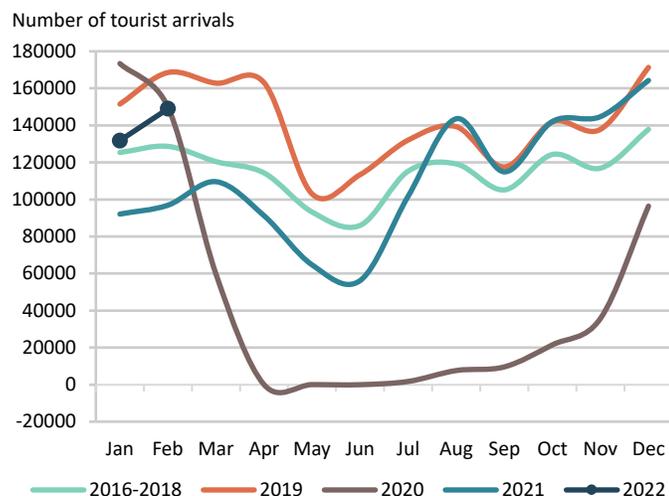
Recent developments

A recovery in tourism has led to a strong economic rebound since Q2 2021. Real GDP grew from a low base by over 70 percent (y-o-y) in Q2 and Q3 2021. Notably, Maldives received over 1.3 million tourists in 2021, which was about 80 percent of 2019 levels. Despite a new wave of COVID-19 infections due to the Omicron variant, the growth momentum has continued into 2022. Tourist arrivals were 43 and 54 percent above 2021 levels in January and February 2022, respectively.

Along with the economic recovery and higher global commodity prices, headline inflation rose slightly to 0.5 percent in 2021, from deflation of 1.4 percent in 2020. This was driven by increases in transport, food, housing, water, electricity, gas, and other fuel prices.

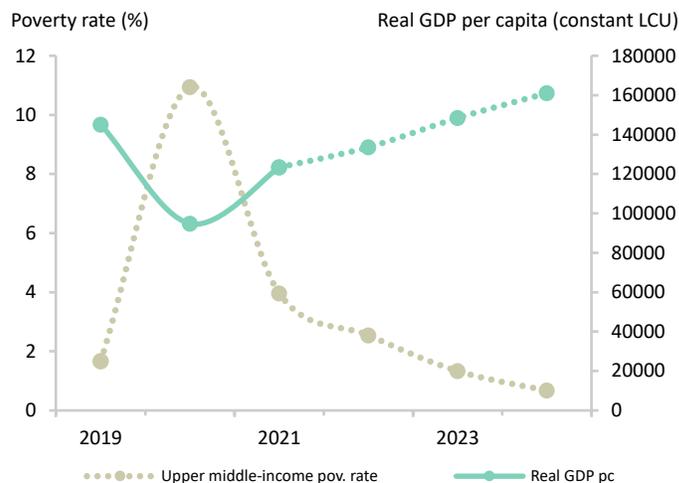
The current account deficit narrowed to an estimated US\$1.1 billion (21.7 percent of GDP) in 2021 from US\$1.3 billion (35.5 percent of GDP) in 2020, as exports surged by about 97 percent and exceeded the 59 percent growth in imports. The official gross reserves remained stable at above US\$800 million (2.5 months of imports) for most of 2021.

FIGURE 1 Maldives / Visitor arrivals



Sources: Ministry of Tourism and World Bank staff calculations.

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



Sources: HIES 2019/20 and World Bank POVMOD projections.

Tourism-linked revenues rose alongside the recovery in tourism, with total revenues and grants amounting to US\$631 million in Q2 and Q3 2021, which was only 15 percent below 2019 levels. Given that expenditures grew by 12 percent (y-o-y) in Q2 and Q3 2021, with capital expenditure only picking up in Q3 2021, the fiscal deficit is estimated to have narrowed to 17.7 percent of GDP in 2021. Combined with the fast recovery in GDP growth, this led to a fall in public debt from 146 percent of GDP in 2020 to a still unsustainable 129 percent in 2021.

After a sharp increase to 11 percent of the population in 2020, the poverty rate is estimated to have fallen to 4 percent in 2021 due to the economic recovery, and is expected to return to pre-pandemic levels by 2023.

Outlook

Due to a continued recovery in tourism and other sectors impacted by the pandemic,

real GDP is expected to grow at 7.6 percent in 2022, and at 9.9 percent in 2023 supported by: (i) greater tourism capacity due to the completion of the Velana airport expansion and new resorts; (ii) a return of Chinese tourists following the reopening of their border; and (iii) continued capital expenditures and election-related spending.

Inflation is projected to rise to 3.5 percent in 2022, but moderate in the medium term as global energy prices normalize. Although service exports will increase as tourism recovers, the return to pre-pandemic levels of consumption and capital goods imports will lead to an expansion in the current account deficit to a projected 24 percent of GDP in 2023, before narrowing in 2024 due to a fall in capital goods imports as large investment projects are expected to be completed by then.

