South Asia

Macro Poverty Outlook

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

Annual Meetings 2020

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

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South Asia

Annual Meetings 2020

Afghanistan
Bangladesh
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Nepal
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Sri Lanka

AFGHANISTAN

Table 1	2019
Population, million	38.0
GDP, current US$ billion	19.3
GDP per capita, current US$	507.1
Poverty headcount ratio[a]	54.5
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) Afghanistan Living Condition Survey (ALCS) (2016-2017).
(b) Most recent WDI value (2018).

Afghanistan experienced moderate growth in 2019 as the agricultural sector recovered from the impacts of drought. However, the economy is estimated to have contracted sharply in the first half of 2020 due to economic disruptions associated with nation-wide lockdowns, border closures, and declining remittance inflows. Medium-term prospects are subject to high levels of uncertainty, related to the COVID-19 pandemic, peace talks and future international security and aid support. Given the shock to the economy poverty is expected to increase in 2020.

Recent developments

After a relatively strong performance in 2019 (3.9 percent growth), the economy contracted in the first half of 2020. Over 2019, growth was mainly driven by recovery in the agriculture sector (17.5 percent) following drought in the previous year. This good performance, together with a moderate expansion of industry (4.8 percent), offset a decline in services (-1.4 percent). However, the economy contracted sharply in the first half of 2020, largely reflecting the impact of the COVID-19 crisis. Lockdowns hampered domestic production and consumption (especially in urban centers). Border closures disrupted exports and supply chains, and remittances declined significantly. While wheat production grew significantly, driven by favorable weather conditions, this was insufficient to offset the large negative impact of COVID-19 on other sectors of the economy.

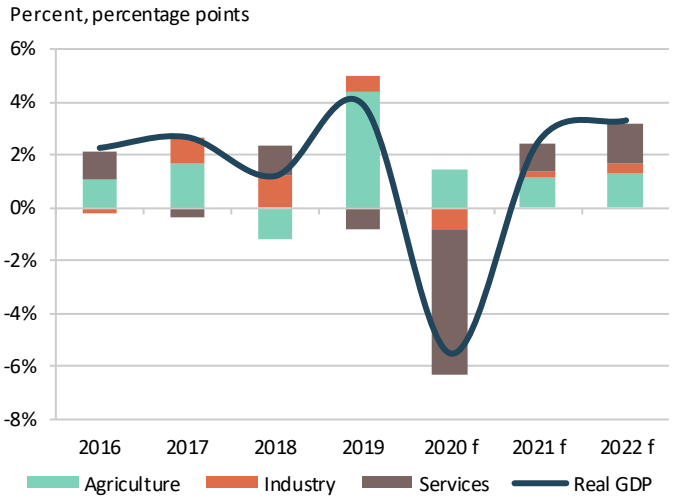
Inflation was low in 2019 (averaging 2.3 percent) but it increased significantly in 2020. In March and April 2020, panic buying and import disruptions drove a significant spike in food prices and led the government to adopt administrative measures to prevent price gouging and distribute emergency wheat supplies. As a result, headline and food inflation have since declined, standing at 5.3 percent and 10 percent on average respectively, as of end June.

Afghanistan recorded a current account surplus in 2019 and in the first half of 2020. In 2019, the trade deficit narrowed to 30.4 percent of GDP (from 34.7 percent in 2018), as stronger domestic agricultural production drove a 7.1 percent drop in imports. With large grant inflows, the current account registered a small surplus of 0.6 percent of GDP in 2019. Over the first quarter of 2020 exports grew by 11 percent (year-on-year) reflecting the improved performance of air corridors, while weak domestic demand led to a 14 percent decline in imports. In the second quarter of 2020, both imports and exports fell precipitously given border closures and disruptions to trade and transportation, with greater absolute declines in imports driving an improvement in the trade and current account balances.

Fiscal imbalances that appeared in 2019 were aggravated in 2020. Domestic revenues reached a record high of 14.2 percent of GDP in 2019, largely driven by significant one-off revenues, including a transfer of operating profits from the central bank (Afs 24 million, equivalent to 1.6 percent of GDP). However, increased expenditures, mainly driven by salaries and wages, led to a deficit of 1.1 percent of GDP. With the onset of the COVID-19 crisis, weak economic activity, disruptions to trade and compliance, revenue performance deteriorated significantly and revenue estimates for 2020 were revised downward by over 30 percent (from Afs 209 to 144 billion) in the budget mid-year review. Total domestic revenue collection at end-June reached Afs 74.7 billion, 20 percent lower than the initial budget target.

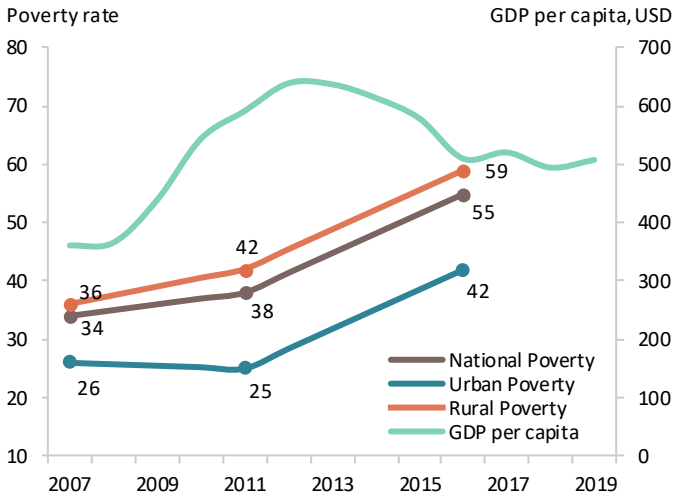
Poverty is believed to have worsened in 2019 surpassing 54.5 percent (in household

FIGURE 1 Afghanistan / Real GDP growth and contributions 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 ALCS (2016-2017).

survey 2016-2017), amidst continued violence and political uncertainty. In the first half of 2020, with declining households incomes due to economic hardship, higher food prices due to COVID-19, a significant fall in remittances, and high returnee flows (mainly from Iran), poverty is estimated to have further increased.

Outlook

Real GDP is expected to contract by 5.5 percent in 2020, largely due to the impacts of the COVID-19 crisis. In following years, the pace of recovery is expected to be constrained in a context of continued insecurity, uncertainties regarding the outcome of planned peace talks, and questions about the level and duration of international security and aid support.

External balances are expected to improve in 2020, against a backdrop of declining trade activity. The trade deficit is projected to narrow to 26 percent of GDP down from 30.4 percent 2019. While exports are projected to fall by 24 percent, imports (that are significantly larger) are expected to decline by around 18 percent, reflecting border disruptions, depressed domestic demand, and lower global oil prices. With sustained foreign grants inflows, the current account is expected to reach a surplus of 4.6 percent of GDP in 2020. However, it is projected to deteriorate over the medium term as grants decline, to a deficit of 2.2 percent of GDP by 2022.

With depressed revenues and higher expenditure needs, the fiscal deficit is projected to deepen to 3.4 percent of GDP in 2020. Over the medium-term, declining grants and overall growth weaknesses will constrain fiscal space, although the implementation of VAT in 2022 should provide a partial offset.

The economic contraction in 2020 is expected to have significant adverse social impacts. World Bank micro-simulations suggest that the combination of reduced incomes and higher prices could drive the poverty rate to as high as 72 percent, despite benefits from robust agricultural production to rural households. Over the medium term, the poverty outlook hinges on the pace of economic recovery and the continued provision of international aid and humanitarian support.

Risks and challenges

The main source of downside risk to the outlook stems from possible further adverse COVID-19 developments. Additional sources of risk include further political instability, a deterioration of security conditions, uncertainties associated with the planned peace agreement with the Taliban, and precipitous reductions in aid flows. By contrast, on the upside, a sustainable and credible political settlement with the Taliban could help boost growth, confidence and private investment.

Given Afghanistan's declining revenues and constrained fiscal potential, public expenditures need to be carefully directed to protecting the vulnerable, limiting long-term economic damage, and establishing solid foundations for economic recovery. To support households, the government should prioritize: i) targeted social protection measures; and ii) ensuring the continued provision of basic services, especially healthcare. To support the private sector, priorities include: i) pursuing business regulatory reforms to facilitate new investment; ii) expanding access to credit; iii) ensuring the continued provision of basic infrastructure; and iv) avoiding accumulating arrears to private sector vendors. A clear commitment from international partners to continued grant support would help reduce uncertainty and improve confidence and investment, providing a vital underpinning for Afghanistan's recovery from the already-severe impacts of the COVID-19 crisis.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.6	1.2	3.9	-5.5	2.5	3.3
Private Consumption	3.5	10.0	-2.0	-9.0	7.0	3.0
Government Consumption	3.3	-17.8	15.0	6.2	2.6	2.5
Gross Fixed Capital Investment	19.4	0.0	-15.3	-30.8	-3.6	4.1
Exports, Goods and Services	0.5	49.6	-6.3	-21.4	19.0	8.0
Imports, Goods and Services	9.8	13.1	-6.8	-16.3	13.0	3.0
Real GDP growth, at constant factor prices	2.3	1.2	4.4	-5.5	2.5	3.3
Agriculture	6.4	-4.4	17.5	5.0	3.5	4.0
Industry	9.2	11.1	4.8	-6.8	2.0	3.0
Services	-0.7	1.9	-1.4	-10.6	2.0	3.0
Inflation (Consumer Price Index)	5.0	0.6	2.3	5.0	4.2	4.5
Current Account Balance (% of GDP)	2.4	2.7	-0.1	4.6	-1.6	-2.2
Net Foreign Direct Investment (% of GDP)	0.2	0.5	0.0	0.0	0.0	0.1
Fiscal Balance (% of GDP)	-0.6	0.8	-1.1	-3.4	-2.2	-0.9
Debt (% of GDP)	6.6	5.8	6.6	8.6	9.6	9.6
Primary Balance (% of GDP)	-0.5	1.8	-0.4	-3.0	-2.2	-0.9

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

BANGLADESH

Table 1	2019
Population, million	168.6
GDP, current US$ billion	302.7
GDP per capita, current US$	1795.5
International poverty rate ($1.9)[a]	14.5
Lower middle-income poverty rate ($3.2)[a]	52.5
Upper middle-income poverty rate ($5.5)[a]	84.3
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).

