South Asia

Macro Poverty Outlook

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

Spring Meetings 2021

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South Asia

Spring Meetings 2021

Afghanistan	Maldives
Bangladesh	Nepal
Bhutan	Pakistan
India	Sri Lanka

AFGHANISTAN

Table 1	2020
Population, million	38.9
GDP, current US$ billion	19.9
GDP per capita, current US$	511.0
Poverty headcount ratio[a]	47.1
School enrollment, primary (% gross)[a]	72.5
Life expectancy at birth, years[b]	64.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Income, Exp. and Labor Force Survey (IE-LFS) (2020).
(b) Most recent WDI value (2018).

Afghanistan is expected to experience sluggish growth over 2021, as political uncertainty, insecurity, and declining aid depress the pace of recovery from the COVID-19 crisis. The combination of low revenue collection and declining grants means that the government has limited fiscal space to provide countercyclical support. Poverty remains high and informal and self-employed workers have been hit hard by COVID-19 related disruptions. To reach and sustain higher growth the following will be key: continued support from the international community, a resolution of current political uncertainties, and the mobilization of new sources of growth including the extractives.

Key conditions and challenges

In Afghanistan's recent past, economic activity has been adversely impacted by deep-rooted political instability, institutional weakness, and violent insurgency. Poverty has remained stubbornly high and GDP per capita is among the lowest in the world. Afghanistan also lags in terms of key social indicators and ranked 169th in the 2020 Human Capital Index.

The economy is shaped by the disproportionate weight of aid and security related services, with small spillovers to other sectors of the economy. Aid inflows exceed 45 percent of GDP, and security spending is equivalent to approximately 30 percent of GDP. Grants finance more than 75 percent of total public spending (including off-budget spending) and around half of the budget. The livelihood of seventy percent of the population continues to depend on agriculture. The development of private sector activity unrelated to aid or security development, particularly of industries and manufacturing, has been heavily constrained by political instability, weak institutions and widespread corruption, inadequate infrastructure, and onerous regulation.

As a result, Afghanistan has a small and undiversified production base and structural fiscal and trade deficits, financed almost entirely by international grants. There are only limited economic opportunities for the estimated 300,000 Afghans entering the labor force each year.

The COVID-19 shock has exacerbated economic and social challenges. The pandemic and related containment measures, including border closures and lockdowns of major cities, disrupted commerce and trade. Poverty is believed to have increased significantly, as urban casual workers were impacted disproportionately. Peace talks with the Taliban have stalled, dampening expectations that sustainable peace can be achieved over the short-term.

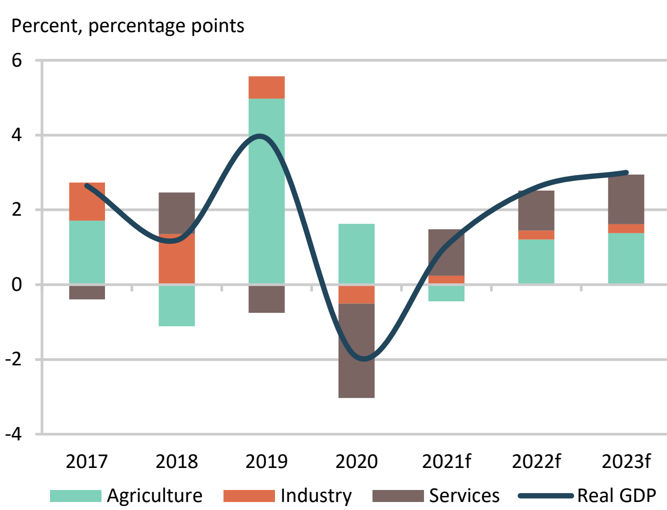
The outlook is highly uncertain. Critical risk factors include: a possible decline in international security support, a deterioration of security conditions (a possible intensification of Taliban attacks), and faster -than-expected reductions in aid support (if governance improvements are not sufficient to reassure donors, who increasingly condition grants on reforms).

Recent developments

The economy is estimated to have contracted by 1.9 percent in 2020, reflecting the impact of the COVID-19 crisis. Thanks to favorable weather conditions and its relative insulation from COVID-19 impacts, agriculture production is estimated to have increased by 5.3 percent. By contrast, lockdowns and intermittent border closures had a significant adverse impact on industrial and services output, which contracted by 4.2 and 4.8 percent, respectively.

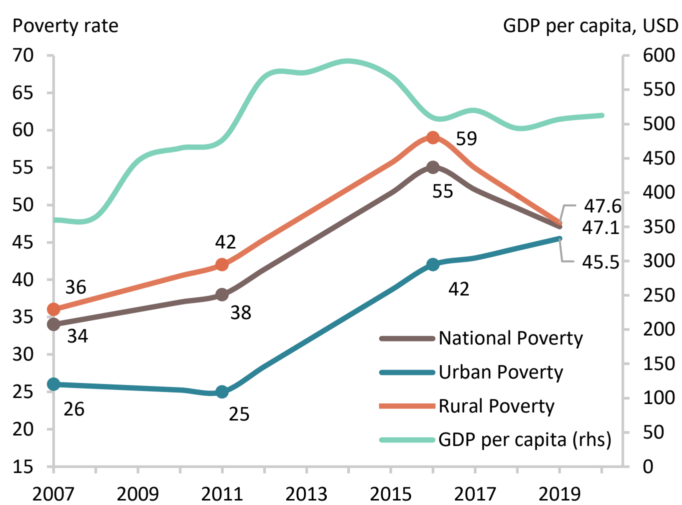
Inflation rose to an annual average of 5.6 percent in 2020, up from 2.3 percent in 2019. This mostly reflected a sharp increase

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



Sources: World Bank, Macroeconomics, Trade and Investment Global Practice.

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



Sources: WDI, NSIA, official data, and IE-LFS (2020).

in food prices due to panic buying and import disruptions in the second quarter. Over the second half of the year, inflation decelerated as trade disruptions were resolved.

External balances are estimated to have improved in 2020. The trade deficit is believed to have narrowed slightly to 27.6 percent of GDP (from 30.4 percent in 2019), with imports and exports declining by 4.5 percent and 10 percent respectively (such that value of imports fell more than exports in absolute). Despite the large trade deficit, the current account is estimated to have reached a surplus of 2.9 percent of GDP (up from 0.6 percent in 2019), thanks to continued high foreign grant inflows. The afghani remained stable against the US dollar throughout the year, and international reserves are estimated to have increased to USD 9.7 billion in 2020, corresponding to approximately 16 months of goods and services imports.

The fiscal deficit widened to 2.3 percent of GDP in 2020 (from 1.6 percent in 2019), reflecting reduced revenues and increased expenditures in the context of the COVID-19 crisis. Domestic revenues fell around 17 percent short of budget targets, given weak overall economic activity, low proceeds from import taxes, and poor compliance. Meanwhile, overall expenditure increased by 3.4 percent relative to 2019, amounting to 28.6 percent of GDP.

According to estimates from the 2019-2020 Income and Expenditure Household Survey, some 47.1 percent of Afghans are poor, a slight reduction from the previous estimate (54.5 in 2016-2017). Urban poverty increased from 42 to 45 percent between the two rounds, while rural poverty declined significantly (from 59 to 48 percent). Better rural outcomes reflect the recovery of agriculture incomes in the aftermath of the 2018 drought, and the relatively lower exposure of rural and subsistence communities to the impacts of COVID-19 lockdowns and trade restrictions.

Outlook

The baseline scenario assumes (i) continuation of current security and political conditions, involving high levels of uncertainty, slow progress with peace talks, a sustained US troop presence, and continued widespread violence; (ii) no further COVID-19 lockdowns, despite continued high infection rates; and (iii) a gradual decline in grant support, in line with donor commitments at the 2020 Geneva Conference.

Under this baseline scenario, the economy is expected to grow by one percent in 2021. Industry and services are expected to recover gradually from the COVID-19 crisis, but the onset of drought conditions is expected to dampen agricultural output. Over the medium-term growth is expected to firm up gradually as weather conditions improve and the scarring effect of the COVID-19 disruptions dissipates.

Notwithstanding a slight increase in non-food inflation due to higher global oil prices, inflation is expected to fall to 3.8 percent in 2021, as COVID-19-related supply restrictions fade and growth of food prices moderates (despite impacts of the drought). Over the medium term, inflation is expected to stabilize at around 5.0 percent.

The current account surplus is projected to narrow to 0.3 percent of GDP in 2022, before moving into deficit from 2023 onward, as a result of lower grants and the continuation of a large trade deficit. Thus, international reserve buffers are projected to decline.

Given weak growth prospects, tax revenues will remain constrained. This, coupled with lower projected international grants, will drive a fiscal deficit of around 3.1 percent of GDP in 2021, to be financed largely from cash reserves. Over the medium term, the fiscal deficit is expected to narrow to less than 2 percent of GDP, partly thanks to the expected implementation of the VAT in 2022.