The fiscal deficit is projected to decline to 16 percent of GDP in 2022 and steadily narrow in the medium term as revenues improve due to tourism growth and new

revenue mobilization measures (particularly the introduction of new departure taxes and an increased Airport Development Fee). Despite a narrowing of the fiscal deficit, public debt levels will remain high and unsustainable.

Downside risks persist. The baseline projection accounts for the estimated impacts of the Russia-Ukraine war on tourism and oil prices under the current trend, but further increases in global energy prices may cause an additional fiscal burden. Tourism could be adversely impacted by a persistent reduction in Russian and Ukrainian tourists and new waves of COVID-19 infections. However, there is some upside potential for increasing tourist arrivals from traditional markets such as China and Western Europe.

Despite improving fiscal prospects, prudent debt management remains critical to improving fiscal sustainability and lowering the cost of growth-enhancing investments, especially with large debt service obligations coming due in 2026.

TABLE 2 Maldives / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.9	-33.5	31.0	7.6	10.2	7.1
Private Consumption	4.4	-27.2	29.0	8.5	7.2	6.5
Government Consumption	-4.3	5.4	6.5	7.1	7.8	11.2
Gross Fixed Capital Investment	-2.6	-36.6	14.1	0.0	14.8	-2.6
Exports, Goods and Services	6.7	-51.4	69.6	12.1	10.2	8.5
Imports, Goods and Services	-0.3	-41.1	50.0	10.2	9.3	6.0
Real GDP growth, at constant factor prices	6.9	-31.3	27.3	7.6	10.2	7.1
Agriculture	-7.6	7.0	3.8	2.6	2.4	2.1
Industry	1.9	-25.4	-1.6	9.9	8.1	7.0
Services	8.6	-34.3	34.1	7.7	10.9	7.4
Inflation (Consumer Price Index)	0.2	-1.4	0.5	3.5	1.3	1.2
Current Account Balance (% of GDP)	-26.6	-35.5	-21.7	-23.2	-23.9	-21.3
Net Foreign Direct Investment (% of GDP)	17.1	-11.8	9.0	12.5	13.9	12.8
Fiscal Balance (% of GDP)	-6.7	-23.5	-17.7	-16.0	-13.9	-12.8
Debt (% of GDP)	78.8	146.1	128.8	130.9	129.6	129.2
Primary Balance (% of GDP)	-4.9	-20.8	-14.0	-10.9	-9.2	-8.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	1.7	10.9	4.0	2.5	1.3	0.7
GHG emissions growth (mtCO₂e)	3.3	3.1	3.1	3.0	3.1	2.8
Energy related GHG emissions (% of total)	81.5	81.5	81.5	81.5	81.6	81.6

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

a/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.

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

NEPAL

Table 1

	2021
Population, million	29.7
GDP, current US\$ billion	35.1
GDP per capita, current US\$	1182.0
International poverty rate (\$1.9) ^a	15.0
Lower middle-income poverty rate (\$3.2) ^a	50.9
Upper middle-income poverty rate (\$5.5) ^a	83.0
Gini index ^a	32.8
School enrollment, primary (% gross) ^b	142.1
Life expectancy at birth, years ^b	70.8
Total GHG Emissions (mtCO2e)	54.4

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2010), 2011 PPPs.
 b/ Most recent WDI value (2019).

After an initial recovery in FY21, growth momentum continued during H1FY22 with progress in vaccination and ongoing COVID-19 related fiscal and monetary support. Growth is expected to accelerate in FY22 to 3.7 percent, weathering new variant waves and rising fuel prices. Going forward, the economy is forecast to grow 4.1 and 5.8 percent in FY23 and FY24, respectively. Downside risks include new COVID-19 variants, the severity of the Russia-Ukraine conflict, and potentially stronger import compression measures to support international reserves.

Key conditions and challenges

Nepal has achieved an average growth rate of 4.9 percent between FY09 and FY19 and attained lower middle-income status in 2020. The country has reduced poverty, thanks in large part to remittances inflows which averaged 21.9 percent of GDP over the same period. Structural constraints to achieving inclusive and sustainable growth remain, including a significant share of population in low-quality low-productivity jobs, high vulnerability to natural disasters and climate change, large infrastructure gaps, and highly concentrated trade markets. Ensuring continued transition to a federalized system of governance and public finance and managing the rising debt levels, in recent years, through prudent fiscal management will be additional challenges that need to be managed.

Recent developments

After growing 1.8 percent in FY21, the economy maintained recovery momentum in the first half of FY22 with increased international tourist arrivals and continued expansion of credit to the private sector. Significant progress on vaccination has allowed Nepal to weather a renewed COVID-19 wave in early 2022 with less stringent containment measures, supporting a rebound