An extended national shutdown, a sharp decline in exports, and lower private investment reduced GDP growth in FY20 to an estimated 2.0 percent. While growth is expected to recover over the medium term, downside risks include a prolonged COVID-19 pandemic and financial sector fragility. The observed impact of COVID-19 on the labor market suggests that poverty is likely to increase significantly. Going forward, the implementation of the government's COVID-19 response program will remain a paramount priority.

Recent developments

Real GDP growth fell to an estimated 2.0 percent in FY20 as COVID-19 and the global recession disrupted economic activity in the second half of the year. On the demand side, exports declined by 18.5 percent in FY20, as external demand for readymade garments (RMG) plummeted in the fourth quarter. Private investment growth also slowed as financial conditions deteriorated. Consumption, however, was supported by a surge in remittance inflows, which partially offset lost labor income. On the supply side, the industrial sector contracted, with a severe decline in RMG manufacturing, while service sector growth decelerated due to disruptions in transport, retail, hotels, and restaurants. In the agricultural sector, a resilient rice harvest was dampened by losses in poultry, meat, and dairy due to supply chain disruptions in the last quarter of FY20.

Inflation rose to 5.7 percent in FY20 from 5.5 percent in FY19, as food prices increased due to supply chain disruptions, while nonfood prices were dampened by weaker demand. In response to deteriorating economic conditions, Bangladesh Bank (BB) reduced the cash reserve ratio to 4 percent (from 5.5 percent) and the repo rate to 4.75 percent (from 6 percent). Monetary policy has been expansionary, with a 15.6 percent target for broad money growth announced in July 2020.

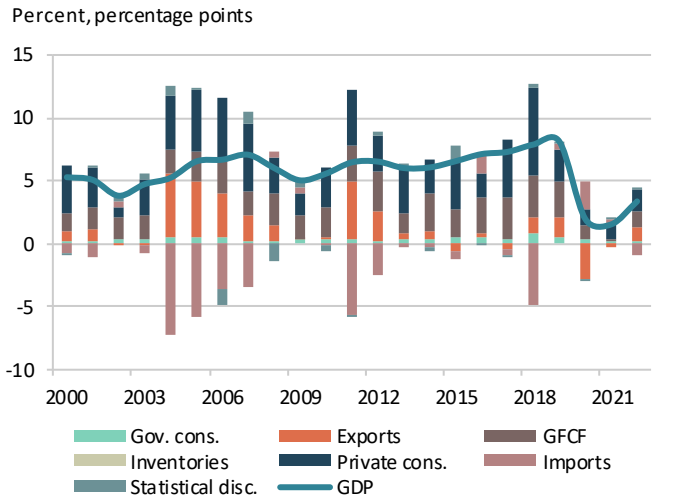
The COVID-19 pandemic has exacerbated existing financial sector vulnerabilities. Non-performing loans (NPLs) officially reached 9.2 percent of loans in June 2020 but are likely higher due to deviations from international recognition, loss provisioning, and capital calculation standards. The government's COVID-19 response relies heavily on commercial bank lending, supported by US$ 4.5 billion in BB refinancing facilities and relaxed prudential requirements. However, a new interest rate cap has disincentivized lending. Credit to the private sector grew by 8.6 percent in FY20, while public sector credit grew by 50.3 percent, driven by a rising fiscal deficit.

The current account deficit (CAD) narrowed from 1.7 percent of GDP in FY19 to 1.5 percent in FY20, as a sharp decline in exports was offset by a surge in remittance inflows. The lower CAD coupled with increased external government borrowing resulted in a substantial balance of payments surplus. The real effective exchange rate appreciated while the taka depreciated marginally in nominal terms against the US dollar. Foreign exchange reserves remained adequate at US$ 36.4 billion or 7.2 months of imports at the end of FY20.

The FY20 fiscal deficit is estimated at 8.2 percent of GDP. Revenues were depressed by lower trade volumes and corporate profits while social protection and healthcare expenditure rose. Public debt is estimated at 39.2 percent of GDP at the end of FY20, and Bangladesh remains at a low risk of debt distress.

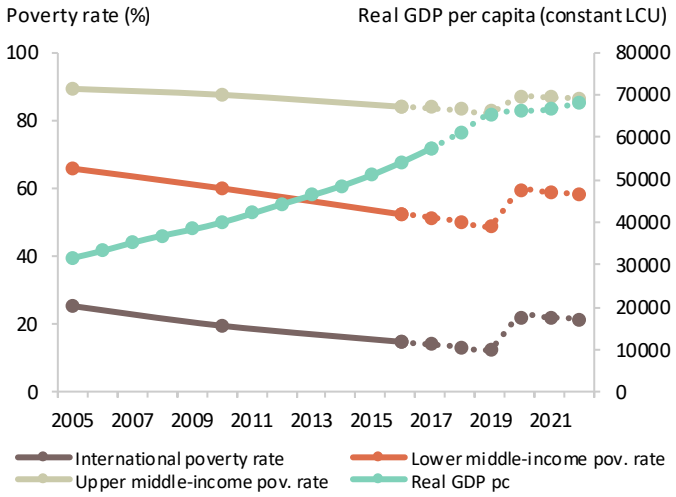
Job losses and temporary absences were widely reported in representative surveys in poor areas of Dhaka, Chittagong and Cox's Bazaar, with widespread uncertainty

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



Sources: Bangladesh Bureau of Statistics (BBS) 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.

about employment and business prospects. Only 58 percent of active workers in poor areas of Dhaka and Chittagong thought they would be able to continue in their job or work activity in the month following the survey. Women appear to have higher job and income losses than men, given higher employment in directly affected sectors such as RMG manufacturing.

Outlook

Significant uncertainty notwithstanding, GDP growth is projected to decelerate to 1.6 percent in FY21 assuming that the impact of COVID-19 deepens. Private consumption growth is likely to remain subdued with depressed wage income and a decline in remittance inflows, while anemic private investment is projected due to heightened uncertainty. Weaker demand and financing constraints may further reduce industrial production, while flooding in early FY21 may hamper agriculture production. However, GDP growth is projected to recover to 3.4 percent in FY22, supported by a rebound in export demand, remittance inflows, and public investment.

Inflation is projected to remain above target due to expansionary monetary and fiscal policies and higher food prices. The CAD is expected to widen with a decline in exports, due to continued low external demand, and a decline in remittances, due to the return of workers from overseas. The fiscal deficit is likely to rise as recurrent expenditure on social protection measures remains elevated in the near term, and capital expenditure increases in the post-COVID-19 recovery phase.

Poverty is expected to increase substantially in the short term, with the highest impact on daily and self-employed workers in the non-agricultural sector and salaried workers in the manufacturing sector. Urban areas will continue to be disproportionately affected, with an estimated 68 percent of directly affected workers located in Dhaka and Chittagong.

Risks and challenges

Downside risks to the outlook are substantial. Domestic risks include additional waves of COVID-19 that may require renewed restrictions. In the government's COVID-19 response program, risks include ineffective implementation of infection prevention measures and limited operationalization of credit programs. In the context of COVID-19 disruptions, fiscal risks may rise, particularly if tax reforms are delayed or infrastructure projects face cost overruns. Increased deficit financing from domestic banks may put upward pressure on interest rates and may further constrain credit to the private sector.

In the financial sector, challenges include deviations from international regulatory and supervisory standards, the absence of a bank resolution framework and weak governance in state-owned banks. The resolution of rising NPLs will require substantial policy dialogue to reduce credit risks, limit moral hazard and manage fiscal risks. The introduction of interest rate caps is an ongoing challenge, impairing the health of the banking sector.

External risks also remain elevated. While external demand for RMG products is stabilizing, the recovery is fragile. Lower oil prices may limit demand for Bangladesh's overseas workforce in the Gulf region, impairing remittance inflows. Also, continued appreciation of Bangladesh's real exchange rate would adversely impact export demand and remittances.

Going forward, the government's COVID-19 response will remain a paramount priority, including testing, quarantining and treating patients and providing economic relief to the poor and vulnerable. Other ongoing priorities include strengthening fragile banks, diversifying exports, accelerating reforms in business regulation, and deepening fiscal reforms.

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

	2016/17	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f
Real GDP growth, at constant market prices	7.3	7.9	8.1	2.0	1.6	3.4
Private Consumption	7.4	11.0	3.9	2.1	2.0	2.7
Government Consumption	7.8	15.4	8.2	6.0	2.6	4.3
Gross Fixed Capital Investment	10.1	10.5	8.4	3.1	0.7	3.9
Exports, Goods and Services	-2.3	8.1	10.9	-18.5	-2.8	8.6
Imports, Goods and Services	2.9	27.0	-2.0	-11.6	-1.5	5.9
Real GDP growth, at constant factor prices	7.2	7.9	8.3	2.0	1.6	3.4
Agriculture	3.0	4.2	3.9	2.7	2.6	3.0
Industry	10.2	12.1	12.7	-0.1	-0.9	2.7
Services	6.7	6.4	6.7	3.2	2.9	3.9
Inflation (Consumer Price Index)	5.4	5.8	5.5	5.7	5.8	5.8
Current Account Balance (% of GDP)	-0.5	-3.5	-1.7	-1.5	-2.4	-1.9
Net Foreign Direct Investment (% of GDP)	0.7	0.6	0.9	0.6	0.4	0.6
Fiscal Balance (% of GDP)	-3.4	-4.6	-5.4	-8.2	-8.8	-8.6
Debt (% of GDP)	31.0	31.9	33.1	39.2	45.9	51.4
Primary Balance (% of GDP)	-1.6	-2.8	-3.4	-6.0	-6.2	-5.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	13.9	13.2	12.6	21.9	21.8	21.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	51.4	50.2	48.9	59.1	59.0	58.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	83.8	83.2	82.6	86.9	86.9	86.7

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

(a) Calculations based on SAR-POV harmonization, using 2010-HIES and 2016-HIES and fiscal year growth rates. Actual data: 2016. Nowcast: 2017-2019. Forecast are from 2020 to 2022.