Drought conditions are likely to result in increased poverty and food insecurity in some rural areas, while the recovery from COVID-19 disruptions in commerce and trade may support modest reductions in urban poverty.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	1.2	3.9	-1.9	1.0	2.6	3.0
Private Consumption	10.0	-2.0	-3.7	1.5	3.0	3.5
Government Consumption	-17.8	15.0	5.6	1.2	1.3	1.8
Gross Fixed Capital Investment	0.0	-15.3	-13.6	-0.1	1.4	1.3
Exports, Goods and Services	49.6	-6.3	-2.3	4.1	7.2	7.3
Imports, Goods and Services	13.1	-6.8	-5.3	2.3	3.1	3.5
Real GDP growth, at constant factor prices	1.2	4.4	-1.9	1.0	2.6	3.0
Agriculture	-4.4	17.5	5.2	-1.5	4.0	4.5
Industry	11.1	4.8	-4.4	2.0	2.0	2.0
Services	1.9	-1.4	-4.9	2.3	2.0	2.5
Inflation (Consumer Price Index)	0.6	2.3	5.6	3.8	4.5	5.0
Current Account Balance (% of GDP)	2.7	0.6	2.9	1.2	0.3	-0.6
Net Foreign Direct Investment (% of GDP)	0.5	0.0	0.0	0.1	0.2	0.3
Fiscal Balance (% of GDP)	0.8	-1.5	-2.3	-3.1	-1.1	-0.7
Debt (% of GDP)	5.8	7.1	8.2	9.7	9.9	9.3
Primary Balance (% of GDP)	1.0	-1.4	-2.2	-3.0	-1.1	-0.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

BANGLADESH

Table 1	2020
Population, million	170.3
GDP, current US$ billion	324.2
GDP per capita, current US$	1903.7
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]	116.5
Life expectancy at birth, years[b]	72.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

Following sharp GDP growth deceleration in FY20 due to the COVID-19 pandemic, the economy started recovering in the first half of FY21, as movement restrictions were lifted and international buyers reinstated export orders. Going forward, a gradual recovery is expected to continue, particularly if the government's COVID-19 recovery programs are implemented swiftly. Downside risks include new waves of COVID-19 infections that may dampen external demand for exports and Bangladesh's labor force overseas. With growth firming up, poverty is projected to decline marginally in FY21.

Key conditions and challenges

Bangladesh made rapid development progress over the past two decades, reaching lower-middle-income country status in 2015. Rapid GDP growth was supported by a demographic dividend, sound macroeconomic policies, and an acceleration in readymade garment (RMG) exports. Meanwhile, job creation and growing remittance inflows contributed to a sharp decline in poverty. However, from 2013 onward, the pace of job creation and poverty reduction slowed, even as GDP growth accelerated. Persistent structural weaknesses include low institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, unbalanced urbanization, and slow improvements in the business environment. Bangladesh is also highly vulnerable to the effects of climate change.

The COVID-19 pandemic impacted the economy profoundly. A national shutdown from March to May 2020 resulted in severe supply-side disruptions in all sectors of the economy. On the demand side, losses in employment income dampened consumption growth, although remittance inflows provided some buffer. The government's COVID-19 stimulus program provided firms with access to working capital and low-cost loans to sustain operations and maintain employee wages in FY20 and FY21. From June onward, movement restrictions have been progressively lifted, and transit and workplace movement patterns returned to pre-pandemic levels by October. Officially recorded infections peaked in July 2020 and declined gradually in subsequent months.

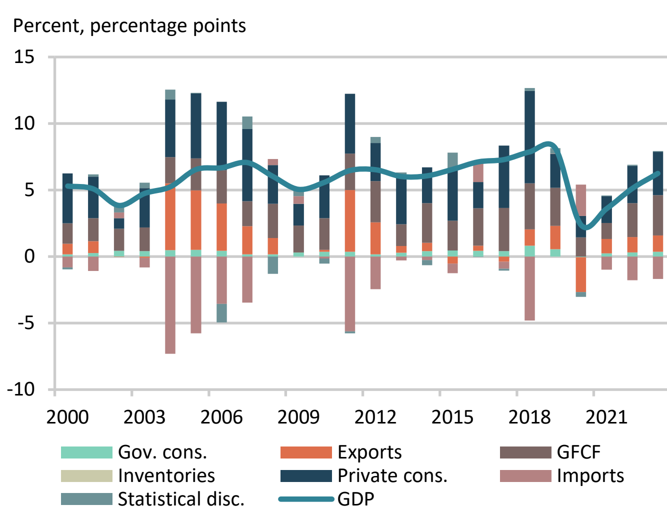
Downside risks to the outlook are likely to persist if new waves of COVID-19 re-emerge in Bangladesh or its trading partner countries. This could necessitate additional movement restrictions, dampen demand for RMG, and/or limit the outflow of migrant workers. Bangladesh's expected graduation from the UN's Least Developed Country status in coming years will present opportunities but also challenges, including the eventual loss of preferential access to advanced economy markets.

Recent developments

After a substantial deceleration in growth in FY20, early signs of recovery emerged in the first half of FY21 (July to December 2020). Following a 16.8 percent decline (y-o-y) in FY20, exports rebounded in the first half of FY21 as RMG export orders were reinstated. On the demand side, growth was primarily supported by private consumption, underpinned by a recovery in labor income and remittance inflows. However, a contraction in capital goods imports (-19.1 percent, y-o-y) suggests that private investment has not yet normalized.

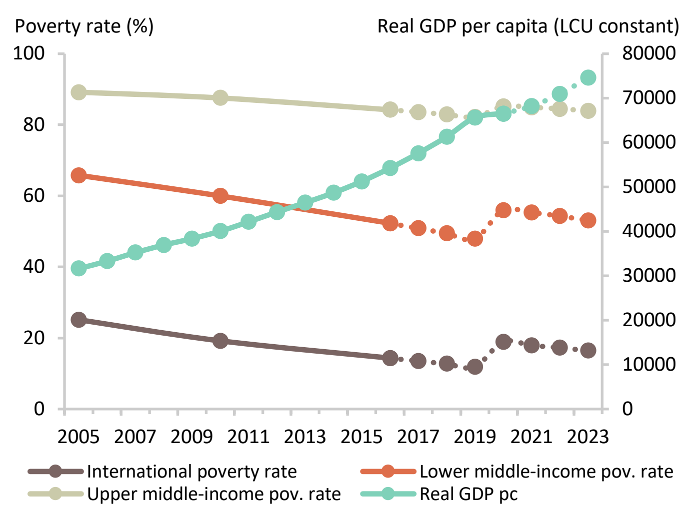
Inflation decelerated from 5.6 percent in FY20 to 5.3 percent by December 2020, as food and non-food prices moderated. Monetary policy was further eased in July

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



Sources: Bangladesh Bureau of Statistics (BBS) and World Bank staff.

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



Sources: World Bank. Notes: see Table 2.

2020. However, growing risk aversion among commercial banks, a cap on lending rates, and rising non-performing loans limited the transmission to lending rates. Private sector credit growth continued to decline, falling from a high of 13.3 percent (y-o-y) in December 2018 to just 8.4 percent (y-o-y) by the end of December 2020.

The current account moved into surplus in the first half of FY21, as the trade deficit declined due to lower imports and surging official remittance inflows. Possible reasons could be that overseas workers switched to formal payment systems as the traditional hundi system was disrupted by international travel restrictions, and/or, returning overseas workers repatriated accumulated savings. Foreign exchange reserves remained adequate at 8.6 months of goods and non-factor services imports in December 2020.

The fiscal deficit widened marginally to an estimated 6.0 percent of GDP in FY20, with a decline in revenue and slower expenditure growth, relative to FY19. Expenditure growth moderated due to the slow implementation of development projects in the context of COVID-19, while revenue collection declined as international trade and the domestic economy stalled. Bangladesh was at low risk of debt distress in a Debt Sustainability Assessment completed in May 2020. Preliminary data from the first four months of FY21 show further reductions in the growth of recurrent and development expenditure, and modest revenue growth.

Estimated poverty rose sharply in FY20 amidst substantial job and income losses. However, household surveys point to a gradual recovery in employment and earnings and a decline in poverty in the first half of FY21. Food security improved across the country, with the greatest increase in Chittagong.

Outlook

The economy is expected to continue to recover gradually. Given the significant uncertainty pertaining to both epidemiological and policy developments, real GDP growth for FY21 could range from 2.6 to 5.6 percent depending on the pace of the ongoing vaccination campaign, whether new restrictions to mobility are required and how quickly the world economy recovers. Over the medium term, growth is projected to stabilize within a 5 to 7 percent range as exports and consumption continue to recover, and investment rises, led by externally financed public infrastructure investments under the recently adopted 8th Five-Year Plan. The recent surge in official remittance inflows is unlikely to persist if (i) the net outflow of migrant workers slows in FY21 (as visa issuance in the Middle East declined during the pandemic) and (ii) the reliance on formal payment channels subside (as normal travel resumes). If weakness in revenue collections persist, the fiscal deficit is projected to remain at 6.0 percent of GDP in FY21, moderating over the medium term with tax reforms and expenditure prioritization. Sustaining the economic recovery and further reducing poverty will depend, inter alia, on the implementation of the government's COVID-19 response program, including credit programs in the banking sector.

Downside risks to the outlook may persist. Fiscal risks include weak domestic revenue growth (if tax reforms are delayed) and higher expenditure for COVID-19 vaccinations (if external financing is limited) and for supporting the Rohingya refugees (if donor fatigue sets in). In the financial sector, contingent liabilities from non-performing loans combined with weak capital buffers could necessitate recapitalizations (resulting in higher domestic government debt) and depress credit growth. External risks could also be elevated. While external demand for RMGs appears to be stabilizing, the recovery is fragile and could be vulnerable to new waves of COVID-19 infections. Demand for Bangladesh's overseas workforce in the Gulf region may also be impacted by the ongoing recession in that region, impairing future remittance inflows.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	7.9	8.2	2.4	3.6	5.1	6.2
Private Consumption	11.0	3.9	2.6	3.2	4.5	5.3
Government Consumption	15.4	9.5	-0.9	4.3	5.4	6.5
Gross Fixed Capital Investment	10.5	8.4	4.3	3.6	7.4	8.6
Exports, Goods and Services	8.1	11.6	-16.8	8.4	8.6	8.9
Imports, Goods and Services	27.0	-0.2	-12.1	6.0	10.5	9.4
Real GDP growth, at constant factor prices	7.9	8.4	2.6	3.6	5.0	6.1
Agriculture	4.2	3.9	3.0	2.2	3.3	3.1
Industry	12.1	12.7	1.3	4.5	6.1	7.4
Services	6.4	6.8	3.4	3.3	4.8	6.0
Inflation (Consumer Price Index)	5.8	5.5	5.6	5.7	5.7	5.8
Current Account Balance (% of GDP)	-3.5	-1.5	-1.5	-0.5	-2.1	-2.4
Net Foreign Direct Investment (% of GDP)	0.6	0.9	0.4	0.3	0.5	0.6
Fiscal Balance (% of GDP)	-4.6	-5.4	-5.5	-6.0	-6.0	-5.9
Debt (% of GDP)	31.9	33.7	37.6	41.7	44.9	47.2
Primary Balance (% of GDP)	-2.8	-3.4	-3.2	-3.6	-3.4	-3.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	12.7	11.9	18.9	17.9	17.2	16.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	49.4	47.9	55.9	55.3	54.3	53.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	82.9	82.2	85.2	84.9	84.5	83.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SAR-POV harmonization, using 2010-HIES and 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.
(b) Projection using annualized elasticity (2010-2016) with pass-through = 1based on GDP per capita in constant LCU.

