South Asia

Macro Poverty Outlook

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

Spring Meetings 2020

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

South Asia

Spring Meetings 2020

Afghanistan
Bangladesh
Bhutan
India
Maldives
Nepal
Pakistan
Sri Lanka

Foreword

The projections contained in this volume are the joint product of the Macroeconomics, Trade and Investment, and the Poverty and Equity Global Practices of the World Bank. They were produced by a team of macroeconomic and poverty economists spanning the globe. These projections were produced while the COVID-19 pandemic was expanding rapidly, and the physical distancing and economic policy responses to it were in constant flux. As a result, the level of uncertainty over future events was particularly high. While we recognize that these projections will inevitably be revised as new information becomes available, we hope that sharing them at this time will make a positive contribution to policymakers' struggle to respond to this generational challenge.

Marcello Estevão

Global Director
Macroeconomics Trade and Investment
The World Bank

Carolina Sánchez-Páramo

Global Director
Poverty and Equity
The World Bank

AFGHANISTAN

Table 1	2019
Population, million	38.0
GDP, current US$ billion	19.4
GDP per capita, current US$	510
Poverty headcount ratio[a]	54.5
School enrollment, primary (% gross)[a]	72.5
Life expectancy at birth, years[b]	64.1

Source: WDI, Macro Poverty Outlook, Official data, and WB staff estimates.
Notes:
(a) Afghanistan Living Condition Survey (ALCS) (2016-2017).
(b) Most recent WDI value (2017).

Afghanistan's economy recovered somewhat in 2019. The COVID-19 pandemic is expected to have major negative impacts on growth over 2020, due to border closures, reduced remittance flows, and economic disruptions associated with social distancing measures. Medium-term prospects remain highly vulnerable to political instability, worsening insecurity, and rapid declines in international grants. Political negotiations with the Taliban present upside potential over the medium-term.

Recent developments

Growth is estimated to have picked-up slightly in 2019, to reach 2.9 percent (from 1.8 percent in 2018). Agricultural production is estimated to have increased by 7.5 percent, boosted by favorable weather. However, strong agricultural growth was largely offset by continued slow growth in services (1.8 percent) and industry (2 percent).

Inflation accelerated slightly but remained moderate. Consumer prices rose by 2.3 percent on average in 2019, largely driven by a 3.6 percent increase in food prices, mainly for cereals. Non-food inflation remained moderate at 1 percent, thanks mainly to low global energy prices.

The trade deficit is estimated to have narrowed to 31.4 percent of GDP in 2019 (from 32.7 percent in 2018). Imports declined by an estimated 6.6 percent thanks to stronger domestic agricultural production. Exports declined by 5.5 percent, reflecting the Afghani's appreciation against trading partner currencies (11.5 and 12 percent against the Pakistani Rupee and Iranian Toman, respectively) and heightened trade tensions with Pakistan. Grants continued to finance the large trade deficit, keeping the current account in surplus (3 percent of GDP). As a result, gross international reserves increased to USD 8.6 billion at end-2019, equivalent to 13 months of imports.

Fiscal balances deteriorated somewhat in 2019, though remaining broadly sound. Total domestic revenues reached 14.1 percent of GDP, thanks to significant one-off revenues, including transfers of Central Bank profits (Afs 24 billion, equivalent to 1.6 percent of GDP). Total expenditures increased by 9.8 percent, to 28.5 percent of GDP. The overall budget balance, reflecting reduced grants, recorded a deficit of 1.1 percent of GDP (from a surplus of 0.7 percent of GDP in 2018).

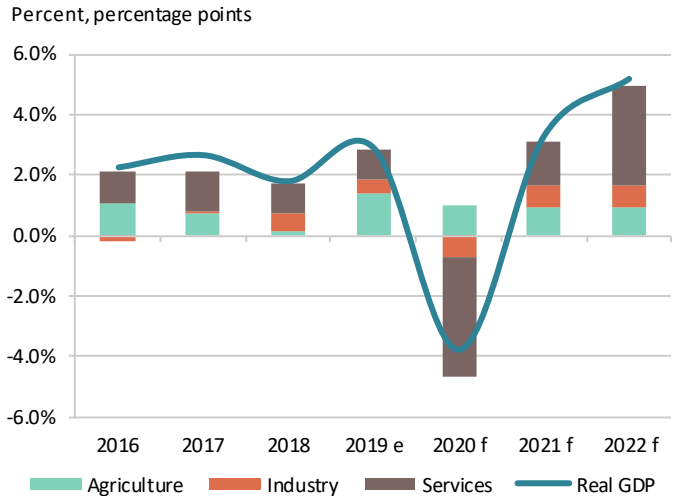
Poverty is expected to have worsened in 2018-19 (from 55 percent in 2016-17). Sizeable population displacements continued in 2019, with close to 400,000 Afghans internally displaced due to conflict, and an additional 505,000 returning mainly from Iran. Continued high levels of displacement have increased pressure on the government's capacity to provide basic public services.