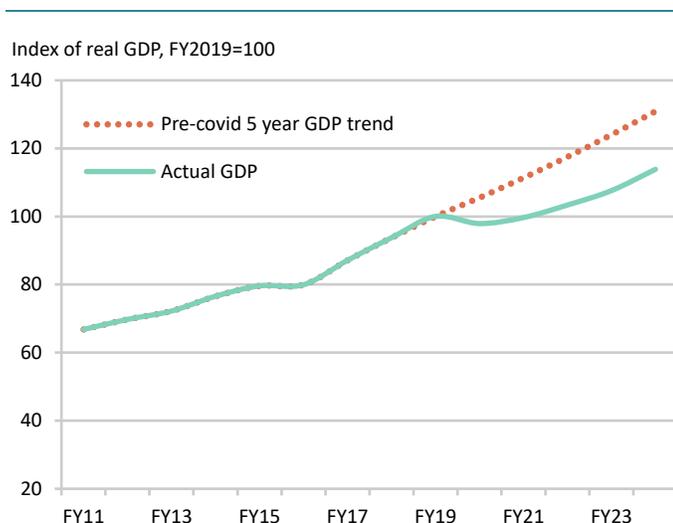
of activity in the services and industrial sectors. Growth in the agricultural sector has been muted following a reduction in paddy production amid unseasonal rains in October 2021.

Average inflation accelerated from 3.4 percent in FY21 to 5 percent in H1FY22, reflecting higher transportation prices associated with global fuel price hikes and an increased educational fees and housing prices. However, food price inflation slowed to 4.2 percent (year-on-year) in H1FY22 from 4.6 percent in FY21, reflecting a lower vegetable price increase.

The current account deficit widened in H1FY22 relative to H1FY21. Drivers include a surge in imports and a drop in official remittance inflows, which in absolute terms far outpaced an increase in exports. In the absence of significant FDI inflows, the current account deficit was financed by trade credits, external concessional borrowing, and reserve drawdown. Official gross foreign exchange reserves fell to USD 9.9 billion in mid-January 2022 (6.6 months of imports coverage) from USD 11.8 billion in mid-July 2021. In response, the central bank adopted measures to mitigate pressure on reserves, including limiting imports of luxury goods.

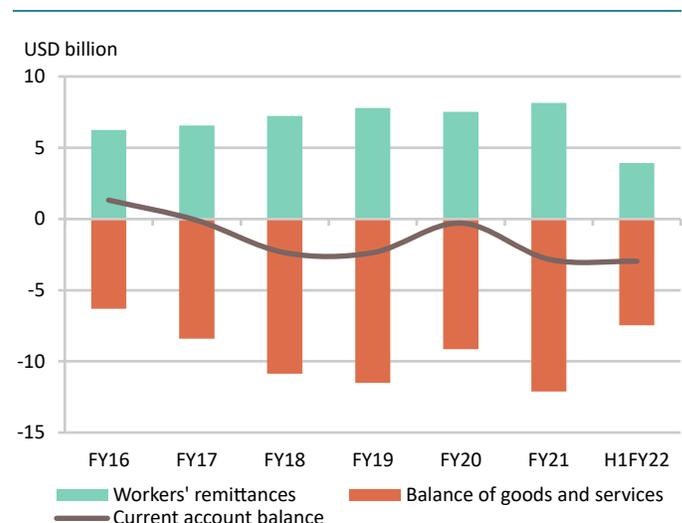
As observed in previous years, a federal fiscal surplus was recorded in H1FY22 as revenue outstripped expenditure growth, as the budget execution tends to accelerate in the last quarter of the fiscal year. Revenue expanded by 28 percent year-on-year in H1FY22 on the back of a strong recovery in trade-related taxes, income taxes, and non-tax revenues especially with strong increase in royalties,

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



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

FIGURE 2 Nepal / The current account deficit has widened



Sources: World Bank staff calculations and Nepal Rastra Bank.

dividends, and passport and visa fee collections. Compared to H1FY21, total expenditure rose due to higher social security spending and intergovernmental fiscal transfers to sub-national governments, while capital expenditure remained close to H1FY21 levels. While public debt has risen from 22.7 percent to 41.8 percent of GDP from FY17 to FY21, the risk of debt distress is currently assessed as low as per the Joint Bank-Fund Debt Sustainability Analysis of December 2021.

New analysis based on the World Bank COVID-19 phone monitoring survey (conducted during the later half of 2020) shows that 45 percent of those who recovered from a job loss have switched sectors and taken jobs with lower earnings and skill requirements. This indicates that many households have been pushed to marginally above or below the poverty line. New data on jobs and recovery from January 2022 will help better understand the impacts of the COVID-19 on the labor markets and its welfare implications. Higher inflation will increase the cost of basic needs, which will adversely impact the poor and vulnerable, although this may be partially mitigated by rising remittances.

Outlook

The baseline scenario assumes: (i) that no new nationwide strict containment measures are imposed; (ii) a near complete vaccination of the eligible population by the

end of FY22 (81.7 percent of the population aged 18 and higher have received full doses of vaccine by March 25, 2022); and (iii) a gradual increase in international migration and tourist arrivals, reaching pre-pandemic levels by FY24.

The baseline forecast projects a gradual medium-term recovery, with growth accelerating from 3.7 percent in FY22 to 5.8 percent by FY24. Vaccination deployment is expected to unleash pent-up demand for most service sub-sectors. Industry sector growth is projected to be supported by increased production of hydropower including from the recently completed Upper Tamakoshi plant. Agricultural growth is projected to decelerate in FY22, reflecting a decline in paddy production and the rise of global fertilizer prices earlier in the fiscal year. Increasing fuel prices are expected to weigh on aggregate demand.