BHUTAN

Table 1	2020
Population, million	0.8
GDP, current US$ billion	2.4
GDP per capita, current US$	3079.8
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]	71.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2020); Life expectancy (2018).

Output is projected to contract by 1.8 percent in FY20/21, reflecting the adverse impact of the COVID-19 crisis on tourism and non-hydropower industries. Poverty is expected to slightly increase due to high food price inflation and disruptions in agricultural activities. While the state-led hydropower sector cushioned the impact of the crisis on economic growth and fiscal accounts, accelerating reforms to promote private sector development is important to generate more and better jobs.

Key conditions and challenges

Annual real GDP growth has averaged 7.5 percent since the 1980s, mainly driven by public sector-led hydropower development and electricity sales to India. However, while hydropower has provided a reliable source of growth, it has resulted in high fiscal volatility (temporary one-off profits from the on-streaming of hydropower plants boosting revenues and driving up current spending). The capital-intensive hydropower sector has also failed to generate a large amount of jobs. Thus, over half of Bhutan's workforce remains employed in agriculture, primarily of subsistence nature, while one-third is employed in low value-added services. Nonetheless, poverty reduction was impressive, with a decline in the $3.20 poverty rate from 30.6 percent to 12.2 percent between 2007 and 2017, partly supported by a greater commercial orientation of farmers.

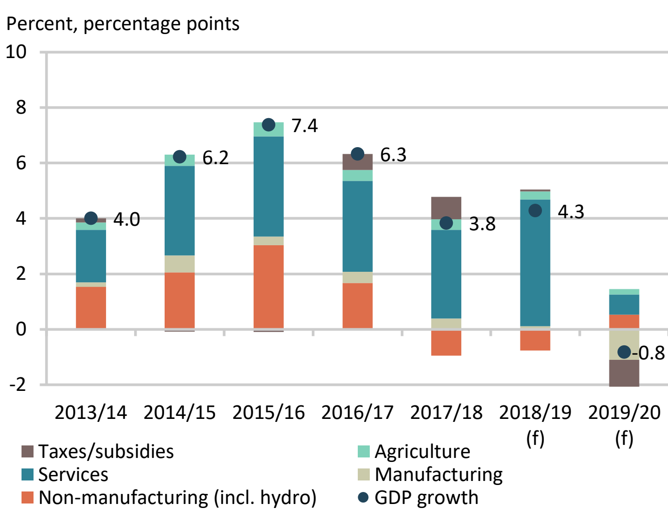
Bhutan has avoided a large-scale domestic COVID-19 outbreak thanks to stringent domestic containment measures, including two nationwide lockdowns in FY20/21. The closure of domestic borders since March 2020 brought the tourism industry to a standstill and disrupted trade with India, Bhutan's main trading partner. As a result, many workers in the services sector, especially in urban areas, experienced job and/or earning losses. The government launched a COVID-19 recovery package, with emphasis on agriculture, tourism, and construction.

The pace of economic recovery will depend on how fast COVID-19 vaccines can be deployed globally, and specifically in India (given significant tourism and trade linkages). Domestic risks include delays in hydro projects and lower-than-expected hydropower production (due to adverse weather patterns) as well as the materialization of financial sector contingent liabilities, which could strain government finances. The implementation of revenue measures, particularly the goods and services tax (GST), is critical to expanding domestic resource mobilization.

Recent developments

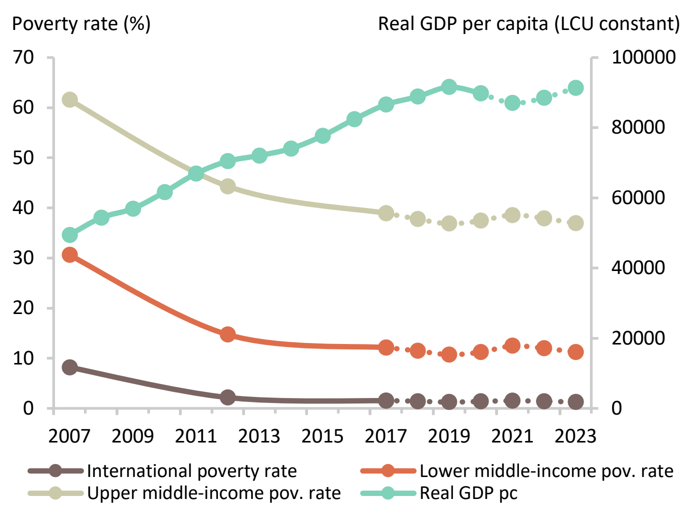
The economy contracted by 0.8 percent in FY19/20. Lower tourist arrivals y-o-y in the second half of FY19/20 (January to June 2020) dampened services sector growth. While the hydropower sector performed well thanks to the on-streaming of the Mangdechhu hydroelectric power plant, other industrial activities have been significantly affected by supply-chain disruptions (for critical inputs, including foreign labor), and depressed external demand (especially from India). On the demand side, public consumption and net exports supported growth. An increase in hydro exports more than offset the decline in non-hydro exports, and imports for infrastructure projects were subdued. However, there was a contraction in private consumption

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



Sources: Government of Bhutan and World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

and investment due to domestic containment measures and disruptions in infrastructure projects.

Average inflation increased from 3.0 percent in FY19/20 to 7.7 percent in the first half of FY20/21. While non-food inflation remained modest, averaging 1.7 percent in the first half of FY20/21, food inflation averaged 15.3 percent–due to import restrictions on food and severe supply disruptions. High food inflation–along with disruptions in the production, transport, and sales of agricultural products–likely eroded the real incomes of many rural poor. This is expected to have led to a slight increase in the $3.20 poverty rate, from 10.7 in 2019 to 11.2 percent in 2020.

The current account deficit narrowed to 12.2 percent of GDP in FY19/20, mainly thanks to a smaller trade deficit. Hydropower exports doubled as a share of GDP, more than offsetting the decline in non-hydro exports, which have been severely impacted by the border closure and lower external demand during the last quarter of the fiscal year. Meanwhile, goods imports declined, as the pandemic depressed public investment–including hydro projects. Gross international reserves increased by 22 percent (y-o-y) to US$ 1.43 billion in November, equivalent to 16.1 months of FY19/20 goods and services imports.

The fiscal deficit widened to 3.2 percent of GDP in FY19/20 with spending growing faster than revenues. While the latter was boosted by one-off profits from hydropower, non-hydro revenues decreased with the discontinuation of excise duty refunds from India and lower-than-normal tourism receipts. The increase in spending was primarily driven by the increase in salaries and wages (40 percent, y-o-y) and an increase in capital expenditures. Public debt rose to 120.7 percent of GDP as of June 2020 (up from 106.6 percent in FY18/19). However, debt sustainability risks are moderate as the bulk of the debt is linked to hydropower project loans from India (to be paid off from future hydro revenues), which reduces re-financing and exchange rate risks.

Outlook

Under the baseline scenario, economic growth is projected to contract further by 1.8 percent in FY20/21 (July 2020 to June 2021). Services sector output is expected to fall by 3.7 percent, as tourism activity is not expected to reopen until mid-2021. Labor shortages, high input prices, and trade disruptions are expected to weigh on construction, manufacturing, and non-hydro exporting industries. Output is expected to return to pre-pandemic levels (in real terms) in FY21/22, when tourist inflows gradually resume and activities in the non-hydro industry pick up.

The current account deficit is expected to remain low relative to pre-COVID levels. Non-hydro exports are expected to recover gradually, supported by the global recovery and a resumption of tourism. Import growth is projected to increase gradually over the medium term, in line with increases in public investment.

The fiscal deficit is projected to increase sharply in FY21/22, with the discontinuation of profit transfers from Mangdechhu (4.0 percent of GDP in FY20/21), upward pressure on current expenditures (due to higher salaries and the COVID-19 recovery package), and downward pressures on non-hydro revenues from weak economic activity. Thereafter, the deficit should narrow to pre-COVID levels (in FY23/24) as profit transfers from Puna II begin. Public debt is expected to remain elevated as a share of GDP due to low economic growth, high financing needs, and an increase in hydropower debt (in FY22/23).

The $3.20 poverty rate is projected to rise further to 12.5 percent in 2021, given continued disruptions in economic activities.