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

BHUTAN

Table 1	2019
Population, million	0.8
GDP, current US$ billion	2.5
GDP per capita, current US$	3288.6
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]	100.1
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) Most recent WDI value (2018).

Real GDP growth is estimated at 1.5 percent in FY20 reflecting COVID-19 related disruptions, including in the tourism sector and industrial production. The fiscal balance deteriorated due to salary increases and higher government spending. Medium-term growth prospects are subdued and risks are tilted to the downside, particularly in the event of a large scale domestic outbreak of COVID-19. The poverty rate is expected to remain unchanged at 11 percent in 2020, reflecting lack of progress due to the pandemic.

Recent developments

Bhutan's economy has been affected significantly by the COVID-19 crisis, with real GDP growth decelerating to 1.5 percent in FY20 (from 3.8 percent in FY19). Even though Bhutan managed to contain the number of domestic COVID-19 cases, the economy was affected through two main channels: a decline in the services sector as tourist arrivals dried-up, and disruptions in industrial activities, reflecting reduced foreign demand, shortages in critical inputs (including foreign labor), and temporary export restrictions. However, hydropower production and exports increased in FY20 due to the on-streaming of the Mangdechhu project. On the demand side, consumption, public investment, and net exports declined due to domestic containment measures, disruptions in public sector infrastructure projects, and the lockdown in India -Bhutan's largest trading partner-, which affected supply chains.

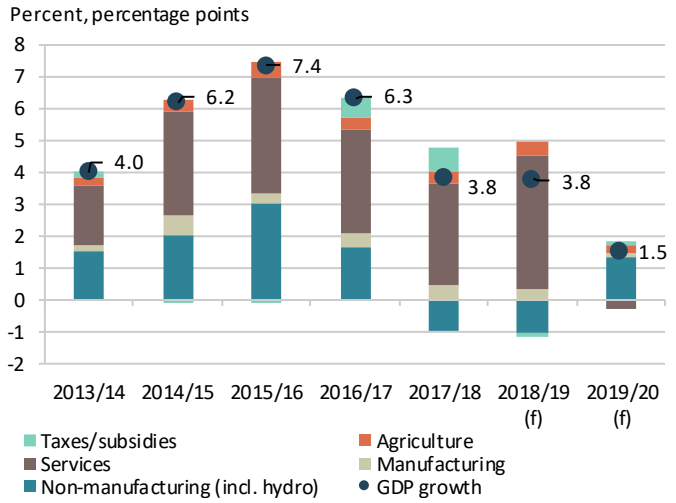
In spite of relatively low growth, headline inflation accelerated to 7.6 percent in July 2020, driven by food prices and reflective of similar trends in India. Asset quality in the financial sector deteriorated further. The Non-Performing Loan (NPL) ratio rose to 17.7 percent in March 2020, up from 10.9 percent in December 2019. While this partly reflects seasonal fluctuations in NPL cycles, the sector has been adversely impacted by weak underwriting standards and supervision, and the effect of COVID-19 on businesses and households.

The growth deceleration drove a reduction in trade activity and a narrowing of the current account deficit. Both exports and imports decreased, in line with weak foreign and domestic demand, and disruptions to trade. Given that imports declined significantly more than exports the current account deficit narrowed to 14 percent of GDP in FY20 (down from 22.5 in FY19).

The fiscal balance, however, deteriorated, with salary increases and additional COVID-19 related expenditures driving the deficit to 3.1 percent of GDP in FY20. Total spending is estimated to have increased by 27.4 percent in FY20. Total revenues also increased, but to a lesser extent, and were driven by a one-off profit transfer from the commissioning of the Mangdechhu hydropower plant. Non-hydro revenues declined with the discontinuation of excise duty refunds from India and lower tourism receipts. With a higher deficit, public debt is projected to have increased, albeit modestly (to 109.1 percent of GDP from 104.4 at end FY19).

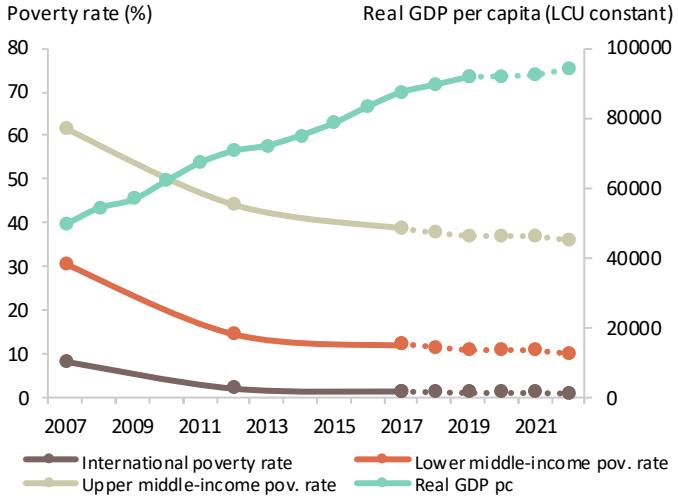
The poverty headcount, measured at $3.20 per day per person (in 2011 PPP terms), is estimated to have decreased slightly, from 11.5 percent in 2018 to 11 percent in 2019. Services sector workers in urban areas, including many that directly or indirectly depend on tourism, experienced jobs and earnings losses since the COVID-19 outbreak. However, tourism is highly concentrated in just a few districts with very low poverty while almost all of the poor live in rural areas, primarily engaged in subsistence agriculture, and are thus relatively shielded from the economic fallout of the pandemic.

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.

Outlook

Economic growth is projected to slow markedly, averaging 2.5 percent a year over the medium term, well below the pre-COVID-19 five-year average of 5.5 percent. Tourism is expected to recover only gradually, given that travel restrictions in Bhutan will likely continue until at least early 2021, delaying a rebound in overall services sector growth. The slowdown in India is expected to depress manufacturing and exporting industries, and the construction sector is also likely to experience a protracted slowdown due to a limited pipeline of public sector infrastructure projects. Finally, hydropower production is expected to pick up marginally in FY21, providing limited support to industry sector growth. Inflation will likely remain elevated in the short term because of localized food shortages resulting in higher prices, but a moderation in prices is expected in the medium term.

Relative to previous years, the current account deficit is expected to remain lower in the medium term mostly on account of subdued imports for public investment and hydropower projects. However, the fiscal deficit is projected to increase to 6.7 percent of GDP in FY21 before gradually decreasing over the medium term. This trend reflects upward pressure on expenditures to implement the COVID-19 recovery package and downward pressures on non-hydro revenues from weak economic activity.

The pandemic is expected to significantly slow down the pace of poverty reduction. The poverty headcount rate (at $3.20 per day) is projected to remain unchanged at 11 percent in 2020. Unemployment will likely remain high, particularly in tourism related activities, though temporary cash support through the Druk Gyalpo's Relief Kidu should help mitigate the impact of earnings losses. Reduced demand for agricultural products could lower exports and hurt agribusinesses. Elevated food prices could disproportionately impact poor households since not all of their food requirements are met by own production. This could exacerbate high levels of pre-existing malnutrition and should be closely monitored.

Risks and challenges

Given the unpredictability of the pandemic's course, there is a high degree of uncertainty over the ultimate growth and poverty trajectory. The most acute risk to the outlook is a large-scale domestic outbreak of the virus leading to prolonged mobility restrictions. The materialization of financial sector contingent liabilities is another potential risk, which could strain government finances. Other domestic risks include lower-than-expected hydropower production and delays in the implementation of revenue measures, particularly the goods and services tax, which are critical to offset the decline in excise duties and grant financing in the medium term.

The immediate opportunities are to prevent a large-scale community transmission of the virus and to ensure that the national response to COVID-19 is well coordinated across sectors. There is also an opportunity to accelerate the policy reforms required to boost private sector job creation and economic diversification.

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

	2016/17	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f
Real GDP growth, at constant market prices	6.3	3.8	3.8	1.5	1.8	2.0
Private Consumption	0.0	10.1	6.0	1.5	2.0	3.5
Government Consumption	4.3	3.7	4.5	6.0	5.0	4.0
Gross Fixed Capital Investment	4.4	-3.6	7.2	-19.5	-10.4	-5.6
Exports, Goods and Services	0.4	5.5	-5.7	-3.9	-9.6	3.1
Imports, Goods and Services	-5.3	3.6	4.4	-20.2	-15.4	-1.6
Real GDP growth, at constant factor prices	6.0	3.3	4.2	1.5	1.8	2.0
Agriculture	3.6	3.7	3.8	2.5	3.1	3.5
Industry	4.7	-1.2	-1.6	3.7	2.0	1.5
Services	8.2	7.9	9.9	-0.6	1.3	2.2
Inflation (Consumer Price Index)	4.3	3.7	2.8	3.2	5.0	2.8
Current Account Balance (% of GDP)	-23.9	-19.1	-22.5	-14.0	-13.8	-12.3
Fiscal Balance (% of GDP)	-4.8	-2.8	0.7	-3.1	-6.7	-5.3
Debt (% of GDP)	111.8	110.5	104.4	109.1	108.8	109.1
Primary Balance (% of GDP)	-3.5	-1.5	1.6	-2.1	-5.6	-3.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.5	1.4	1.3	1.3	1.3	1.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	12.2	11.5	11.0	11.0	10.8	10.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	38.9	37.8	37.1	37.0	36.9	36.0

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 and fiscal year growth rates.Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.