Inflation is expected to rise to 6 percent during FY22 reflecting higher global commodity prices. From FY22 to FY24, annual inflation is expected to average 5.6 percent. The current account deficit is projected to widen to 11.9 percent of GDP in FY22 and begin to narrow after. Imports are expected to peak at 43.1 percent of GDP in FY22, driven by resurgent consumption and increased commodity prices. Merchandise exports are projected to grow from a low base as Nepal continues to take advantage of tariff exemptions under the South Asian Free Trade Area agreement and expands electricity exports to India. Remittances are projected to average 21.8 percent of GDP over the medium term, assuming stronger

demand for migrant workers in the GCC countries due to stronger economic performance driven by higher oil prices. Larger current account deficits are expected to be financed primarily by concessional borrowing and moderate drawdown on reserves, while FDI is assumed to remain marginal as a funding source.

The fiscal deficit is projected to narrow to 3.7 percent of GDP in FY22 as growth rebounds continue to support revenue collection. Over the medium-term, the fiscal deficit is projected to further narrow gradually, supported by expected rollback of COVID-19 related tax breaks and modest policy reforms. Total public debt is projected to peak at 44.5 percent of GDP in FY24. The economic outlook is subject to downside risks. A major uncertainty is the speed of booster dose deployment and vaccine effectiveness to stop transmission of a new COVID-19 variant. The outcomes of local elections in May 2022 and federal and provincial elections in FY23 will pose additional political uncertainty. Risks on the external side stem from increasing pressure on reserves driven by the increasing imports.

Stronger import control measures to mitigate pressures on international reserves could affect growth through lower trade-related tax revenues, depressed private consumption and production, and lower capital expenditures. The ongoing Russia-Ukraine conflict, if it deepens further, could lower travel demand and may threaten the recovery of tourism and tourism related sectors.

TABLE 2 Nepal / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.7	-2.1	1.8	3.7	4.1	5.8
Private Consumption	8.1	3.6	2.4	2.1	1.9	2.5
Government Consumption	9.8	3.8	-5.0	23.6	0.8	-4.1
Gross Fixed Capital Investment	11.3	-12.4	1.2	7.6	5.5	9.6
Exports, Goods and Services	5.5	-15.9	-19.8	30.7	12.5	15.1
Imports, Goods and Services	5.8	-15.2	16.9	10.2	2.3	3.1
Real GDP growth, at constant factor prices	6.4	-2.1	1.8	3.7	4.1	5.8
Agriculture	5.2	2.2	2.7	1.3	1.8	2.3
Industry	7.4	-3.7	0.9	5.1	5.3	6.9
Services	6.8	-4.0	1.6	4.7	5.0	7.4
Inflation (Consumer Price Index)	4.6	6.1	3.4	6.0	5.7	5.2
Current Account Balance (% of GDP)	-6.9	-0.9	-8.1	-11.9	-9.5	-6.8
Fiscal Balance (% of GDP)	-5.0	-5.3	-4.6	-3.7	-3.5	-3.4
Debt (% of GDP)	27.2	36.3	41.8	43.1	44.2	44.5
Primary Balance (% of GDP)	-4.5	-4.7	-3.7	-2.8	-2.5	-2.3
GHG emissions growth (mtCO₂e)	1.3	-2.3	0.8	1.0	1.3	2.3
Energy related GHG emissions (% of total)	42.7	40.5	39.5	39.1	38.9	39.1

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

PAKISTAN

Table 1 **2021**

Population, million	225.2
GDP, current US\$ billion	345.5
GDP per capita, current US\$	1534.3
International poverty rate (\$1.9) ^a	3.6
Lower middle-income poverty rate (\$3.2) ^a	34.4
Upper middle-income poverty rate (\$5.5) ^a	77.6
Gini index ^a	29.6
School enrollment, primary (% gross) ^b	95.5
Life expectancy at birth, years ^b	67.3
Total GHG Emissions (mtCO ₂ e)	469.2

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2018), 2011 PPPs.
 b/ Most recent WDI value (2019).

After a definitive economic recovery in FY21, Pakistan's GDP growth is expected to slow in FY22 and FY23 due to macroeconomic challenges emanating on both domestic and external fronts. Symptomatic of the long-standing structural issues associated with low potential growth, the record-high trade deficit and double-digit inflation, require urgent macroeconomic adjustment measures. The ongoing pandemic, a protracted surge in global commodity prices, and faster-than-expected tightening of global financing conditions pose substantial risks to the outlook.