A delay in the domestic rollout of vaccines could further impact economic activity. However, a faster-than-expected implementation of the COVID-19 recovery package, including employment programs and the national credit guarantee scheme to small and medium-sized enterprises, could support domestic job creation and growth.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	3.8	4.3	-0.8	-1.8	2.9	4.5
Private Consumption	10.0	10.1	1.0	-4.0	3.0	0.2
Government Consumption	3.7	7.0	30.0	1.8	2.2	0.6
Gross Fixed Capital Investment	-3.6	-11.4	-29.2	-8.1	3.7	0.5
Exports, Goods and Services	5.5	9.6	12.5	-23.2	10.3	23.5
Imports, Goods and Services	3.6	0.5	-3.6	-22.0	8.6	6.7
Real GDP growth, at constant factor prices	3.2	4.5	0.4	-1.8	2.9	4.5
Agriculture	3.6	2.7	1.9	2.0	3.0	3.0
Industry	-1.3	-1.6	-1.5	-0.7	2.2	5.4
Services	7.8	10.8	1.6	-3.7	3.4	4.0
Inflation (Consumer Price Index)	3.7	2.8	3.0	7.2	3.7	3.7
Current Account Balance (% of GDP)	-19.1	-21.1	-12.2	-10.2	-10.9	-7.0
Fiscal Balance (% of GDP)	-1.6	-1.6	-3.2	-5.4	-7.4	-5.9
Debt (% of GDP)	110.5	106.6	120.7	121.5	120.5	133.9
Primary Balance (% of GDP)	-0.3	-0.7	-2.7	-4.3	-5.8	-4.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	1.3	1.4	1.5	1.4	1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.5	10.7	11.2	12.5	12.0	11.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	37.8	36.9	37.4	38.6	37.9	36.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SAR-POV harmonization, using 2017-BLSS.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.

INDIA

Table 1	2020
Population, million	1380.0
GDP, current US$ billion	2590.6
GDP per capita, current US$	1877.2
International poverty rate ($1.9)[a]	22.5
Lower middle-income poverty rate ($3.2)[a]	61.7
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	96.8
Life expectancy at birth, years[b]	69.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011/2), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

India's economy is estimated to have contracted by over 8 percent in FY21, on account of a steep fall in output over the first half of the fiscal year, as the onset of the COVID-19 pandemic and lockdowns brought activity to a halt. To support vulnerable firms and households during the crisis, and underpin an economic recovery, both monetary and fiscal policy levers were triggered. Going forward, growth is expected to rebound to 10.1 percent in FY22, thanks to base effects, but to taper-off thereafter.

Key conditions and challenges

The economy was already slowing when the COVID-19 pandemic unfolded. After reaching 8.3 percent in FY17, growth decelerated to 4.0 percent in FY20. The slowdown was caused by a decline in private consumption growth and shocks to the financial sector (the collapse of a large non-bank finance institution), which compounded pre-existing weaknesses in investment.

In response to the COVID-19 outbreak, the authorities implemented a nation-wide lockdown, which brought economic activity to a near standstill between April and June 2020 (Q1FY21). The most impacted sub-sectors included aviation and tourism, hospitality, trade, and construction, but industrial activity was also deeply disrupted by mobility restrictions. Agriculture, however, was mostly unaffected.

To mitigate the social and economic impacts of the COVID-19 induced crisis, the Reserve Bank of India (RBI) provided liquidity and other regulatory support (including forbearance measures), and the government increased spending on health and social protection through expenditure re-prioritizing and fiscal expansion. Still, the sharp contraction in output between April and September 2020, is expected to have inflicted significant economic and social impacts.

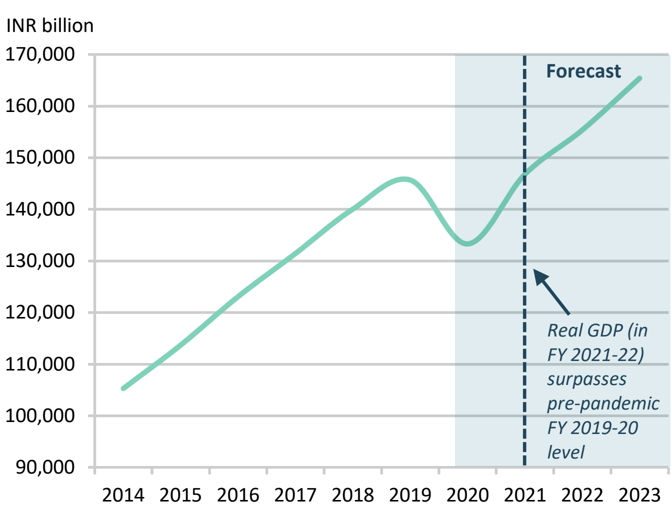
Going forward, the main risks to the outlook include the materialization of financial sector risks, that could compromise a recovery in private investment, and new waves of COVID-19 infections.

Recent developments

Output is estimated to have contracted by 8.5 percent in FY21 (April 2020 to March 2021), with all components of demand – except government consumption- significantly affected. Private consumption, the backbone of India's growth, is estimated to have fallen by 10 percent and investment by about 13 percent. Government consumption provided partial relief (expanding y-o-y by 4.1 percent), as did net exports (due to a steep fall in imports). On the supply side, agriculture was mostly unaffected, but industrial activity was impacted by supply chain disruptions and construction and services by mobility restrictions.

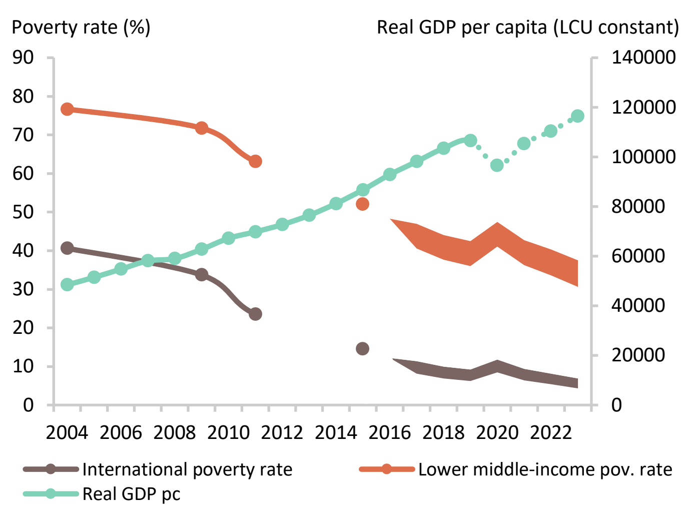
Despite the contraction in output and low oil prices, headline inflation remained elevated throughout the first three quarters of the year, due to supply chain constraints and rising food prices. Inflation averaged 6.6 percent between April and December, only declining in January, to 4.1 percent back within the RBI's target range. Still, the Reserve Bank of India cut the repo rate in May 2020 to 4 percent - leaving it unchanged since then- and maintained significant excess liquidity in the market. It also intervened to mitigate an appreciation of the rupee, which still gained 3.5 percent relative to the dollar between April and December.

FIGURE 1 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.

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



Sources: World Bank. Notes: see Table 2.

A decline in the trade deficit combined with an increase in net services receipts and private transfers turned the current account balance into a surplus of 1.3 percent. Together with robust net foreign investment inflows, and unsterilized RBI intervention in forex markets, reserves reached a peak of USD 584.6 billion at end -February, equivalent to around 15 months of FY20 merchandise imports.

The COVID-19 pandemic, together with measures to contain its effects, had a significant impact on public finances in FY21. The fiscal deficit of the central government was revised to 9.5 percent of GDP (from 3.5 percent initially targeted in the budget), reflecting both lower than expected tax revenues, government measures to support the economy, as well as bringing past off-budget expenditures on the books. The fiscal deficit of States is estimated to have been between 4 and 5 percent of GDP against the planned 2.8 percent.

The lockdown, in the first quarter of FY21, appears to have had a major impact on household consumption. Mean per capita consumption is estimated to have dropped by 36 percent over April-July, 2020 y-o-y. Available household survey data indicate that relative to the "traditional poor" the most affected population were relatively younger, more urban and educated. With the end of the lockdown, however, household consumption seems to have recovered to almost pre-pandemic levels.

Outlook

Given the significant uncertainty pertaining to both epidemiological and policy developments, real GDP growth for FY21/22 can range from 7.5 to 12.5 percent, depending on how the ongoing vaccination campaign proceeds, whether new restrictions to mobility are required, and how quickly the world economy recovers.

As economic activity normalizes, domestically and in key export markets, the current account is expected to return to mild deficits (around 1 percent in FY22 and FY23) and capital inflows are projected by continued accommodative monetary policy and abundant international liquidity conditions.

The COVID-19 shock will lead to a long-lasting inflexion in India's fiscal trajectory. The general government deficit is expected to remain above 10 percent of GDP until FY22. As a result, public debt is projected to peak at almost 90 percent of GDP in FY21 before declining gradually thereafter.

As growth resumes and the labor market prospects improve, poverty reduction is expected to return to its pre-pandemic trajectory. The poverty rate (at the $1.90 line) is projected to return to pre-pandemic levels in FY22, falling within 6 and 9 percent, and fall further to between 4 and 7 percent by FY24.

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

	2018/19	2019/20	2020/21 e	2021/22 f	2022/23 f	2023/24 f
Real GDP growth, at constant market prices	6.5	4.0	-8.5	10.1	5.8	6.5
Private Consumption	7.6	5.5	-10.0	11.0	7.7	8.1
Government Consumption	6.3	7.9	4.1	13.8	6.4	9.2
Gross Fixed Capital Investment	9.9	5.4	-12.9	15.2	7.9	8.9
Exports, Goods and Services	12.3	-3.3	-8.0	9.7	8.5	8.7
Imports, Goods and Services	8.6	-0.8	-18.1	14.0	12.0	12.9
Real GDP growth, at constant factor prices	5.9	4.1	-7.1	9.6	5.6	6.5
Agriculture	2.6	4.3	3.4	3.5	3.5	4.0
Industry	5.3	-1.2	-8.6	13.2	6.0	7.3
Services	7.2	7.2	-9.1	9.5	6.0	6.7
Inflation (Consumer Price Index)	3.4	4.8	6.0	4.5	4.0	4.0
Current Account Balance (% of GDP)	-2.1	-0.9	1.3	-1.1	-1.2	-1.4
Net Foreign Direct Investment (% of GDP)	1.1	1.5	2.0	1.5	1.4	1.4
Fiscal Balance (% of GDP)	-5.8	-8.0	-14.0	-10.4	-9.4	-8.5
Debt (% of GDP)	68.6	72.5	89.7	88.4	88.1	86.5
Primary Balance (% of GDP)	-1.1	-3.4	-8.5	-4.6	-3.2	-2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	6.9-10.0	6.2-9.2	8.5-11.8	6.4-9.3	5.4-8.2	4.4-6.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.7-44.0	36.0-42.5	41.0-47.4	36.3-42.8	33.6-40.3	30.6-37.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SARMD harmonization, using 2011 NSS-SCH1.