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

INDIA

Table 1	2019
Population, million	1371.3
GDP, current US$ billion	2862.3
GDP per capita, current US$	2087.3
International poverty rate ($1.9)[a]	22.8
Lower middle-income poverty rate ($3.2)[a]	62.4
Gini index[a]	35.4
School enrollment, primary (% gross)[b]	113.0
Life expectancy at birth, years[b]	69.4

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

India's economy had been slowing prior to the COVID-19 pandemic. The spread of the virus and containment measures have severely disrupted supply and demand conditions. Monetary policy has been deployed aggressively and fiscal resources have been channeled to public health and social protection, but additional counter-cyclical measures will be needed, within a revised medium-term fiscal framework. Despite measures to shield vulnerable households and firms, the trajectory of poverty reduction has slowed, if not reversed.

Key conditions and challenges

India emerged from the Global Financial Crisis (GFC) with stressed balance sheets of banks and corporates, depressed private investment, and weaker exports growth. Efforts to deal decisively with nonperforming assets in the banking sector, strengthen the insolvency framework, and improve the governance of public sector banks were only partially successful. Thus, in the period following the GFC, growth was driven mainly by private consumption. From FY09 to FY18 annual GDP growth averaged 6.7 percent (or 5.2 percent per capita).

After FY17, during which the economy grew at 8.3 percent, growth decelerated in each subsequent year to 7.0, 6.1 and 4.2 percent. This was on account of two mutually reinforcing dynamics: emerging weaknesses in non-bank financial companies (a major source of credit growth, making up for risk aversion from banks) and slowing private consumption growth.

Thus, the impact of COVID-19 materialized against a backdrop of (i) enduring fragility in the financial sector, (ii) slowing overall growth, and (iii) limited fiscal buffers. The response of the government of India to the COVID-19 outbreak was swift and comprehensive. A strict lockdown was implemented to contain the health emergency. To mitigate its impact on the poorest, it was complemented by social protection measures; to ensure that businesses could maintain their operations, the Reserve Bank of India (RBI) and the government also provided liquidity and other regulatory support. Nonetheless, there was a massive contraction in output and poor and vulnerable households experienced significant social hardship – specifically urban migrants and workers in the informal economy.

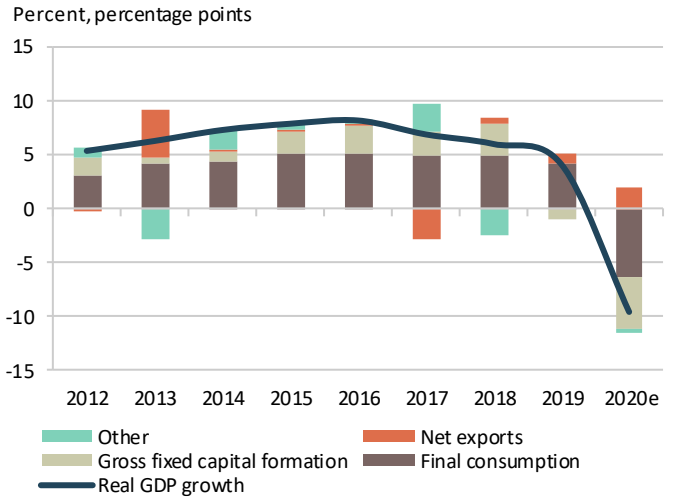
Recent developments

In the first quarter of FY21 (India's fiscal year is from April 1 to March 31) economic growth contracted by an unprecedented 23.9 percent (year-on-year). On the demand side, private consumption and investment contracted sharply. On the supply side, industrial and services output fell by 38 and 21 percent, respectively.

After reaching 4.8 percent in FY20, headline inflation averaged 6.6 percent, during April-July 2020, given supply-chain disruptions. The RBI cut the repo rate by a cumulative 115 bps between March and May, while maintaining significant excess liquidity in the market, and then paused further easing in August.

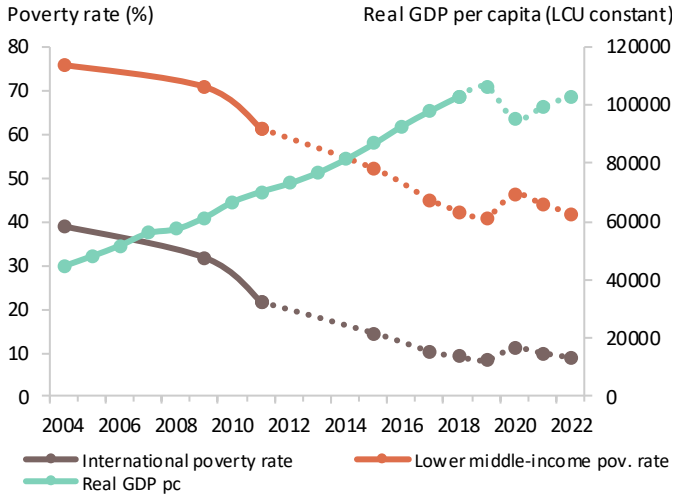
During the first quarter of FY21, the current account turned to a surplus, as a large decline in imports more than offset a drop in exports. With significant net foreign investment inflows, foreign reserves reached USD 534.5 billion at end-July, equivalent to more than 13 months of FY20 imports. Following a sharp depreciation in March, the rupee has gradually

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



Sources: National Statistical Office, World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

regained its value against major currencies but remains slightly weaker than at the start of the year.

The growth slowdown in FY20 and the contraction in early FY21 have impaired revenue collection. Thus, after increasing to 7.6 percent in FY20 (from 5.4 percent in FY19), the general government deficit is believed to have increased further during the first half of FY21.

Available household survey consumption data indicate that the poverty rate declined from 22.5 percent to values ranging from 8.1 to 11.3 percent, between 2012 and 2017[1]. More recent household survey data[2] indicate significant disruptions to jobs due to COVID-19 that likely boosted the poverty rate, with 2020 rates back to levels overserved in 2016. These surveys suggest the labor force participation rate was 3.2 percentage points lower in the last week of August than in the months leading up to the lockdown. They also point to increased vulnerability: 11 and 7 percent of urban and rural individuals, respectively, who recently identified themselves as "employed" performed zero hours of work in the week prior to the survey. Data on the government's rural workfare program show that demand for casual work increased 66 percent y-o-y in August 2020. Between the last four months of 2019 and May-August 2020, the proportion of people working in urban and rural areas fell by 4.2 and 3.8 percentage points, respectively. Overall, the pandemic has likely raised urban poverty, creating a set of "new poor" characterized by non-farm employment and secondary or tertiary education.

Outlook

Growth is expected to contract sharply in FY21 (by 9.6 percent in a baseline scenario), reflecting the impact of the national lockdown and the income shock experienced by households and firms. However, there is substantial uncertainty related to (i) the course and duration of the pandemic, (ii) the speed at which households and firm behavior will adjust to the lifting of lockdowns, and (iii) a possible new round of countercyclical fiscal policy. Thus, there is a wide confidence interval around the baseline projections. Growth is expected to rebound to 5.4 percent in FY22, but mostly reflecting base effects, while potential output is expected to remain depressed in the medium-term. Inflation is expected remain around the RBI's target range mid-point (4 percent) in the near-term.

Weak activity, domestically and abroad, will depress both imports and exports. Thus, the current account is expected to reach a surplus of 0.7 percent of GDP in FY21 and is projected to gradually return to a deficit in later years.

The COVID-19 shock will lead to a long-lasting inflexion in India's fiscal trajectory. Assuming that the combined deficit of the states is contained within 4.5-5 percent of GDP, the general government fiscal deficit is projected to rise to above 12 percent in FY21 before improving gradually. Public debt is expected to remain elevated, around 94 percent, due to the gradual pace of recovery.

Policy interventions have preserved the normal functioning of financial markets thus far. However, the demand slowdown could lead to rising loan delinquencies and risk aversion. Recent RBI analysis indicates the gross nonperforming loans to asset ratio of scheduled commercial banks may increase to 12.5 percent by March 2021 (from 8.5 percent in March 2020).

1/ The point estimate for 2017 is 10.4. The confidence interval reflects the degree of uncertainty associated with different statistical methods used to estimate poverty in the absence of recent household survey data. As documented in Box 1.3 of the Poverty and Shared Prosperity report (2020), there are other additional sources of uncertainty that are not reflected in this range of estimates.

2/ From the Centre for Monitoring Indian Economy (CMIE).

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

	2017/18	2018/19	2019/20	2020/21 e	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	7.0	6.1	4.2	-9.6	5.4	5.2
Private Consumption	7.0	7.2	5.3	-13.2	6.1	5.5
Government Consumption	11.8	10.1	11.8	10.5	5.5	5.9
Gross Fixed Capital Investment	7.2	9.8	-2.8	-16.2	7.8	6.7
Exports, Goods and Services	4.6	12.3	-3.6	-12.0	7.3	8.5
Imports, Goods and Services	17.4	8.6	-6.8	-20.0	12.3	12.0
Real GDP growth, at constant factor prices	6.6	6.0	3.9	-9.6	5.4	5.1
Agriculture	5.9	2.4	4.0	4.0	3.5	3.5
Industry	6.3	4.9	0.9	-20.0	5.5	5.0
Services	6.9	7.7	5.5	-7.4	6.0	5.7
Inflation (Consumer Price Index)	3.6	3.4	4.8	3.8	4.0	4.0
Current Account Balance (% of GDP)	-1.8	-2.1	-0.8	0.7	0.0	-0.5
Net Foreign Direct Investment (% of GDP)	1.1	1.1	1.5	1.1	1.3	1.5
Fiscal Balance (% of GDP)	-5.8	-5.4	-7.6	-12.4	-10.9	-8.9
Debt (% of GDP)	69.8	67.5	72.2	90.4	93.5	94.1
Primary Balance (% of GDP)	-1.1	-0.9	-2.8	-7.0	-4.4	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	10.4	9.2	8.3	11.1	10.0	9.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	44.9	42.4	40.9	46.2	43.9	41.9

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

(a) Calculations based on SAR-POV harmonization, using 2011-NSS-SCH1and fiscal year growth rates.Actual data: 2011. Nowcast: 2012-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2011) base on HFCE with pass-through .733 (rural) and .559 (urban) up to 2015, and .67 for 2016-17. GDP pc in constant LCU with pass-through = .67 for 2018-23.