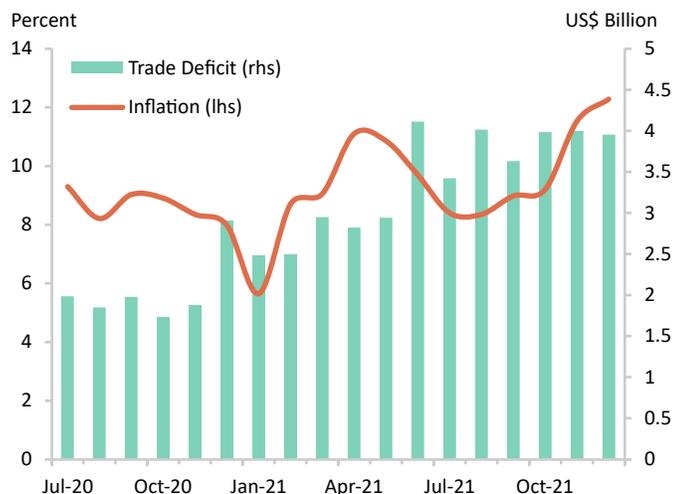
Key conditions and challenges

Since imposing a widespread lockdown in response to the first COVID-19 wave, Pakistan has been effectively using localized lockdowns to curb the infection spread, allowing economic activity to largely continue. Expansion of the national cash transfer program, a mass vaccination campaign, accommodative macroeconomic policies, and supportive measures for the financial sector, all helped mitigate the adverse effects of the pandemic. As a result, growth of real GDP at constant factor 2015-16 prices rebounded to 5.6 percent in FY21, after contracting by 1.0 percent in FY20. Nevertheless, long-standing structural weaknesses of the economy and low productivity growth pose risks to a sustained recovery. Strong aggregate demand pressures, in part due to previously accommodative fiscal and monetary policies, paired with the continued less conducive external environment for exports have contributed to a record-high trade deficit (Figure 1), weighing on the Rupee and the country's limited external buffers. Macroeconomic risks are strongly tilted to the downside. They include faster-than-expected tightening of global financing conditions, further increases in world energy prices, and the possible risk of a return of stringent COVID-19 related mobility restrictions. Domestically, political tensions and policy slippages can also lead to protracted macroeconomic imbalances.

Recent developments

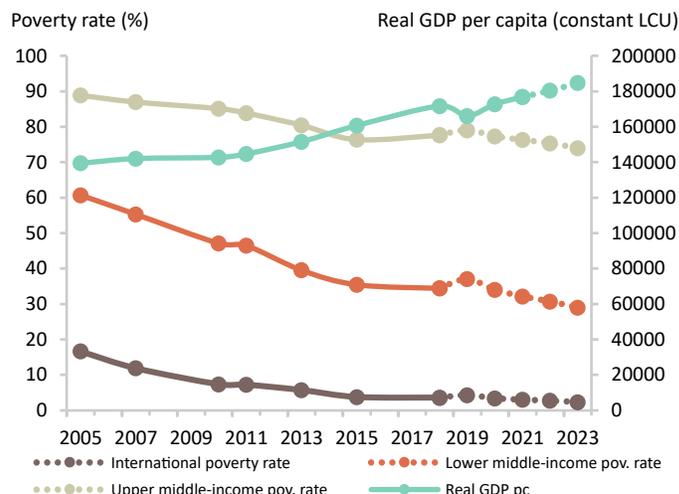
Indicators have mostly signaled positive economic momentum over July-December 2021 (H1 FY22). With continued improvement in community mobility and still robust official remittance inflows, private consumption is estimated to have strengthened. Similarly, investment is also expected to have increased with strong growth of machinery imports and government development expenditure. Government consumption also grew strongly with vaccine procurement. On the production side, agricultural output, mainly rice and sugarcane increased, reflecting better weather conditions. Similarly, large-scale manufacturing growth rose to 7.5 percent y-o-y in H1 FY22, higher than the 1.5 percent for H1 FY21. In contrast, business and consumer confidence have fallen since June 2021, partly due to concerns about higher inflation and interest rates. Headline inflation rose to an average of 9.8 percent y-o-y in H1 FY22 from 8.6 percent in H1 FY21, driven by surging global commodity prices and a weaker exchange rate. Similarly, core inflation has been increasing since September 2021. Accordingly, the State Bank of Pakistan has been unwinding its expansionary monetary stance since September 2021, raising the policy rate by a cumulative 275 basis points (bps) and banks' cash reserve requirement by 100 bps. The current account deficit (CAD) in H1 FY22 widened to US\$9.0 billion, from a surplus of US\$1.2 billion in H1 FY21, as

FIGURE 1 Pakistan / Headline inflation and overall trade deficit



Sources: Pakistan Bureau of Statistics and State Bank of Pakistan.

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



Source: World Bank. Notes: see Table 2.

imports values surged by 54.4 percent, doubling the 27.3 percent growth in exports values. Double-digit growth in remittances in H1 FY22 helped to finance the record-high trade deficit. The financial account recorded net inflows of US\$10.1 billion, supported by the new IMF SDR allocation, short-term Government deposits from Saudi Arabia, and a Eurobond issuance in July 2021. In January-February, the Government obtained US\$2.1 billion from International Sukuks and the IMF Extended Fund Facility (EFF). Despite these inflows, foreign exchange reserves had fallen to US\$13.5 billion by March 25, 2022, equivalent to 2.0 months of imports of goods and services. Meanwhile, the Rupee depreciated by 14.3 percent against the U.S. dollar from July 2021 to end-March 2022. Despite the high tax revenue growth with the surge in imports, the fiscal deficit widened by 20.6 percent in H1 FY22 due to higher spending on vaccine procurement, settlement of power sector arrears, and development projects. Public debt, including guaranteed debt, reached 70.7 percent of GDP at end-December 2021, compared to 72.0 percent at end-December 2020. To

complement the tighter monetary policy, the Government approved a Supplementary Finance Bill in January 2022, withdrew tax exemptions, and cut back on federal development spending, while protecting social sector spending.