(b) Projection using neutral distribution base on GDP pc in constant LCU with pass-through = .67 for 2018-23, and 2017 international poverty as a range of 8.1 to 11.3 percent (at 1.9 PPP$ a day) estimated for the 2020 PSPR. The latest official data for estimate poverty in India date to 2011/12. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

MALDIVES

Table 1	2020
Population, million	0.5
GDP, current US$ billion	4.0
GDP per capita, current US$	7458.8
Upper middle-income poverty rate ($5.5)[a]	3.6
Gini index[a]	31.3
School enrollment, primary (% gross)[b]	98.0
Life expectancy at birth, years[b]	78.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

Maldives has suffered an unprecedented shock from COVID-19 as tourism came to a standstill. Output contracted by an estimated 28 percent in 2020, leading to a projected increase in poverty. In 2021, with a partial recovery in tourism and large base effects, growth is expected to rebound to 17 percent. While Maldives' appeal to tourists remains strong, the outlook largely hinges on factors outside its control. More prudent fiscal policies would help reduce debt vulnerabilities, which were already high before the pandemic.

Key conditions and challenges

Maldives has managed to attain upper middle-income status and reduce poverty mainly through the successful development of high-end tourism. According to official estimates, only 3.6 percent of the population lived below the poverty line for upper middle-income countries (US$ 5.50/person/day in PPP) in 2016. However, heavy reliance on tourism, which directly accounts for a quarter of GDP, makes the economy vulnerable to external shocks. Although growth averaged 5.7 percent from 2000 to 2019, natural disasters and global shocks have repeatedly caused large and sudden swings in output. Opportunities for diversification are limited in the near term due to scarce land, remoteness, and other geographical constraints.

The COVID-19 pandemic is the largest shock to have ever hit the Maldives' economy. The government closed borders between end-March and mid-July 2020, resulting in a sudden stop of tourist inflows. To mitigate the adverse welfare impacts of the crisis, the government spent USD 187 million or about 4.7 percent of estimated 2020 GDP on special financing facilities for firms and freelance workers, monthly income support allowances, and discounted utility bills.

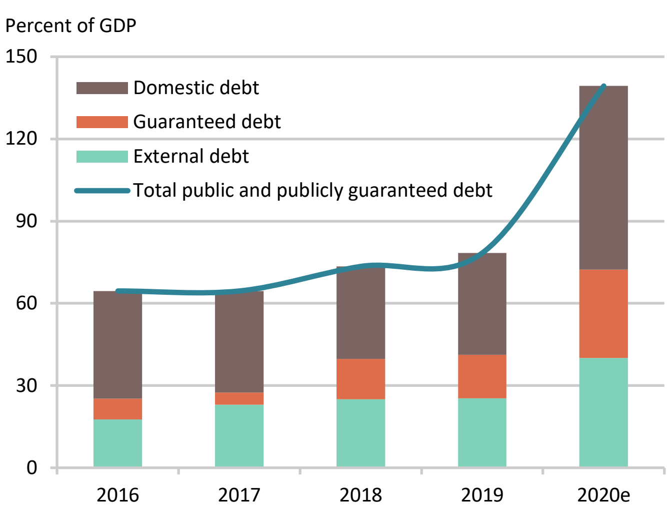
Restoring fiscal and debt sustainability is key to building back better. Even before the pandemic, Maldives was already at high risk of overall and external debt distress. Reliance on external non-concessional loans to finance the ambitious public infrastructure agenda led to a large increase in debt between 2016 and 2019. The large contraction in GDP and additional borrowing due to COVID-19 have further elevated debt vulnerabilities. Delaying large public investment projects until the economy strengthens would help to alleviate these pressures.

Recent developments

Maldives' economy is estimated to have contracted by 28 percent in fiscal (calendar) year 2020 as tourism and construction activity slumped. Only 555,494 tourists visited the country, a third of the number in 2019. Since December, however, tourism has picked up strongly thanks to the absence of quarantine requirements and the unique 'one island, one resort' concept. Approximately 189,000 tourists, mostly from Russia and India visited Maldives in January and February 2021; however, this is still 42 percent below the comparable period in 2019.

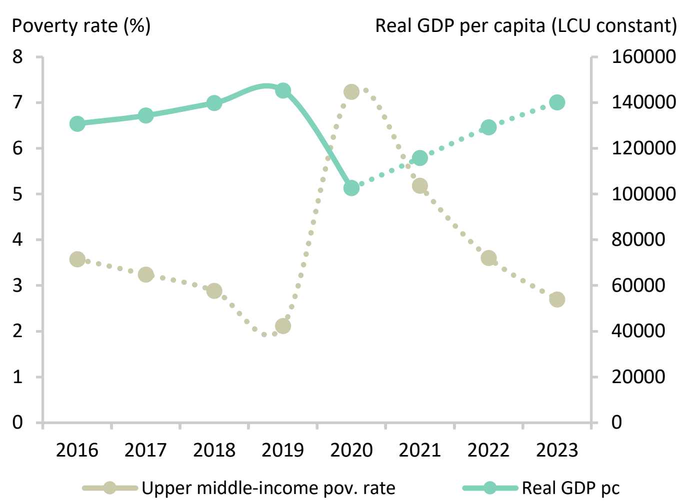
Against this backdrop of anemic economic activity, prices fell by an average of 1.4 percent y-o-y in 2020. The deflation was more pronounced in Malé than in the atolls, but in both cases driven by housing and utilities (reflecting lower rent and oil prices), as well as information and communications services. Food prices, however, rose by 3 percent on average, driven by an increase in tobacco duties.

FIGURE 1 Maldives / Public and publicly guaranteed debt



Sources: Ministry of Finance.

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



Sources: World Bank. Notes: see Table 2.

The goods trade deficit narrowed from US$ 2.5 billion in 2019 to US$ 1.5 billion in 2020, as a compression in imports outweighed the decline in exports. Imports fell by an estimated 36 percent y-o-y, driven by lower imports of raw materials as construction activity contracted. Lower imports of food and fuel due to lower tourist arrivals and lower oil prices, respectively, also contributed. Meanwhile, exports fell by 20 percent y-o-y, mostly due to a large decline in re-exports of jet fuel from fewer international aircraft movements. However, exports of fish increased by 3 percent, boosted by a large increase in exports of processed fish in the second half of the year.

Maldives maintains a de facto stabilized exchange rate arrangement. Official reserves recovered from a low of US$ 569.8 million at end-August 2020 to US$ 855.7 million at end-February 2021, as tourists returned and the Maldives Monetary Authority activated the remainder of its US$ 400 million foreign currency swap arrangement with the Reserve Bank of India. The Monetary Authority also implemented measures to manage shortages of US dollars. Usable reserves—netting out short-term liabilities—amounted to US$ 156.5 million at end-February 2021, equivalent to a month of 2020 goods imports.

The fiscal deficit reached 20 percent of estimated GDP in 2020. While the sudden stop in tourism led total revenues and grants to fall by 35 percent y-o-y, total expenditures fell only by 4.5 percent. Although the government cut recurrent spending by 9 percent, capital expenditures are estimated to have grown by 7 percent. As a result of the higher deficit and negative growth, total public and publicly guaranteed debt is estimated to have increased to 139.3 percent of GDP in 2020 from 78.4 in 2019.

With most Maldivians dependent on tourism and fisheries for their livelihoods, World Bank estimates based on household survey data indicate that the poverty rate has increased from an estimated 2.1 percent in 2019 to 7.2 percent in 2020.

Outlook

Assuming its borders remain open to visitors, Maldives is expected to receive 1 million tourists in 2021, about 60 percent of the 2019 number. Real GDP is therefore projected to grow by 17 percent in 2021. The rebound in growth largely reflects base effects and assumes a continuation of strong tourism inflows especially from Russia and India. Although medium-term prospects for tourism are strong, real GDP is not expected to return to pre-pandemic levels until 2023, in line with global aviation and travel forecasts. The poverty rate is expected to decline slowly over the medium term to 2.7 percent in 2023.

External and fiscal imbalances will remain elevated. Despite the recovery in tourism receipts, the current account deficit is expected to widen over the medium term as imports linked to tourism and construction normalize. The fiscal deficit is expected to decline as revenues recover but is forecast to remain in double-digits due to expansionary fiscal policies. The 2021 Budget, for example, targets a 45 percent increase in capital expenditures from 2020, while revenues are not expected to cover current expenditures. With the recovery in growth, the debt ratio is expected to moderate to 131.4 percent of GDP in 2023.