MALDIVES

Table 1	2019
Population, million	0.5
GDP, current US$ billion	5.7
GDP per capita, current US$	10710.0
Upper middle-income poverty rate ($5.5)[a]	3.4
Gini index[a]	31.3
School enrollment, primary (% gross)[b]	97.1
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) WDI for School enrollment (2017); Life expectancy (2018).

Maldives is expected to face its deepest recession in history. GDP is projected to contract by 19.5 percent in 2020 and to rebound by 9.5 percent in 2021, largely on account of base effects. The poverty rate is expected to increase to 5.6 percent in 2020, given widespread income losses. Fiscal vulnerabilities, already high prior to the pandemic, have been exacerbated by further external non-concessional borrowing. Postponing non-essential spending, especially on infrastructure, is critical to restoring fiscal and debt sustainability.

Recent developments

The COVID-19 pandemic has paralyzed the Maldivian economy through its impact on tourism. Real GDP contracted by 5.9 percent year-on-year (y-o-y) in Q1 2020. The shock is expected to be larger in Q2 due to border closure and stringent mobility restrictions. Tourism inflows remained anemic even after borders reopened in mid-July. Only 13,787 tourists visited between July 15 and September 15, a 95 percent y-o-y decline; the average number of daily international commercial flights has declined to four (compared to 40 before the pandemic) and half of all resorts remain shut. Construction, the other main driver of growth, also slumped due to logistical difficulties and repatriations of foreign workers following COVID-19 outbreaks.

With overall depressed activity, price controls on staple food, and additional subsidies on utility bills, prices fell by an average of 4.0 percent y-o-y in Q2 2020. The deflation was more pronounced in Malé than in the atolls. Credit to the private sector grew by 6.9 percent y-o-y in Q2 thanks to the deployment of relief loans to businesses. Non-performing loans remained stable at 9.3 percent of total gross loans as of July, reflecting the loan moratoria announced in March.

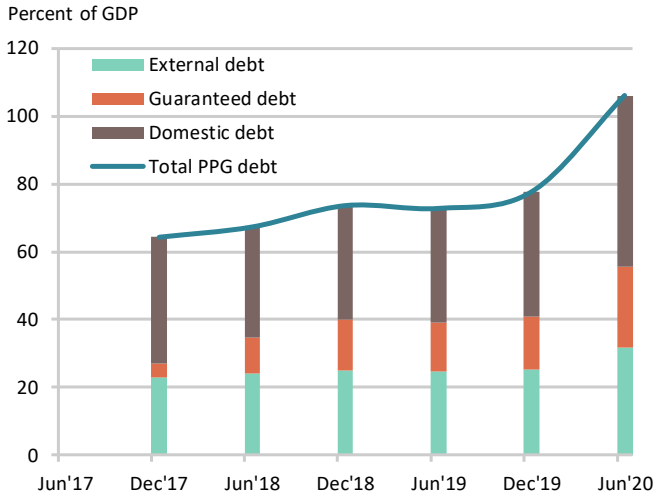
Weak activity also led the goods trade deficit to narrow. Merchandise imports fell by 29.8 percent y-o-y from January to July 2020, driven by lower imports of capital goods, diesel, and food and beverages consumed by tourists. However, merchandise exports fell even more, by 35.4 percent y-o-y, over the same period. This was mostly due to lower re-exports of jet fuel from muted air traffic, but also to lower fish exports following weak demand from Europe and lower yield during the monsoon season.

As foreign exchange earnings from tourism plummeted, usable reserves fell from USD 311.3 million at end-January to USD 122.3 million as of end-August, equivalent to 0.5 months of 2019 goods imports. Nonetheless, Maldives maintains a de facto stabilized exchange rate arrangement. To help preserve exchange rate stability, the Maldives Monetary Authority activated a USD 150 million foreign currency swap with the Reserve Bank of India.

Fiscal imbalances have widened significantly. Although the state collected only USD 471 million in revenues and grants from January to July (half the amount in the corresponding period of 2019), there was no commensurate adjustment in spending. While there was some degree of fiscal consolidation on the recurrent side, capital spending grew by 16.7 percent y-o-y in the first half of the year, mainly due to land reclamation and harbor reconstruction projects. Total spending amounted to USD 948 million over January to July, only 1.2 percent less than over the same period in 2019. Total public and publicly guaranteed (PPG) debt rose to USD 4.8 billion as of end-June 2020, a significant increase from USD 4.4 billion as of end-2019.

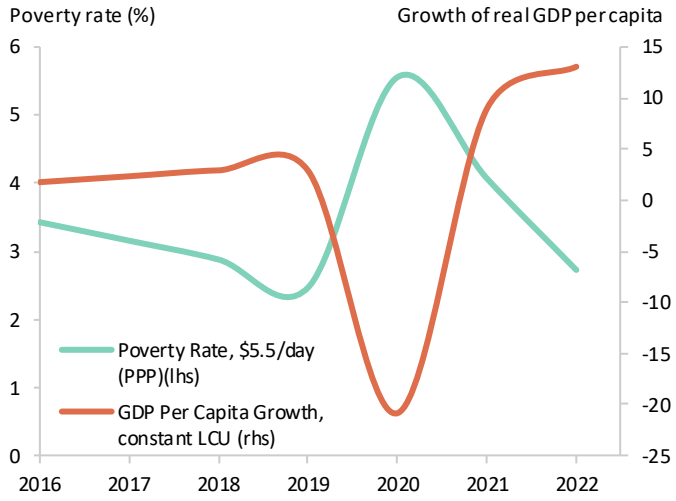
With the shutdown of tourism due to COVID-19, it is estimated that about

FIGURE 1 Maldives / Public and publicly guaranteed debt



Sources: Ministry of Finance data. 2019 and 2020 denominators are World Bank estimates.

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



Sources: 2016 data is WB estimate from HIES 2016, all other years are World Bank projections.

22,000 Maldivians have suffered job and/or income losses in the sector, not including seasonal workers, third-party providers of ancillary services and guesthouse employees. To mitigate the impact, monthly income support was provided to about 9,000 Maldivians in Q2, with an extension of the scheme in Q3. Based on data collected in 2016, poverty was estimated at 2.5 percent in 2019 (using the international poverty line of USD 5.50 per day in PPP terms).

Outlook

In a baseline scenario that assumes borders remain open and tourists gradually return, GDP is projected to shrink by 19.5 percent in 2020. Thereafter, it is expected to rebound to 9.5 percent growth in 2021, largely on account of base effects and the expected resumption of tourism once a COVID-19 vaccine is commercially available, tentatively by mid-year. However, real GDP is forecast to remain below 2019 levels until 2023.

Lower remittance outflows and some import compression should help to narrow the current account deficit to 19.5 percent of GDP in 2020. However, the fiscal deficit is projected to more than triple to 22.5 percent of GDP as expenditures have not sufficiently adjusted to lower revenue levels, which are projected to halve. As a result, PPG debt is expected to increase from 77.7 percent of GDP in 2019 to 120 percent of GDP in 2020.

COVID-19 will likely cancel the gains in poverty reduction from the last five years. The poverty rate is projected to increase to 5.6 percent in 2020 (measured at USD 5.50 a day in PPP terms) and to decline very slowly thereafter. Even in the baseline scenario, the poverty rate would still be higher in 2021 than in 2016.

Risks and challenges

Should a 'second wave' materialize and prevent tourists from visiting in Q4 2020, the recession would be even more severe. While the unique "one island, one resort" concept facilitates socially-distanced vacations, difficulties in resuming commercial flights and recent increases in domestic transmission pose challenges to attracting more visitors. Although medium- and long-term tourism prospects remain strong, visitor arrivals are not projected to return to pre-pandemic levels until 2023. Meanwhile, the potential closure of tourist establishments and other small businesses could result in permanent supply-side losses, hurting long-term growth.

Against this backdrop of slower growth and lower revenues, addressing core spending needs will be a challenge. Greater fiscal prudence would help address fiscal and debt sustainability risks. In particular, large public infrastructure investments that are not urgently needed in a context of weak aggregate demand could be postponed.

The COVID-19 shock has shed renewed light on the importance of strengthening the Maldives' resilience to external shocks. Although there are plans to develop agriculture and fishing to diversify the economy, the scarcity of arable land is a binding constraint. Focusing on higher value-added financial and business services could create good jobs, but the growth of these sectors is currently constrained by a shortage of local skills. Investing in human capital, including by retraining and upskilling workers, can help Maldives build back better.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	6.8	6.9	5.9	-19.5	9.5	12.5
Real GDP growth, at constant factor prices	6.7	6.9	5.2	-19.5	9.5	12.5
Agriculture	8.3	4.8	3.2	1.8	3.5	4.5
Industry	10.7	10.5	4.5	-2.7	4.8	5.5
Services	6.0	6.5	5.5	-23.2	10.9	14.3
Inflation (Consumer Price Index)	2.8	-0.1	0.2	0.1	0.5	1.0
Current Account Balance (% of GDP)	-21.5	-28.0	-25.7	-19.5	-17.6	-15.6
Net Foreign Direct Investment (% of GDP)	9.7	10.8	15.7	5.0	7.5	10.6
Fiscal Balance (% of GDP)	-3.2	-4.7	-6.4	-22.5	-19.6	-16.6
Debt (% of GDP)	64.6	73.1	77.7	120.0	127.7	128.8
Primary Balance (% of GDP)	-1.6	-2.9	-4.6	-20.8	-17.7	-15.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.2	2.9	2.5	5.6	4.1	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: 2017-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

NEPAL

Table 1	2019
Population, million	29.9
GDP, current US$ billion	30.6
GDP per capita, current US$	1023.4
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).