With the economic recovery and improved labor market conditions, poverty measured at the lower middle-income class poverty line of \$3.20 PPP 2011 per day is estimated to have declined from 37.0 percent in FY20 to 34.0 percent in FY21 (Figure 2). Rising food and energy inflation is expected to diminish the real purchasing power of households, disproportionately affecting poor and vulnerable households that spend a larger share of their budget on these items. In response, the Government introduced a targeted food subsidies program (Ehsaas Roshan Riyaat) in February 2022.

Outlook

On the back of high base effects, recent macroeconomic adjustment measures and stronger inflation, real GDP growth

is expected to slow to 4.3 percent in FY22 and to 4.0 percent in FY23. However thereafter, economic growth is projected to recover to 4.2 percent in FY24, supported by the implementation of structural reforms to support macroeconomic stability and dissipating global inflationary pressures. Inflation is estimated to rise to 10.7 percent in FY22 but moderate over the forecast horizon. Largely reflecting the imports surge in H1 FY22, the CAD is expected to widen to 4.4 percent of GDP in FY22. Macroeconomic adjustment measures and the weaker currency are expected to tame imports mostly in FY23. The CAD is expected to narrow to 3.0 percent of GDP in FY24, as reforms to reduce import tariffs and the anti-export bias of trade policy gain traction. The fiscal deficit (including grants) is projected to widen slightly to 6.2 percent of GDP in FY22, and gradually narrow over the medium term as revenue mobilization measures, particularly GST harmonization and personal income tax reform, take hold. Public debt as a share of GDP is projected to stay high, but to gradually decline over the medium term. The outlook is predicated on the IMF-EFF program remaining on-track.

TABLE 2 Pakistan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices^{a,b}	2.5	-1.3	6.0	4.3	4.0	4.2
Private Consumption	5.6	-3.1	6.3	5.5	3.0	3.9
Government Consumption	-1.6	8.4	3.1	6.9	6.0	3.8
Gross Fixed Capital Investment	-11.1	-5.5	6.8	4.4	2.5	4.4
Exports, Goods and Services	13.2	1.5	4.8	7.1	1.8	2.8
Imports, Goods and Services	7.6	-5.1	5.5	12.1	-0.7	2.1
Real GDP growth, at constant factor prices^a	3.1	-1.0	5.6	4.3	4.0	4.2
Agriculture	0.9	3.9	3.5	3.6	3.2	3.3
Industry	0.2	-5.8	7.8	4.0	3.3	3.8
Services	5.0	-1.3	5.7	4.7	4.5	4.7
Inflation (Consumer Price Index)	6.8	10.7	8.9	10.7	9.0	7.5
Current Account Balance (% of GDP)	-4.2	-1.5	-0.6	-4.4	-3.1	-3.0
Net Foreign Direct Investment (% of GDP)	0.4	0.9	0.5	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-7.8	-7.0	-6.1	-6.2	-6.0	-5.2
Debt (% of GDP)	78.0	81.1	76.0	76.0	74.4	72.5
Primary Balance (% of GDP)	-3.0	-1.5	-1.1	-1.4	-1.0	-0.3
International poverty rate (\$1.9 in 2011 PPP)^{c,d}	3.6	4.3	3.4	3.0	2.7	2.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{c,d}	34.4	37.0	34.0	32.1	30.7	29.0
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{c,d}	77.6	79.0	77.3	76.3	75.3	74.0
GHG emissions growth (mtCO₂e)	2.8	0.4	3.8	3.0	3.3	3.4
Energy related GHG emissions (% of total)	45.2	44.6	45.5	45.7	46.0	46.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD. Macroeconomic outlook as of February 2022.

a/ Using re-based national accounts data at 2015-16 prices.

b/ 2020/2021 expenditure accounts are World Bank estimates that conform to the production accounts of the new base year.

c/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

d/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

SRI LANKA

Table 1 **2021**

Population, million	22.0
GDP, current US\$ billion	82.5
GDP per capita, current US\$	3750.2
International poverty rate (\$1.9) ^a	0.9
Lower middle-income poverty rate (\$3.2) ^a	11.0
Upper middle-income poverty rate (\$5.5) ^a	42.0
Gini index ^a	39.3
School enrollment, primary (% gross) ^b	100.2
Life expectancy at birth, years ^b	77.0
Total GHG Emissions (mtCO2e)	36.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2011 PPPs.
b/ Most recent WDI value (2019).

Sri Lanka faces unsustainable debt and significant balance of payments challenges. The economic outlook is highly uncertain due to the fiscal and external imbalances. Urgent policy measures are needed to address the high levels of debt and debt service, reduce the fiscal deficit, restore external stability, and mitigate the adverse impacts on the poor and vulnerable. The forecasts have been finalized on March 17, 2022.