Risks are heavily tilted to the downside and some are outside Maldives' control, such as the pace and effectiveness of COVID-19 vaccinations globally. The outlook would deteriorate if more stringent restrictions on international travel are reintroduced. The low level of usable reserves and high indebtedness pose significant risks to macroeconomic stability.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	8.1	7.0	-28.0	17.1	11.5	8.3
Private Consumption	10.6	5.5	-35.0	27.0	20.0	12.0
Government Consumption	9.0	-4.2	0.6	2.7	2.3	1.5
Gross Fixed Capital Investment	29.1	-2.7	-5.9	2.3	4.4	4.8
Exports, Goods and Services	10.1	6.1	-45.0	30.0	14.1	11.9
Imports, Goods and Services	12.8	0.3	-38.0	24.0	14.8	12.0
Real GDP growth, at constant factor prices	8.1	7.1	-25.9	16.0	10.7	8.2
Agriculture	4.8	5.0	8.0	5.5	5.6	3.6
Industry	15.6	1.5	-19.7	7.1	6.6	5.8
Services	7.3	8.0	-28.9	18.4	11.7	8.9
Inflation (Consumer Price Index)	-0.1	0.2	-1.4	2.5	1.1	1.0
Current Account Balance (% of GDP)	-28.3	-26.8	-26.3	-27.1	-27.5	-27.7
Net Foreign Direct Investment (% of GDP)	10.9	17.0	7.9	9.3	10.6	14.0
Fiscal Balance (% of GDP)	-5.3	-6.6	-20.1	-18.5	-15.2	-12.7
Debt (% of GDP)	74.0	78.4	139.3	135.2	132.1	131.4
Primary Balance (% of GDP)	-3.5	-4.9	-16.4	-14.2	-10.9	-8.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	2.9	2.1	7.2	5.2	3.6	2.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SAR-POV harmonization, using 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

NEPAL

Table 1	2020
Population, million	29.1
GDP, current US$ billion	33.9
GDP per capita, current US$	1163.7
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]	70.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2010), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

After contracting in FY20, Nepal's economy is expected to grow in FY21, as COVID-19 related disruptions fade and government relief spending materializes. Significant jobs and income losses, however, are likely to have increased vulnerability. To ensure the recovery is sustained and resilient, policy priorities will need to include: strengthening health systems, supporting agriculture production, and a focus on green, resilient, and inclusive development. Downside risks to the outlook stem from new waves of COVID-19 infections and political uncertainties.

Key conditions and challenges

Growth averaged 4.9 percent, over FY09-FY19, supported by remittance inflows but constrained by structural vulnerabilities and periodic shocks. Natural disasters (such as the April 2015 earthquake and recurring floods and landslides) and external developments (such as border closures, trade disruptions, and the recent pandemic) depressed growth and impacted livelihoods. Meanwhile, high political instability (including episodes of civil unrest) and infrastructure gaps impede private investment. The adoption of a new constitution in 2015, created a federal system that decentralizes some responsibilities to the seven provincial and 753 local governments. This is expected to improve service delivery and reduce geographical disparities. At the same time, it has exacerbated pre-existing weaknesses in administrative and implementation capacity that need to be addressed. Against this backdrop, scarce domestic employment opportunities have triggered mass outmigration. The resulting high remittance inflows, averaging around 22 percent of GDP over the past decade, have supported private consumption and poverty reduction, but contributed to a real appreciation of the exchange rate and eroded external competitiveness.

In FY20, COVID-19 related social distancing measures and lockdowns triggered the first economic contraction in 40 years, likely reversing past progress in poverty reduction. While lockdowns impacted all sectors of the economy, they disproportionately affected workers engaged in subsistence activities, who make up over half of the employment. International border restrictions and economic downturns abroad also forced thousands of Nepalese migrants to return home, elevating the risk that many households who have relied on remittances and informal sector jobs may fall back into poverty.

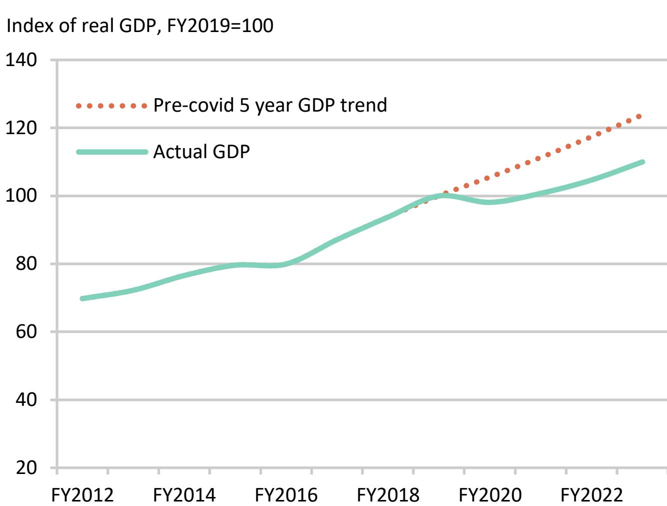
Sources of risk to the outlook include possible new waves of COVID-19, as well as increased political uncertainties, following the dissolution of Parliament's lower house in December 2020 and the Supreme Court's February 2021 decision to reinstate it.

Recent developments

A nation-wide lockdown, implemented during March-July 2020, impacted economic activity in the last four months of FY20. As a result, output contracted by an estimated 1.9 percent in FY20. Wholesale and retail trade, tourism, transport, and associated services such as hotels and restaurants – which are all important drivers of growth - were particularly impacted.

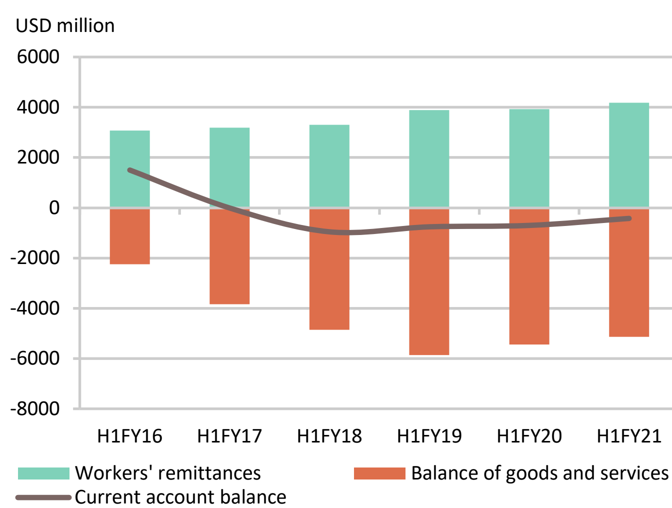
In the first half of FY21 (mid- July 2020 – mid-January 2021), growth has remained sluggish, given that tourism activity was stalled, and private investment constrained by risk aversion and uncertainty. However, there were incipient signs of

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 narrowed



Sources: World Bank staff calculations and Nepal Rastra Bank.

recovery in wholesale and retail trade, transport, and financial services, as containment measures were gradually eased. Subdued demand and adequate food supply brought consumer price inflation to a three-year low of 3.7 percent y-o-y.

Against the backdrop of muted economic activity, the current account deficit declined by 39.6 percent year-on-year in the first half of FY21. This was driven by a sharp contraction in imports (11.8 percent y-o-y) which, in absolute terms, far outweighed a parallel decline in exports (of 36.6 percent), as well as an increase in remittance inflows (by 6.7 percent). Given modest levels of foreign direct investment, external concessional loans financed the current account deficit. The central bank's foreign exchange reserves reached US$ 11.3 billion by mid-January 2021—equivalent to 11.3 months of imports.

Spending was higher and revenue lower, y-o-y, over the first half of FY21. Higher spending was driven by purchases of COVID-related health equipment and investments at the subnational levels (which offset a 19 percent y-o-y reduction in capital spending). Meanwhile, tax revenues fell by 2.1 percent y-o-y, with trade and consumption taxes as well as corporate income taxes performing poorly. Non-tax revenues continued to suffer from the near standstill in tourism. As a result, public debt increased by 7.4 percent over the first half of FY21 to 36.1 percent of projected FY21 GDP.

A recent World Bank COVID monitoring survey suggests that the pandemic-related economic slowdown had a major impact on jobs and incomes, with more than 2 in 5 economically active workers reporting a job loss or prolonged work absence in 2020.

Outlook

Economic growth is projected to recover gradually, to 5.1 percent by FY23. The baseline projections assume a successful domestic and global vaccination rollout, and a gradual resumption of international tourism. Agriculture should continue to contribute positively to growth. However, industrial activity is expected to remain below pre-pandemic levels up until early FY22, and services are expected to recover only gradually as domestic confinement measures are lifted.

With roughly a third of the population living close to the poverty line before the pandemic, widespread jobs and earning losses are likely to have increased poverty, particularly for women, younger age cohorts, and workers in non-agricultural sectors.

The current account deficit is expected to widen over the medium term. Import growth is expected to accelerate as consumption resumes, while service exports should remain subdued until FY22 (as tourism is only expected to recover fully in FY23). Consequently, the current account deficit is projected to reach 3.2 percent of GDP by FY22, financed primarily by long-term concessional borrowing.

The fiscal deficit is projected to remain elevated over the medium term. While revenue performance is expected to remain weak, additional spending on economic relief measures, vaccinations, and the resumption of project implementation will widen the fiscal deficit to just under 8 percent of GDP in FY22. Thereafter it is projected to stabilize at 6.5 percent of GDP in FY23 as revenues recover. Total public debt is expected to reach 41.9 percent of GDP in FY21 and gradually increase to 51.3 percent by FY23.

The economic outlook is subject to downside risks. Delays in vaccination and/or new outbreaks of COVID-19 both domestically and globally would dampen prospects of economic recovery. The resumption of tourism would be delayed if international travel restrictions are imposed. Domestic risks include political uncertainty, which could undermine investment sentiment. On the upside, effective vaccination campaigns in Nepal and abroad could facilitate the resumption of tourism.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.6	6.7	-1.9	2.7	3.9	5.1
Private Consumption	6.2	5.6	3.7	4.0	4.2	4.5
Government Consumption	2.1	7.3	6.2	11.8	15.4	4.1
Gross Fixed Capital Investment	11.8	11.3	-3.5	4.2	9.2	12.2
Exports, Goods and Services	7.7	5.5	-16.0	-18.0	11.1	17.2
Imports, Goods and Services	19.0	5.8	-15.3	4.5	12.4	11.4
Real GDP growth, at constant factor prices	7.4	6.4	-2.0	2.7	3.9	5.1
Agriculture	2.6	5.2	2.2	2.5	2.7	2.8
Industry	10.4	7.4	-4.2	3.1	4.6	6.9
Services	9.3	6.8	-3.6	2.7	4.4	5.9
Inflation (Consumer Price Index)	4.1	4.6	6.1	4.8	5.1	5.7
Current Account Balance (% of GDP)	-7.1	-6.9	-0.9	-1.2	-3.2	-4.4
Fiscal Balance (% of GDP)	-5.8	-5.0	-5.2	-6.9	-7.7	-6.5
Debt (% of GDP)	26.5	27.2	36.0	41.9	47.9	51.3
Primary Balance (% of GDP)	-5.4	-4.4	-4.5	-6.2	-6.8	-5.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

PAKISTAN

Table 1	2020
Population, million	220.9
GDP, current US$ billion	264.5
GDP per capita, current US$	1197.6
International poverty rate ($1.9)[a]	4.4
Lower middle-income poverty rate ($3.2)[a]	35.7
Upper middle-income poverty rate ($5.5)[a]	76.2
Gini index[a]	31.6
School enrollment, primary (% gross)[b]	95.4
Life expectancy at birth, years[b]	67.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

Pakistan's economy was severely impacted by the COVID-19 shock in FY20 leading to an increase in poverty. With the lifting of lockdown measures, the economy is showing signs of a fragile recovery. Growth is expected to gradually strengthen but remain muted in the medium-term. Fiscal deficit and debt levels are projected to remain elevated but to gradually improve. Risks to the outlook include new waves of COVID-19 infections and delays in the implementation of critical structural reforms.