Outlook

The economy is expected to contract by 3.8 percent in 2020, mainly because of economic disruptions resulting from the COVID-19 virus, even assuming a rapid resumption of political stability. Growth is projected to recover in 2021 and stabilize towards four percent over the medium term, assuming: (i) gradual containment of the COVID-19 outbreak in 2020; (ii) improvements in political and security conditions; and (iii) continued substantial levels of grant support.

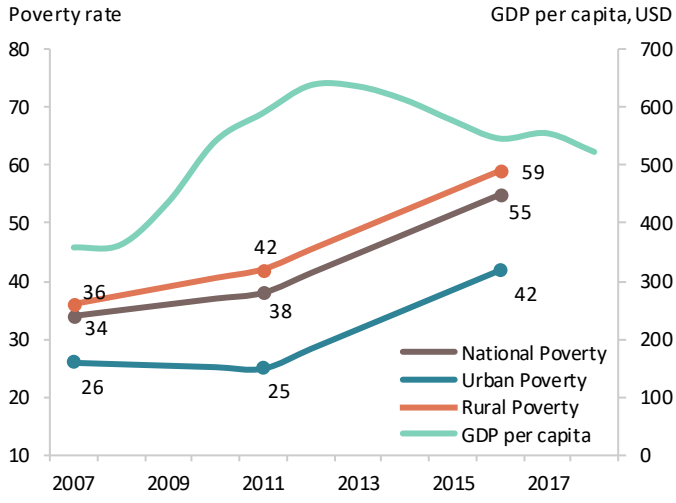
The trade deficit is projected to remain stable at around 31.2 percent of GDP in 2020. Despite stronger agricultural production, exports are expected to decline due to COVID-19 related disruptions at border

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, World Bank staff estimates, and ALCS (2016-17).

posts and the closure of air-corridors restricting Afghanistan's access to regional markets. Imports are also expected to decline due to trade disruptions, lower domestic demand, and lower oil prices, largely offsetting the export contraction. As COVID-19 related disruptions recede through 2021, exports and imports will gradually recover and the trade deficit will remain substantial, above 30 percent of GDP. With declining aid flows, the current account is projected to gradually deteriorate into a deficit of around 2 percent of GDP by 2023.

Fiscal pressures will increase as international grants decline gradually over time and due to the short-term impacts of the COVID-19 virus. Under baseline projections, the fiscal deficit for 2020 is projected to widen to 2.9 percent of GDP from 1.1 percent in 2019, due to increased public health expenditures and negative revenue impacts from COVID-19 related economic disruptions. Thereafter, the planned introduction of VAT in 2021 and improvements in tax administration should boost domestic revenues, partially offsetting projected declines in grant receipts.

Economic contraction in 2020 would further undermine welfare conditions, especially with an abrupt increase of returnees from Iran amid the rapid spread of the COVID-19 outbreak there. Over the medium-term, projected growth rates will be insufficient to support adequate productive employment creation and make a significant dent on poverty.

Risks and challenges

Risks to the outlook include: (i) intensification of economic disruptions arising from spread of COVID-19 (ii) heightened instability in the political transition to a new administration, (iii) a deterioration of security conditions, (iv) precipitous reductions in aid, and (v) adverse regional economic and political developments. Significant improvements in security conditions following a sustainable and credible political settlement with the Taliban, on the other hand, could help boost growth and private investment. Recent declines in global oil prices – if sustained – also have potential to drive stronger growth and a reduction of the trade deficit. Recent announcement of a US$1 billion reduction in grants from the United States present additional risks to fiscal sustainability and the capacity of government to maintain security and service delivery.

The pandemic and the related containment measures, including border closures and the recent lockdown of major cities, can lead to: (i) reduced exports due to disruptions at border points; (ii) negative impacts on remittances; (iii) disruptions to domestic consumption and confidence; and (iv) increased fiscal pressures, with declining revenues and increased public expenditure needs. In a scenario where COVID-19 is not effectively brought under control (allowing for the movement of goods and people in and out of the country to resume normally in the second half of the year), GDP could decline by 5.9 percent in 2020, significantly lower than in the baseline projection.

A rapid spread of COVID-19 would also have negative poverty impacts. Disruption to trade could lead to higher prices or shortages for basic household goods. With high reliance on out-of-pocket expenditure for health services, households facing additional healthcare needs may be heavily impacted. Households facing increased health costs, higher prices for basic goods, or reduced incomes due to imposition of social distancing measures may be forced to reduce expenditure on education and food or sell assets, with long-lasting negative impacts on livelihoods and human capital accumulation.