Nepal's economy came to a standstill in FY20 with negligible growth of 0.2 percent, a deceleration in the service sector and a contraction in industrial activity due to COVID-19. Trade disruptions resulted in a collapse in imports and narrowed the current account deficit, but the fiscal balance deteriorated. In the medium term, the economy is expected to recover only gradually as the pandemic-induced disruptions recede. Poverty is expected to increase in the short term.

Key conditions and challenges

In the three years prior to the pandemic, the economy grew at an average rate of 7.3 percent, against a backdrop of political stability and policy emphasis on investment, productivity, and effective public institutions. Still Nepal's economy remains hampered by structural challenges, including heavy reliance on remittance-fueled consumption, and higher concentration of employment in agriculture. In addition, an ambitious decentralization reform initiated in FY18 has resulted in higher fiscal deficits and constrained service delivery, reflecting the weak capacity of the new local administrations. Addressing these challenges will require improving the quality of policymaking in the federal context, investing in human capital and skills, strengthening the business climate, and improving budget execution toward closing critical infrastructure gaps.

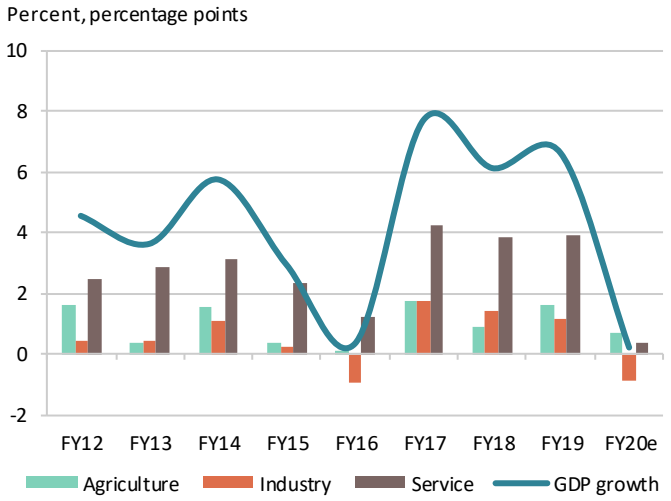
The COVID-19 crisis has derailed the growth momentum and exacerbated structural vulnerabilities. Travel restrictions have halted tourism and labor outmigration with ripple effects on domestic employment, remittances, and private consumption. Trade with India, Nepal's main trading partner, remains impaired as both countries struggle to contain the pandemic. The nationwide lockdown impacted production across all sectors of the economy and exacerbated pressure on livelihoods and an already stressed domestic labor market. In response, the government adopted health measures, and expanded safety net programs and concessional loan facilities.

Recent developments

Economic growth slowed to 0.2 percent in FY20, mainly due to a national lockdown in response to the pandemic. Service sector growth deteriorated to an 18-year low of 0.7 percent, as tourism arrivals stopped and domestic transport and wholesale and retail trade were disrupted. Industrial growth contracted, and capacity utilization fell from 80 to 46 percent because of shortages in production inputs and labor. Agricultural growth also decelerated sharply as market access and labor mobility became constrained. On the expenditure side, a contraction in private consumption and investment was marginally offset by positive contributions from government expenditures (on wages and COVID-19 related expenditures on health and social assistance) and net exports (driven by lower imports).

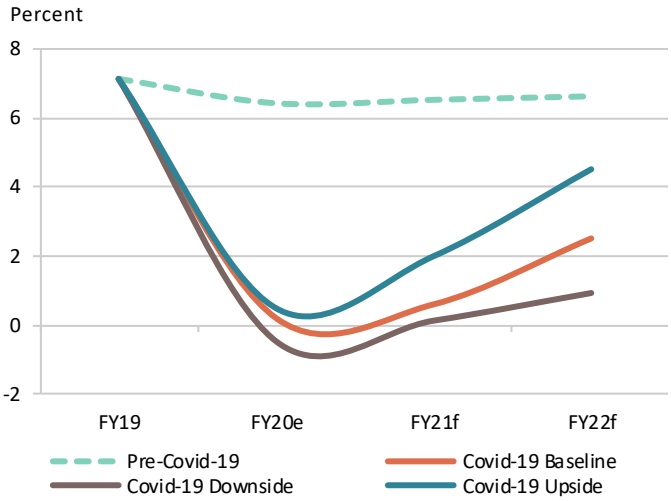
Average inflation reached 6.2 percent in FY20. Food price inflation spiked in early FY20 following an export ban on onions by India and remained elevated because of localized food shortages resulting from transport disruptions. Prudential indicators of banking and financial institutions remained within regulatory targets: nonperforming loans stood at 1.9 percent, capital adequacy at 14.2 percent, and liquidity at 27.9 percent. As a part of

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



Sources: Central Bureau of Statistics and World Bank staff calculation.

FIGURE 2 Nepal / GDP growth is expected to decelerate significantly compared to projections before COVID-19 outbreak



Sources: Central Bureau of Statistics and World Bank staff calculation.

COVID-19 relief measures, the central bank relaxed regulatory requirements for banking and financial institutions, reduced the targeted interest rate, and increased the size of the refinancing facility. Despite these measures, deposit growth exceeded credit growth for the first time in five years: the credit to core capital and deposits ratio fell to 69.6 percent, well below the 80 percent regulatory limit.

Trade disruptions led to a 19.7 percent year-on-year drop in imports in FY20, significantly narrowing the current account deficit to 0.9 percent of GDP. The sharp drop in imports outweighed both the contraction in exports - reflecting lower external demand for Nepali goods and a shutdown of tourist arrivals – and a 3.4 percent decline in remittance inflows due to lower outmigration and weak economic activity in migrant receiving countries. The current account deficit was mostly financed by external concessional loans. Foreign exchange reserves increased to $11.6 billion, equivalent to 12.7 months of imports.

The fiscal deficit increased in FY20 as trade restrictions caused a 5 percent contraction in tax revenue. The fall in tax revenue was partly offset by low budget execution, with total expenditures remaining close to FY19 levels in nominal terms. As a result, the fiscal deficit widened only marginally, to 3.2 percent of GDP in FY20. Public debt increased to 38.3 percent of GDP in FY20, compared to 30.1 percent in FY19, reflecting the adverse growth dynamics.

COVID-19 related disruptions in livelihoods and the contraction in households' consumption are expected to have affected the poor, vulnerable, and households engaged in informal sector activities disproportionately. Therefore, poverty is likely to increase in 2020. However, outdated poverty data (from 2010/11) makes projection-based estimates of poverty imprecise. The 2017/18 national labor market data also predates COVID-19. But, new data from an ongoing regional survey on the labor impacts of COVID-19 will help track the evolution of job losses and recoveries in the last quarter of 2020.

Outlook

Growth is expected to remain subdued in FY21 and FY22. Under a baseline scenario, GDP is projected to expand by only 0.6 percent in FY21, as periodic and localized lockdowns continue. Disruptions to tourism are expected to persist well into FY21. Although key hydropower projects, such as the Upper Tamakoshi Project, are expected to support industrial growth, demand and trade are likely to remain subdued, further depressing industrial sector growth in FY21. The agricultural sector is expected to pick up, given favorable monsoons, but could be impacted by a shortage of fertilizers and labor. On the demand side, private consumption is expected to support growth, but investment and exports will likely remain subdued. In a downside scenario, should COVID-19 persist, continued disruptions and weak subnational capacity to implement relief spending could weaken growth to 0.1 percent in FY21, likely increasing poverty. But if an effective vaccine becomes available, growth could recover to 2 percent in FY21. A protracted recovery is expected into FY22, assuming a gradual retreat of the pandemic.

Inflation is expected to accelerate slightly to 6.5 percent in FY21, reflecting a gradual recovery in global oil prices and higher domestic food prices, due to slow agricultural growth and periodic disruptions to supply chains. The current account deficit, meanwhile, is projected to remain close to its FY20 level, with a gradual rebound in imports offset by increased remittance inflows and merchandise exports. However, remittances are likely to remain below pre-COVID-19 levels until the end of FY21. Thereafter, the current account deficit is expected to gradually widen to 3.1 percent of GDP in FY22, as domestic demand for imports rebounds. The fiscal deficit is expected to widen to 6.4 percent of GDP in FY21 due to additional recurrent spending on COVID-19 relief and recovery measures, stable capital spending, and subdued tax revenue collection.

Risks to poverty will increase with declining remittances and lagged effects from extended lockdowns on informal sectors.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	8.2	6.7	7.0	0.2	0.6	2.5
Private Consumption	2.6	3.3	5.5	-3.1	-0.9	2.3
Government Consumption	10.5	13.5	7.8	38.7	-2.2	-6.7
Gross Fixed Capital Investment	44.3	18.1	5.0	-46.1	-1.2	40.1
Exports, Goods and Services	11.3	6.2	4.7	-16.6	-12.2	6.1
Imports, Goods and Services	27.2	16.5	7.8	-21.7	-5.6	12.7
Real GDP growth, at constant factor prices	7.7	6.1	6.6	0.2	0.6	2.5
Agriculture	5.2	2.8	5.1	2.3	2.1	2.9
Industry	12.4	9.6	7.7	-5.9	-4.1	3.2
Services	8.1	7.2	7.3	0.7	1.0	2.1
Inflation (Consumer Price Index)	4.5	4.2	4.5	6.2	6.5	6.3
Current Account Balance (% of GDP)	-0.4	-8.1	-7.7	-0.9	-1.0	-3.1
Fiscal Balance (% of GDP)	-3.1	-6.6	-2.8	-3.2	-6.4	-5.8
Debt (% of GDP)	26.1	30.1	30.1	38.3	43.6	46.7
Primary Balance (% of GDP)	-2.7	-6.1	-2.2	-2.5	-5.6	-4.9

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

PAKISTAN

Table 1	2019
Population, million	204.7
GDP, current US$ billion	278.2
GDP per capita, current US$	1359.5
International poverty rate ($1.9)[a]	4.0
Lower middle-income poverty rate ($3.2)[a]	35.1
Upper middle-income poverty rate ($5.5)[a]	75.6
Gini index[a]	33.5
School enrollment, primary (% gross)[b]	94.3
Life expectancy at birth, years[b]	67.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2018).