Key conditions and challenges

Pakistan's economy has been growing slowly over the past two decades. Annual per capita growth has averaged only 2 percent, less than half of the South Asia average, partly due to inconsistent macroeconomic policies and an underreliance on investment and exports to drive economic growth. Short periods of rapid consumption-fueled growth frequently led to sizable current account and fiscal deficits, that ultimately required policy tightening, resulting in recurrent boom-bust cycles (Figure 1).

In early FY20, which runs from July 2019 to June 2020, following one such episode of external and fiscal imbalances, the country entered a 39-month IMF-Extended Fund Facility. The associated adjustment measures, including fiscal consolidation, contributed to a reduction of the imbalances over the year and improved macroeconomic stability.

However, the containment measures adopted in response to the COVID-19 pandemic led to a collapse in economic activity during the final quarter of FY20. As a result, GDP growth is estimated to have contracted by 1.5 percent in FY20. Half of the working population saw either job or income losses, with informal and low-skilled workers employed in elementary occupations facing the strongest contraction in employment. As a result, poverty incidence is estimated to have increased in FY20 from 4.4 to 5.4 percent, using the international poverty line of $1.90 PPP 2011 per day (Figure 2, Table 2), with more than two million people falling below this poverty line. Moreover, 40 percent of households suffered from moderate to severe food insecurity. The government, therefore, focused on mitigating the adverse socioeconomic effects of the pandemic, and the IMF program was temporarily put on hold.

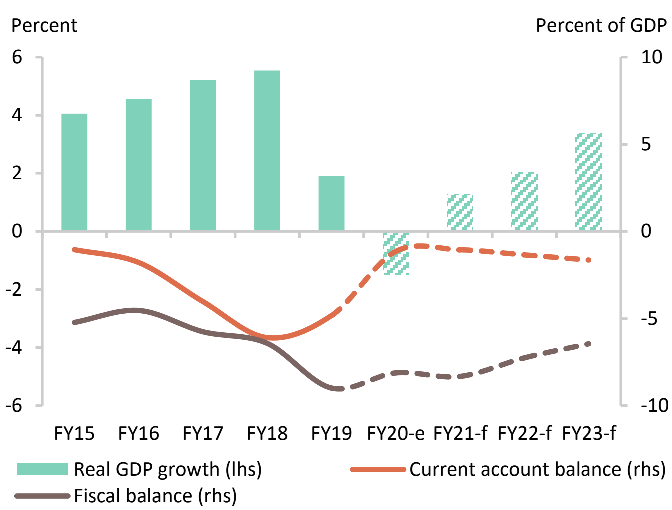
Major risks to the outlook include the possibility of new waves of infections, the emergence of new vaccine-resistant strains, and setbacks in mass vaccinations. In addition, more delays in the implementation of critical structural reforms could lead to further fiscal and macroeconomic imbalances.

Recent developments

Over the first half of FY21 (July to December 2020), there have been signs of a fragile recovery. With increased community mobility, private consumption has strengthened, aided by record official remittance inflows. Investment is also estimated to have slightly recovered, as machinery imports and cement sales both recorded double-digit growth rates.

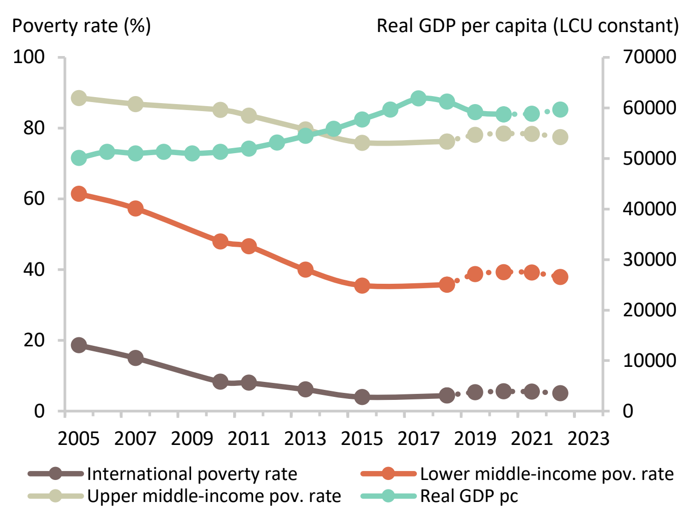
On the production side, crop production was relatively weak in the first six months of FY21, as cotton production was adversely affected by heavy monsoon floods. Following the phased lifting of lockdown measures from May 2020 onwards, indicators of industrial and

FIGURE 1 Pakistan / Twin deficits and real GDP growth



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

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



Sources: World Bank. Notes: see Table 2.

services activity have recovered, with "Large Scale Manufacturing" and business confidence indexes exceeding pre-COVID levels in December 2020. As a result, the majority of the informal workers affected by the crisis are expected have been able to return to work.

Although headline inflation fell over July-February FY21 (y-o-y), it is still high at 8.3 percent on average, mostly on account of high food inflation. Since July 2020, the State Bank of Pakistan (SBP) has maintained the policy rate at 7.0 percent to support the economy. The capital adequacy ratio at end-December 2020 remained well above the minimum regulatory requirement, indicating banking sector resilience over the first half of the fiscal year.

Compared to a deficit of US$2.0 billion for June-December 2019, the current account recorded a surplus of US$1.1 billion for June-December 2020, the first half-yearly surplus in almost a decade, as strong official remittance inflows more than offset a wider trade deficit. Both foreign direct investment and portfolio investment inflows decreased during this period, but the improved current account supported a balance of payments surplus.

The Pakistani rupee appreciated by 5.4 percent against the U.S. dollar, from end-June 2020 to end-December 2020, and official foreign exchange reserves increased to US$14.9 billion at end-December 2020, equivalent to 3.3 months of imports of goods and services.

The fiscal deficit widened over the first six months of FY21 (y-o-y), as expenditure growth outpaced an increase in revenues. In line with the recovering of economic activity, total revenues grew by 3.7 percent. Over the same period, total expenditures rose by 6.2 percent, partly driven by higher interest payments. Public debt, including guaranteed debt, reached 87.9 percent of GDP at end-December 2020, up from 86.7 percent of GDP at end-December 2019.

Outlook

Output growth is expected to recover gradually over the medium-term, averaging 2.2 percent over FY21-23, mostly due to contributions from private consumption. However, sectors that employ the poorest, such as agriculture, are expected to remain weak, and therefore poverty is likely to remain high. The baseline outlook is predicated on the absence of significant infection flare-ups that would require more extensive lockdowns.

The current account deficit is projected to narrow to 0.8 percent of GDP in FY21, as a wider trade deficit is more than offset by stronger remittances inflows. However, it is expected to increase over the medium term. Exports are projected to grow from FY22 onwards, as external conditions become more conducive and tariff reforms gain traction, but imports are also expected to increase in line with stronger domestic activity and higher oil prices.

While fiscal consolidation efforts are expected to resume, the deficit is projected to remain elevated at 8.3 percent of GDP in FY21, partly due to the settlement of arrears in the power sector. As critical revenue-enhancing reforms gain pace and expenditure rationalization efforts resume, the fiscal deficit is projected to gradually narrow over the medium-term. Still, public debt will remain elevated in the medium term, as will Pakistan's exposure to debt-related shocks.

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

	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	5.8	1.0	-1.5	1.3	2.0	3.4
Private Consumption	6.2	2.9	-1.0	2.5	2.5	3.4
Government Consumption	8.6	0.8	5.6	0.1	2.2	3.0
Gross Fixed Capital Investment	11.2	-12.8	-17.9	-4.2	1.1	3.7
Exports, Goods and Services	12.7	14.5	-8.6	-1.7	3.0	5.5
Imports, Goods and Services	17.6	4.3	-10.5	0.9	4.3	4.8
Real GDP growth, at constant factor prices	5.5	1.9	-1.5	1.3	2.0	3.4
Agriculture	4.0	0.6	1.5	0.5	2.3	2.6
Industry	4.6	-2.3	-5.0	1.5	1.7	3.5
Services	6.3	3.8	-1.3	1.4	2.1	3.6
Inflation (Consumer Price Index)	4.7	6.8	10.7	9.0	7.0	6.0
Current Account Balance (% of GDP)	-6.1	-4.8	-1.1	-0.8	-1.3	-1.7
Net Foreign Direct Investment (% of GDP)	0.9	0.5	1.0	0.7	0.8	1.0
Fiscal Balance (% of GDP)	-6.4	-9.0	-8.1	-8.3	-7.7	-6.9
Debt (% of GDP)	75.9	89.9	93.6	93.9	94.4	94.1
Primary Balance (% of GDP)	-2.1	-3.5	-1.8	-2.1	-1.7	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]		4.4	5.4	5.6	5.6	5.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		35.7	38.7	39.3	39.2	37.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		76.2	78.1	78.4	78.3	77.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SAR-POV harmonization, using 2018-PSLM .Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 1 based on GDP per capita in constant LCU.