Key conditions and challenges

Due to the COVID-19 pandemic, the economy contracted by 3.6 percent in 2020, raising the \$3.20 poverty rate to an estimated 11.7 percent. In 2021, an expeditious vaccination campaign contributed to economic recovery. However, fiscal deficits sharply widened and public debt significantly increased due to the pandemic and pre-pandemic tax cuts. Foreign exchange earnings declined, while large international sovereign bond repayments came due. Heightened fiscal and external risks led to a series of sovereign credit rating downgrades, preventing market-based refinancing. Official reserves declined to critically low levels and a foreign exchange shortage has affected the supply of some essentials. Inadequate fuel supply for thermal generation resulted in scheduled power cuts.

Sri Lanka's macroeconomic challenges are linked to years of high fiscal deficits, driven primarily by low revenue collection, and erosion of export competitiveness due to a restrictive trade regime and weak investment climate. Growth slowed to an average 3.1 percent between 2017 and 2019 from the 6.2 percent between 2010 and 2016, as a peace dividend and a policy thrust toward reconstruction faded away and macroeconomic shocks adversely impacted growth. Structural adjustments are needed to restore debt sustainability, significantly increase revenue collection, and to improve the investment

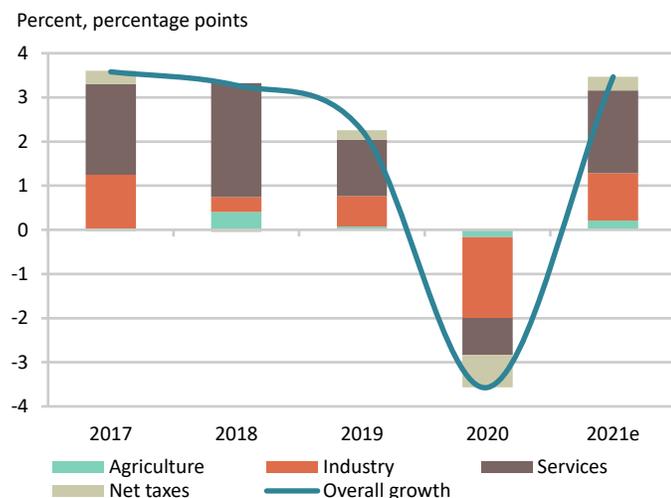
climate, restore competition, and support reforms to improve productivity in agriculture. Public investments and future borrowings should prioritize key sectors and address immediate needs and induce sustainable and resilient growth through economic transformation.

Recent developments

Real GDP is estimated to have expanded by 3.5 percent in 2021 thanks to a strong 12.3 percent, year-on-year, rebound from a low base in the second quarter of the year. Significant contributions came from manufacturing, financial services, construction, transport, and real estate activity. Despite still low tourism receipts, exports expanded significantly, led by the textile industry. Higher imports of intermediate and capital goods increased imports. The \$3.20 poverty rate is estimated to have slightly declined to 10.9 percent in 2021, still above pre-pandemic levels.

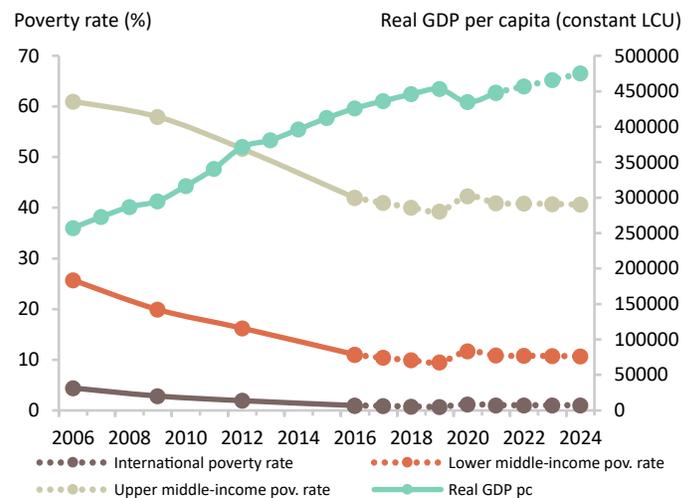
Year-on-year inflation accelerated to 17.5 percent in February 2022, mostly due to high food inflation at 24.7 percent, amid rising global commodity prices, adjustments to fuel prices, and partial monetization of the fiscal deficit. Moreover, an agrochemical imports ban between May and November reduced agricultural production. The increase in prices affected the ability of households to cover living expenses, leading to a deterioration of welfare and more food insecurity. Since August 2021, the central bank has increased policy rates and the statutory

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



Sources: Department of Census and Statistics, World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

reserve ratio by 200 basis points to mitigate the pressures.

The trade deficit widened to USD 8.1 billion in 2021 from USD 6 billion in 2020 as a rising import bill offset the increase in export earnings, despite import restrictions on non-essential goods. Declines in remittances (22.7 percent) and tourism receipts (61.7 percent) are estimated to have further widened the current account deficit to USD 3.2 billion (or 3.8 percent of GDP) in 2021.