Pakistan's economy has been severely affected by measures taken to contain the pandemic. Economic activity contracted and poverty is expected to have risen in FY20, as monetary and fiscal policy tightening, earlier in the year, was followed by lockdowns. Growth is expected to gradually recover but remain muted, given heightened uncertainty and the resumption of demand compression measures. A possible resurgence of the infection, widespread crop damage due to locusts and heavy monsoon rains pose major risks to the outlook.

Recent developments

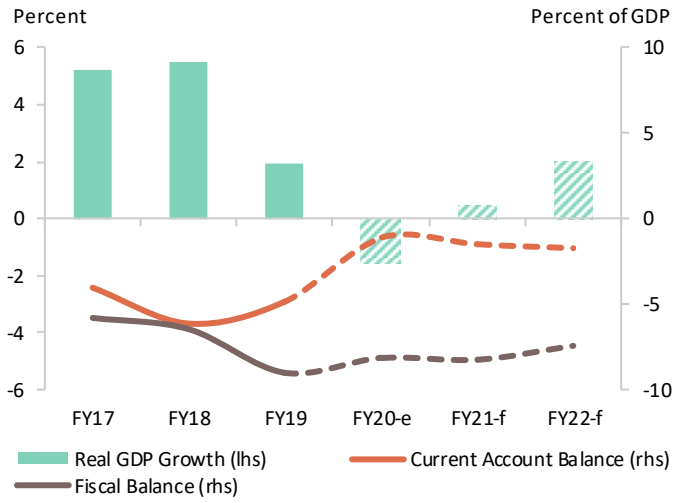
Real GDP growth (at factor cost) is estimated to have declined from 1.9 percent in FY19 to -1.5 percent in FY20, the first contraction in decades, reflecting the effects of COVID-19 containment measures that followed monetary and fiscal tightening prior to the outbreak. To curtail the spread of the infection, a partial lockdown - that included restrictions on air travel, inner-city public transport, religious/social gatherings and the closure of all non-essential businesses and schools - was imposed in March and gradually eased from May 2020 onwards. This disrupted domestic supply and demand, as businesses were unable to operate and consumers curbed spending, which specifically affected services and industry. The services sector is estimated to have contracted, by over 1 percent, while industrial production is expected to have declined even more, due to the high policy rates prior to the pandemic and plunging domestic and global demand thereafter. The agriculture sector, partially insulated from the effects of containment measures, is estimated to have expanded modestly over the year.

On the demand side, private consumption is estimated to have contracted in FY20, as households reduced consumption amid the lockdown and dimmer employment prospects. Similarly, with heightened uncertainty, disrupted supply chains and a global slowdown, investment is estimated to have fallen drastically. Exports and imports also shrank given weaknesses in global trade and domestic demand. In contrast, government consumption growth rose, reflecting the rollout of the fiscal stimulus package to cushion the effects of the pandemic.

Despite weak activity, consumer price inflation rose from an average of 6.8 percent in FY19 to an average of 10.7 percent in FY20, due to surging food inflation, hikes in administered energy prices, and a weaker rupee, which depreciated 13.8 percent against the U.S. dollar in FY20. With elevated inflationary pressures, the policy rate was held at 13.25 percent from July 2019 to February 2020 but was subsequently lowered to 7.0 percent over the remainder of FY20, to support dwindling activity and as inflationary expectations fell amid the pandemic. The central bank also implemented multiple measures to provide liquidity support to firms. At end-FY20, the banking system remained well capitalized, however upticks in non-performing loans were beginning to erode capital buffers.

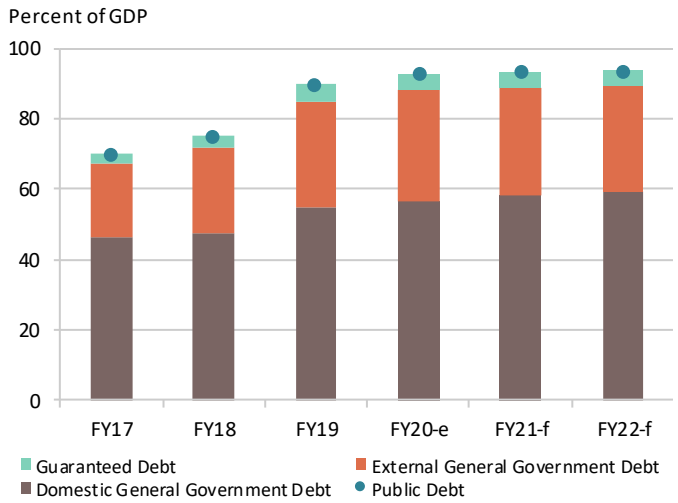
The current account deficit shrank from 4.8 percent of GDP in FY19 to 1.1 percent of GDP in FY20, the narrowest since FY15, driven mainly by import values falling 19.3 percent (Figure 1). Total export values also contracted 7.5 percent due to weak global demand. Despite the global downturn, workers' remittances increased relative to FY19, underpinning a wider income account surplus. Meanwhile, higher net foreign direct investment, and multilateral and bilateral disbursements, more than offset a decline in portfolio flows, leading to a larger financial account surplus. The balance of payments consequently swung

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 / Public debt



Sources: Ministry of Finance, State Bank of Pakistan and World Bank staff estimates.

to a surplus of 2.0 percent of GDP in FY20, and official foreign reserves increased to US$13.7 billion at end-June 2020, equivalent to 3.2 months of imports.

In FY20, the fiscal deficit narrowed to 8.1 percent of GDP from 9.0 percent in FY19. Total revenues rose to 15.3 percent of GDP due to higher non-tax revenue, as the central bank and the telecommunication authority repatriated large profits. Despite reforms, tax revenues slipped to 11.6 percent of GDP, with lower economic activity and larger tax expenditures. Expenditures rose mainly due to a fiscal stimulus package valued at around 2.9 percent of GDP, while public debt, including guaranteed debt, increased to 93.0 percent of GDP by end-FY20 (Figure 2).

The economic contraction is likely to have a significant impact on poverty. Lockdown measures have severely affected non-farm sectors that provide livelihoods to the most vulnerable segments of the population, particularly in urban areas. With government estimates of pandemic job losses at approximately 14 million, poverty is expected to increase for the first time in two decades. The pandemic is also expected to exacerbate Pakistan's human capital challenges. The closure of education institutes has impacted more than 50 million students, while access to essential healthcare like prenatal/postnatal services and immunization has been disrupted. All these challenges disproportionately affect poor and vulnerable groups, including women and girls.

Outlook

While domestic economic activity is expected to recover, as lockdown measures are lifted, with a gradual decline in active COVID-19 cases, Pakistan's near-term economic prospects are subdued. Significant uncertainty over the evolution of the pandemic and availability of a vaccine, demand compression measures to curb imbalances, along with unfavorable external conditions, all weigh on the outlook. Economic growth is projected to remain below potential, averaging 1.3 percent for FY21-22. This baseline projection, which is highly uncertain, is predicated on the absence of significant infection flare ups or subsequent waves that would require further widespread lockdowns.

The current account deficit is expected to widen to an average of 1.5 percent of GDP over FY21-22, with imports and exports gradually picking up as domestic demand and global conditions improve. The fiscal deficit is projected to narrow to 7.4 percent in FY22, with the resumption of fiscal consolidation and stronger revenues driven by recovering economic activity and critical structural reforms. Expenditures will remain substantial due to sizeable interest payments, a rising salary and pension bill, and absorption of energy SOE guaranteed debt by the government.

Given anemic growth projections in the near term, poverty is expected to worsen. Vulnerable households rely heavily on jobs in the services sector, and the projected weak services growth is likely to be insufficient to reverse the higher poverty rates precipitated by the pandemic.

Risks and challenges

There are considerable downside risks to the outlook with the most significant being a possible resurgence of the infection, triggering a new wave of global and/or domestic lockdowns and further delaying the implementation of critical structural reforms. Locust attacks and heavy monsoon rains could lead to widespread crop damage, food insecurity and inflationary pressures, and livelihoods for households dependent primarily on agriculture could also be negatively impacted. Finally, external financing risks could be compounded by difficulties in rolling-over bilateral debt from non-traditional donors and tighter international financing conditions.

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

	2016/17	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f
Real GDP growth, at constant market prices	5.6	5.8	1.0	-1.5	0.5	2.0
Private Consumption	8.5	6.2	2.9	-1.1	1.5	2.4
Government Consumption	5.3	8.6	0.8	5.6	0.1	1.9
Gross Fixed Capital Investment	10.3	11.2	-12.8	-17.9	-6.9	1.2
Exports, Goods and Services	-0.6	12.7	14.5	-8.6	-0.7	3.8
Imports, Goods and Services	21.2	17.6	4.3	-10.5	-0.7	4.3
Real GDP growth, at constant factor prices	5.2	5.5	1.9	-1.5	0.5	2.0
Agriculture	2.2	4.0	0.6	1.2	1.0	2.3
Industry	4.6	4.6	-2.3	-5.0	-2.4	1.7
Services	6.5	6.3	3.8	-1.3	1.2	2.1
Inflation (Consumer Price Index)	4.8	4.7	6.8	10.7	9.0	7.0
Current Account Balance (% of GDP)	-4.0	-6.1	-4.8	-1.1	-1.5	-1.7
Net Foreign Direct Investment (% of GDP)	0.8	0.9	0.5	1.0	0.7	0.8
Fiscal Balance (% of GDP)	-5.8	-6.4	-9.0	-8.1	-8.2	-7.4
Debt (% of GDP)	70.0	75.2	89.8	93.0	93.5	93.8
Primary Balance (% of GDP)	-1.5	-2.1	-3.5	-1.8	-1.8	-1.3

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

SRI LANKA

Table 1	2019
Population, million	21.8
GDP, current US$ billion	84.0
GDP per capita, current US$	3861.0
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	10.8
Upper middle-income poverty rate ($5.5)[a]	41.7
Gini index[a]	39.8
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).