SRI LANKA

Table 1	2020
Population, million	21.9
GDP, current US$ billion	80.7
GDP per capita, current US$	3685.6
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]	76.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

The COVID-19 pandemic resulted in a sharp economic contraction of 3.6 percent in 2020. With jobs and earnings lost, poverty is projected to have increased. Growth is expected to recover to 3.4 percent in 2021, but the medium-term outlook is clouded by the lasting impact of COVID-19. Economic scarring from the slowdown increased risks to debt sustainability and external stability and macroeconomic vulnerabilities will remain elevated due to large refinancing needs.

Key conditions and challenges

The economy was already showing signs of weakness before the COVID-19 pandemic. Between 2017 and 2019, the average growth rate was only 3.1 percent, well below the levels of the beginning of the decade, when the economy reaped a peace dividend and the benefits of a determined policy thrust toward reconstruction. Modest growth, in recent years, is partly a reflection of (i) limited progress on structural reforms to shift the growth model toward greater private sector participation, export-orientation, and integration into global value chains; (ii) frequent macroeconomic shocks, from inclement weather in 2016 and 2017, a political crisis in late 2018, and the Easter Sunday attacks in 2019; and (iii) low fiscal space to support growth (although a fiscal stimulus package was implemented in 2019, further reducing fiscal space).

Against this backdrop, COVID-19 had a significant impact on the economy and welfare. The government reacted swiftly to control the first large outbreak of COVID-19 in mid-March 2020. Related containment measures, especially in the second quarter of 2020, and a standstill of tourism activity, impacted the economy significantly.

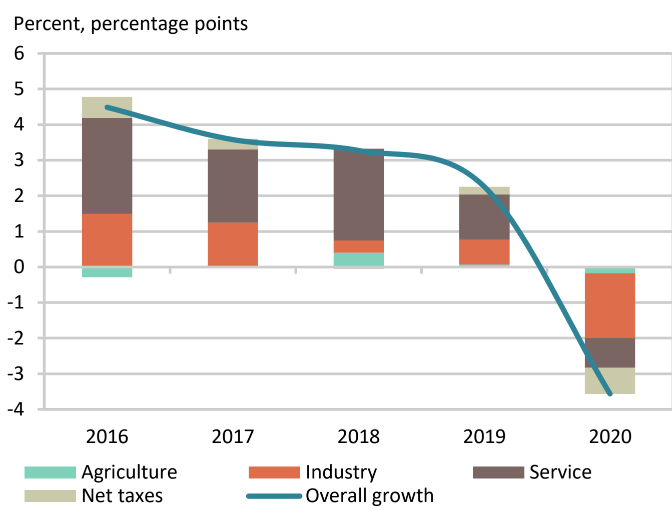
With the slowdown in the economy, fiscal balances were also impacted and particularly so since Sri Lanka is highly exposed to global financial market sentiments (as its debt repayment profile requires accessing financial markets frequently). Further sovereign rating downgrades by major rating agencies could negatively impact market sentiments and constrain market access. Thus, the country will need to strike a balance between supporting the economy and ensuring fiscal and external sustainability.

Recent developments

Real GDP contracted by 3.6 percent in 2020, the worst performance on record. It was caused by contractions in construction, tourism, textile, mining and transport, due to mobility restrictions in the second quarter amid strict lockdowns. Agricultural activities were relatively uninterrupted, but the fishery sector suffered a significant shock. As a result of widespread earnings losses, particularly in industry sectors, poverty using the $3.20 per day poverty line is projected to have increased significantly, from 9.2 percent in 2019 to 11.7 percent in 2020.

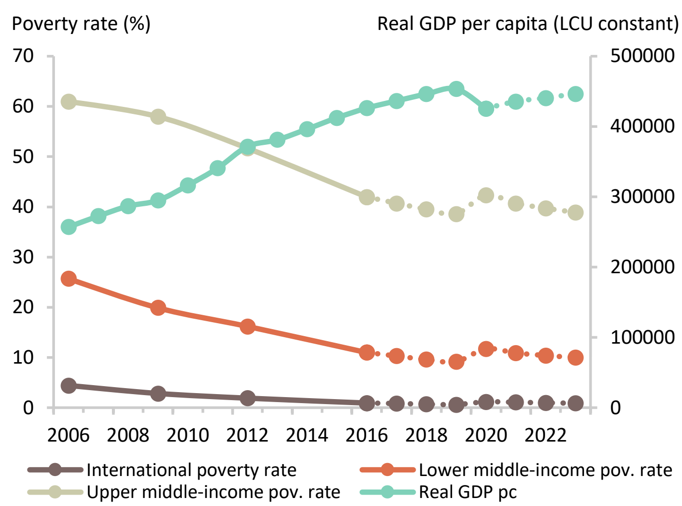
Despite high food inflation, annual average inflation (measured by the Colombo Consumer Price Index) remained low at 4.6 percent in 2020 due to the offsetting effects of weak aggregate demand and low oil prices. This allowed the central bank to reduce policy rates by 250 basis points (Standing Deposit Facility to 4.5 percent and Standing Lending Facility to 5.5 percent) and the reserve ratio by 300 basis points (to 2.0 percent) in 2020.

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



Sources: Department of Census and Statistics, staff calculations.

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



Sources: World Bank. Notes: see Table 2.

The current account deficit is estimated to have narrowed to 0.9 percent of GDP in 2020, as a reduction in imports due to low oil prices and severe import restrictions offset reduced receipts from exports. However, official reserves declined to an 11-year low of US$ 4.6 billion by February 2021, mainly because reserves were mobilized to service external debt. The US$ 1.5 billion currency swap approved by the People's Bank of China in March 2021 is expected to provide a boost to the reserves. After depreciating by 2.6 percent against the US Dollar in 2020, the LKR further depreciated by 4.1 percent in the first two months of 2021.

The combination of a stimulus package in 2019 (pre-pandemic) and low revenues in the aftermath of the COVID-19 shock resulted in a steep deterioration in fiscal balances. The deficit is believed to have increased to 12.6 percent of GDP in 2020 (after including arrears payments), and public and publicly guaranteed debt to have increased to 109.7 percent of GDP. Citing limited fiscal buffers and external vulnerabilities, Fitch, S&P, and Moody's downgraded the sovereign rating to the substantial risk investment category.

Outlook

The pandemic has further clouded an already challenging outlook. While the economy is expected to grow by 3.4 percent in 2021, output will remain 0.3 percent below its pre-COVID level. With a gradual improvement in labor market conditions, poverty at $3.20 per day is projected to fall to 10.9 percent in 2021, still significantly above the 2019 level. Continued import restrictions and the high debt burden will adversely affect growth and poverty reduction over the medium-term. Inflation is projected to increase gradually, as domestic banking institutions, including the central bank, are contributing to finance the government deficit.

The current account deficit is expected to remain low due to strict import restrictions, which should largely offset a deceleration of export growth. Still, significant additional borrowings will be required to close the external financing gap in 2021 and beyond, as external public debt service requirements are estimated above US$ 4.0 billion each year between 2021 and 2023. External buffers are expected to weaken relative to external liabilities as reserves may need to be used to service the external debt.

The fiscal deficit is expected to be high in the forecast period, despite tightly controlled expenditures, as revenue collection is expected to remain weak. In turn, public and publicly guaranteed debt is expected to reach 115.0 percent of GDP in 2021 and to rise further between 2022-2023. High gross financing requirements will exert pressure on the domestic financial market. This baseline assumes a quick and comprehensive vaccine rollout, in line with the government's aim to vaccinate 60 percent of the population in 2021. Delays in the vaccination process in Sri Lanka and/or major tourist origin countries would extend the horizon and depth of economic disruptions. A longer downturn could push many small and medium enterprises from illiquidity to insolvency, further holding back the recovery process and the return to a path of poverty reduction. Lower growth would also put additional strain on public finances and increase risks to macroeconomic stability. Depleted fiscal buffers, high indebtedness, and constrained market access will continue to pose risks to debt sustainability.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.3	2.3	-3.6	3.4	2.0	2.1
Private Consumption	3.7	2.9	-3.7	3.3	1.9	2.2
Government Consumption	-5.1	9.6	6.0	-1.0	-1.0	-1.0
Gross Fixed Capital Investment	-1.4	4.0	-6.7	3.7	2.0	1.8
Exports, Goods and Services	0.5	7.1	-16.8	5.8	5.3	4.7
Imports, Goods and Services	1.8	-5.8	-12.4	3.1	2.7	2.5
Real GDP growth, at constant factor prices	3.7	2.2	-3.1	3.4	2.0	2.1
Agriculture	5.8	1.0	-2.4	2.0	2.0	2.0
Industry	1.3	2.6	-6.9	3.9	1.8	1.9
Services	4.6	2.2	-1.5	3.3	2.1	2.2
Inflation (Consumer Price Index)	4.3	4.3	4.6	5.2	6.0	6.0
Current Account Balance (% of GDP)	-3.2	-2.2	-0.9	-1.2	-1.3	-1.4
Net Foreign Direct Investment (% of GDP)	1.8	0.7	0.6	0.8	1.0	1.2
Fiscal Balance (% of GDP)[a]	-5.4	-6.8	-12.6	-9.4	-8.9	-8.3
Debt (% of GDP)[a]	92.2	94.3	109.7	115.0	117.7	119.6
Primary Balance (% of GDP)[a]	0.6	-0.8	-6.0	-2.7	-2.2	-1.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.7	0.6	1.2	1.1	1.0	0.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	9.6	9.2	11.7	10.9	10.4	10.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	39.5	38.6	42.3	40.7	39.7	38.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal balance in 2020 includes arrears payments pertaining to 2019 and foreign funded project related expenditures not included in the audited financial statements in 2019.
(b) Calculations based on SAR-POV harmonization, using 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.
(c) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

Macro Poverty Outlook

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2021

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