The government has mobilized external financing from bilateral partners, including a financial assistance package from India worth US\$ 1.4 billion in January 2022 to pay for essential imports and boost foreign exchange liquidity. A further US\$ 1 billion support from India was signed on March 17, 2022. However, official reserves at US\$ 2.3 billion in February 2022 (equivalent to 1.3 months of imports) remain low relative to foreign currency debt service, estimated at USD 5.6 billion from April to December 2022 (including domestic instruments issued in foreign currency). Net foreign assets of the banking system declined to US\$ -4.9 billion in December 2021, showing escalating foreign exchange liquidity shortages. After keeping the exchange rate broadly fixed around 201 LKR/US\$ for seven months, the CBSL

floated the currency on March 07 to stem reserve losses. By March 15, the currency had depreciated by 31 percent.

The fiscal deficit is estimated to have remained at 11.1 percent of GDP in 2021, and public and publicly guaranteed debt to have increased to 117 percent of GDP. The fiscal deficit was mostly financed by domestic resources, including the central bank. Fitch, S&P, and Moody's downgraded the sovereign rating deeper into the substantial risk investment category.

Outlook

The heightened fiscal and external risks as well as challenging political situation pose significant uncertainty to the economic outlook and Sri Lanka faces an external financing gap in 2022 and beyond. The real GDP growth outlook is subject to the continuing fiscal and external imbalances. Despite expected further tightening of monetary policy, inflation will likely stay elevated, due the recent currency depreciation and high commodity prices, partly related to the Russia-Ukraine War and associated sanctions. The fiscal deficit is projected to stay high amid low revenue generation and rigid expenditures. The current account deficit is expected to increase due to the high global commodity

prices, partially offset by gradually increasing remittances due to the float of the currency. Poverty at \$3.20 per day is projected to remain broadly unchanged from 2021. A shortfall of external financing, larger than expected impacts of the Russia-Ukraine War and associated sanctions on commodity prices and tourism, as well as the possible emergence of new COVID variants pose downside risks. On the upside, an opening of China could provide a boost to tourism.

Sri Lanka needs to address the structural sources of its vulnerabilities. This would require reducing fiscal deficits especially through strengthening domestic revenue mobilization. Fiscal consolidation needs to be accompanied by tighter monetary policy to contain pressures on inflation. Sri Lanka also needs to find feasible options to restore debt sustainability. The financial sector needs to be carefully monitored amid high exposure to the public sector and the impact of the recent currency depreciation on banks' balance sheets. The necessary adjustments may adversely affect growth and impact poverty initially but will correct the significant imbalances, subsequently providing the foundation for stronger and sustainable growth and access to international financial markets. Mitigating the impacts on the poor and vulnerable would remain critical.

TABLE 2 Sri Lanka / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.3	-3.6	3.5	2.4	2.3	2.3
Private Consumption	3.0	-3.0	3.6	2.3	2.2	2.4
Government Consumption	13.0	4.4	4.4	0.8	-1.3	-0.5
Gross Fixed Capital Investment	1.0	-9.5	5.8	2.3	1.0	1.5
Exports, Goods and Services	7.2	-9.6	18.2	8.9	5.8	2.8
Imports, Goods and Services	-5.8	-11.4	15.7	5.9	2.2	1.3
Real GDP growth, at constant factor prices	2.2	-3.1	3.5	2.4	2.3	2.3
Agriculture	1.0	-2.4	3.0	1.0	1.5	1.5
Industry	2.6	-6.9	4.2	2.3	2.3	2.2
Services	2.2	-1.5	3.2	2.6	2.4	2.5
Inflation (Consumer Price Index)	4.3	4.6	6.0	15.2	8.3	6.1
Current Account Balance (% of GDP)	-2.2	-1.3	-3.8	-4.3	-3.4	-2.9
Net Foreign Direct Investment (% of GDP)	0.7	0.6	0.8	1.1	1.3	1.3
Fiscal Balance (% of GDP)	-9.6	-11.1	-11.1	-9.1	-9.6	-9.7
Debt (% of GDP)	94.3	109.7	117.0	122.7	124.3	125.4
Primary Balance (% of GDP)	-3.6	-4.6	-4.6	-2.0	-2.0	-1.7
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.7	1.2	1.0	1.0	1.0	1.0
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	9.5	11.7	10.9	10.8	10.8	10.7
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	39.3	42.3	40.9	40.8	40.7	40.6
GHG emissions growth (mtCO₂e)	-0.1	-4.0	3.1	2.7	2.4	2.4
Energy related GHG emissions (% of total)	63.8	64.4	65.7	67.0	67.9	68.7

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

a/ Calculations based on SAR-POV harmonization, using 2016-HIES. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.

b/ Estimates for 2017-2019 and 2021 use a neutral distribution (2016) and assume a medium pass-through (0.87) based on GDP per capita in constant LCU. Estimate for 2020 based on microsimulation of COVID19 impacts. Estimates for 2022-2024 assume a very low pass-through (0.10) based also on GDP per capita.

Macro Poverty Outlook

04 /
2022



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