COVID-19-related disruptions will lead to a sharp contraction in Sri Lanka's economy in 2020. A significant increase in poverty is expected due to widespread jobs and earnings losses. With already narrow fiscal buffers before the pandemic, additional spending and reduced revenues due to COVID-19 will put additional pressure on fiscal sustainability. Over the medium term, growth is expected to recover slowly. However, macroeconomic vulnerabilities will remain high, with depleted fiscal buffers, high indebtedness and large refinancing needs.

Recent developments

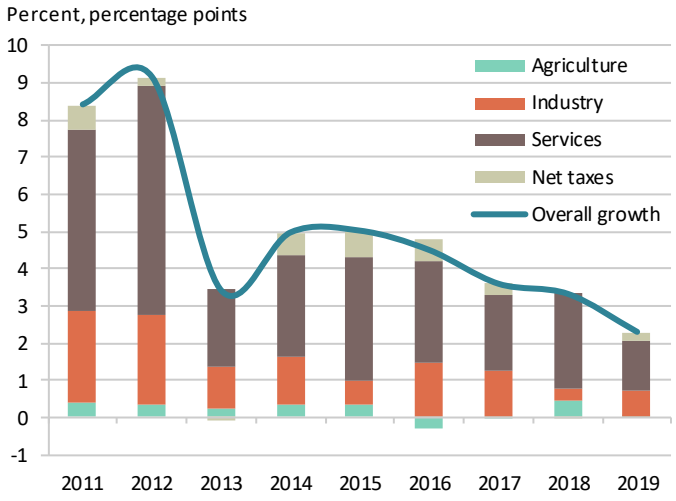
Sri Lanka's economy was already showing signs of weakness before the COVID-19 pandemic. After growing by 2.3 percent in 2019, the economy contracted by 1.6 percent y-o-y in the first quarter of 2020. The contraction, a first in 19 years, was driven by weak performances of construction, textile, mining and tea industries. Against this backdrop, the COVID-19 health crisis is believed to have impacted economic activity severely. High frequency indicators suggest that growth has faltered in the second quarter, as curfews impeded economic activity and global demand remained weak. Moreover, the closure of airports to tourists between April and September brought tourism activity to a standstill.

Weak demand has kept inflation in check thus far in 2020, creating room for policy support. Annual average inflation measured by the Colombo Consumer Price Index was 4.8 percent in August 2020 despite high food inflation. This allowed the central bank to reduce policy rates by 250 basis points and the reserve ratio by 300 basis points over the first seven months of 2020. The central bank also introduced a refinancing facility and a credit guarantee scheme to encourage commercial banks to increase lending. Despite these measures, private credit growth remained subdued in the first half of 2020. Asset quality and earnings of financial businesses deteriorated, reflecting the impact of decelerating loan recoveries and shrinking margins.

The current account deficit is estimated to have narrowed in the first half of 2020. A reduction in imports due to severe import restrictions and low oil prices is likely to have offset reduced receipts from remittances, tourism, tea and textiles. Following heavy depreciation pressures in March, the LKR stabilized in the second quarter, as import controls helped the current account. Official reserves, estimated at USD 7.4 billion as of August, remain low relative to short-term external liabilities. Included in reserves is a swap facility of USD 400 million with the Reserve Bank of India and a loan of USD 500 million from the China Development Bank. The central bank also secured a repo facility with the New York Federal Reserve Bank for USD 1.0 billion as a contingency measure. A Eurobond of USD 1.0 billion is maturing in October 2020.

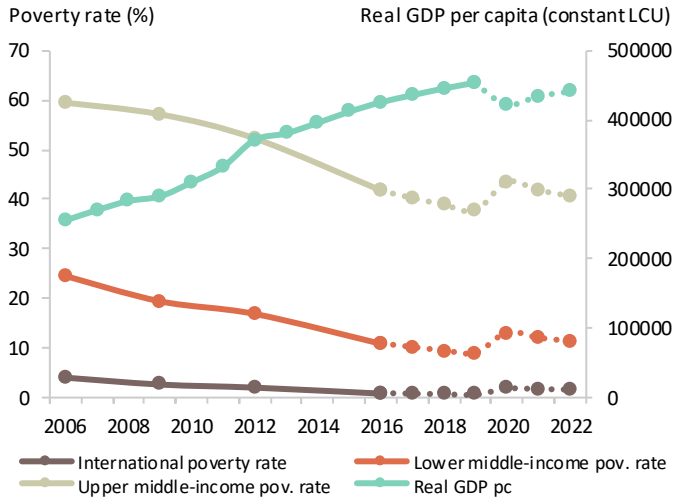
Fiscal accounts deteriorated in the first four months of 2020. Tax revenues fell short due to weak collection of value-added, income, and import taxes. The fiscal stimulus package implemented in November 2019 -which included a reduction of the VAT rate and an increase of the registration threshold, as well as import controls-, and slow growth contributed to the reduction in tax collection during this period. As a result, despite a moderation in public investment, the overall budget deficit increased by 24 percent in the first four months of 2020, year-on-year. Approximately 40 percent of the deficit was financed by central bank credit. The central government debt-to-GDP ratio rose to over 90 percent (from 86.8 percent at end 2019), with more than

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.

half of the debt denominated in foreign currency. Citing limited fiscal buffers and external vulnerabilities, Fitch and S&P downgraded the sovereign rating to B-.

The economic effects of COVID-19 will have significant welfare implications. Poverty measured using the $3.20 poverty line (in 2011 PPP) is estimated to have declined from 9.4 percent in 2018 to 8.9 percent in 2019. However, the COVID-19 crisis is believed to have caused sharp jobs and earnings losses. Informal workers, about 70 percent of the workforce, are particularly vulnerable as they lack employment protection or paid leave. The apparel industry, which employs about half a million workers, has reportedly cut significant jobs. While agricultural production is expected to be largely undisrupted, weak external demand likely impacted export-oriented subsectors and wages. High food price inflation, which remains at double-digits, is disproportionately affecting the poor who spend a larger share of their budget on food.

Outlook

The COVID-19 crisis has substantially clouded the outlook and exacerbated an already challenging macroeconomic situation. The economy is expected to contract by 6.7 percent in 2020, with all key drivers of demand affected: exports, private consumption and investment. The current account deficit is expected to remain low (at 2.2 percent of GDP in 2020) thanks to low oil prices and strict import restrictions, which should largely offset the reduction in receipts from garment exports, tourism and remittances. However, refinancing requirements will be high, with annual foreign exchange debt service requirements estimated at 7-8 percent of GDP over 2020-2022. The fiscal deficit is projected to expand further to over 11 percent of GDP in 2020, driving an increase in debt levels.

Reflecting these challenges, the $3.20 poverty headcount is projected to increase from 8.9 percent in 2019 to 13 percent in 2020. During the lockdown, the government extended temporary cash support to Samurdhi households, including a large number of which were on the waitlist. But the program is not well targeted and benefit amounts are inadequate. Construction and services sectors, including tourism, have been important sources of jobs growth in recent years and the outbreak will likely harm the prospects of many low-skilled workers. The government is employing 60,000 graduates and 100,000 individuals from low-income families to support livelihoods, but this will remain insufficient and add further strain on public finances. A fall in remittances could adversely impact some poor households that rely on them as an important source of income.

Risks and challenges

A longer than expected outbreak of COVID-19, that would extend the horizon and depth of related economic disruptions, is a key risk to the baseline outlook. In turn, a longer downturn could push many small and medium enterprises from illiquidity to insolvency, and the poverty rate could rise even higher as more people suffer income losses. Low growth would also put additional strain on public finances.

Sri Lanka is also highly exposed to global financial conditions, as the repayment profile of its debt requires the country to access financial markets frequently. A high deficit and rising debt levels could further deteriorate debt dynamics and negatively impact market sentiment. Thus, Sri Lanka will need to strike a balance between supporting the economy amid COVID-19 and ensuring fiscal sustainability.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.6	3.3	2.3	-6.7	3.3	2.0
Private Consumption	3.6	3.7	2.9	-6.7	3.3	2.0
Government Consumption	-6.0	-5.1	9.6	3.8	4.1	2.1
Gross Fixed Capital Investment	6.1	-1.3	4.1	-15.1	3.4	2.6
Exports, Goods and Services	7.6	0.5	7.1	-34.8	3.3	4.6
Imports, Goods and Services	7.1	1.8	-5.8	-29.2	2.8	3.8
Real GDP growth, at constant factor prices	3.6	3.7	2.2	-5.7	3.2	2.0
Agriculture	-0.4	6.5	0.6	1.0	2.0	2.0
Industry	4.7	1.2	2.7	-6.1	3.2	1.9
Services	3.6	4.6	2.3	-6.3	3.3	2.0
Inflation (Consumer Price Index)	6.6	4.3	4.3	4.9	4.9	5.0
Current Account Balance (% of GDP)	-2.7	-3.2	-2.2	-2.2	-2.8	-2.9
Net Foreign Direct Investment (% of GDP)	1.5	1.7	0.7	0.3	0.4	0.5
Fiscal Balance (% of GDP)	-5.6	-5.3	-6.8	-11.1	-8.8	-8.4
Debt (% of GDP)	77.9	83.7	86.8	102.0	106.0	110.3
Primary Balance (% of GDP)	0.0	0.6	-0.8	-4.3	-2.1	-1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.8	0.7	0.6	1.8	1.7	1.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	10.0	9.4	8.9	13.0	11.9	11.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	40.2	38.8	37.6	43.5	41.8	40.6

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: 2017-2019. Forecasts are from 2020 to 2022.

(b) Projections for 2020 are from a microsimulation.

Macro Poverty Outlook

10/
2020

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