In the short-term, government should maintain recent gains in revenue performance to avoid a fiscal crisis. Continued business environment and anti-corruption reforms should be pursued to reinvigorate private investment and assure the international community of the government's capacity to make effective and efficient use of grant resources. A clear and early commitment from international partners to provide sustained support would help reduce uncertainty and raise confidence and investment.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	2.7	1.8	2.9	-3.8	3.3	5.2
Private Consumption	4.3	1.2	0.5	-3.0	3.6	4.0
Government Consumption	1.5	4.2	3.7	5.1	3.9	4.1
Gross Fixed Capital Investment	6.4	0.5	-3.4	-14.8	0.7	9.0
Exports, Goods and Services	7.0	5.0	-2.0	-9.0	6.0	8.5
Imports, Goods and Services	8.0	1.0	-5.5	-7.0	3.0	5.0
Real GDP growth, at constant factor prices	2.2	1.3	2.9	-3.8	3.3	5.2
Agriculture	3.8	0.8	7.5	5.0	4.5	4.5
Industry	0.4	2.5	2.0	-3.0	3.0	3.0
Services	2.5	1.0	1.8	-7.5	2.9	6.6
Inflation (Consumer Price Index)	4.7	0.6	2.3	4.5	4.5	5.0
Current Account Balance (% of GDP)	2.2	2.7	2.9	4.2	0.3	-1.5
Net Foreign Direct Investment (% of GDP)	-0.1	-0.1	-0.1	0.0	0.0	0.1
Fiscal Balance (% of GDP)	-0.5	0.7	-1.1	-2.9	-1.6	-0.5
Debt (% of GDP)	6.2	5.4	6.5	7.8	8.1	8.1
Primary Balance (% of GDP)	-0.4	1.7	-0.4	-2.6	-1.3	-0.2

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

The cut-off date for information in this MPO was April 02, 2020.

BANGLADESH

Table 1	2019
Population, million	168.6
GDP, current US$ billion	303.0
GDP per capita, current US$	1797
International poverty rate ($1.9)[a]	14.8
Lower middle-income poverty rate ($3.2)[a]	52.9
Upper middle-income poverty rate ($5.5)[a]	84.5
Gini index[a]	32.4
Life expectancy at birth, years[b]	72.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2017).

Growth is expected to decelerate to 3.0 percent in FY20 with declining garment exports, lower private investment growth and broader disruptions caused by COVID-19. Lower revenue collection and higher recurrent spending are likely to increase the fiscal deficit to 7.7 percent of GDP in FY20. While growth is expected to recover over the medium term, downside risks remain, particularly from a domestic outbreak of COVID-19 and fragilities in the financial sector. In the absence of mitigation measures, poverty is expected to increase significantly due to COVID-19.

Recent developments

In the first half of FY20 (July to December) growth gradually decelerated. Slower global trade and deteriorating external competitiveness lowered exports while tighter access to finance constrained private investment growth. Exports declined by 5.8 percent (y-o-y) in the first six months of FY20, reflecting a fall in orders for ready-made garments. A sharp contraction in capital goods imports (3.4 percent, y-o-y) suggests that private investment also fell. Growth during the first half of the year was primarily supported by remittance-fueled private consumption.

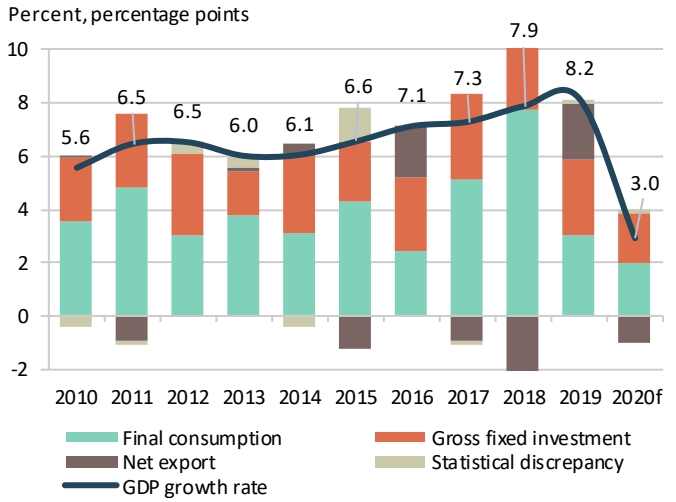
Inflation reached 5.6 percent y-o-y in January 2020, above the central bank's 5.5 percent CPI target, driven by higher vegetable and gas prices. New regulatory provisions for reduced interest rates and smaller down payments enabled the rescheduling of Tk 220 billion of overdue corporate loans. Nonetheless, NPLs remained high at 9.3 percent of outstanding loans in December 2019.

Declining exports drove an increase in the trade deficit in the first half of FY20, but this was more than offset by a 25.5 percent growth in remittance inflows. The number of overseas workers continued to rise, and recently introduced incentive payments encouraged the use of official remittance channels. As a result, the current account deficit narrowed to USD 1.3 billion in the first half of FY20. Despite tepid FDI and a decline in official foreign loan disbursements, the financial account remained in surplus and more than offset the CAD, resulting in a small balance of payments surplus. The real effective exchange rate appreciated, while the nominal taka depreciated against the US dollar marginally. Foreign exchange reserves remained adequate at USD 32.4 billion at the end of January 2020, equivalent to six months of goods and non-factor services imports.

The fiscal deficit exceeded 5 percent of GDP in FY19 and the first half of FY20 for the first time since FY01. Revenues underperformed, owing to lower import tax collections, complex new VAT legislation, and stagnating tax administration reforms. While overall government consumption growth slowed due to the base effect of an increase in civil service wages in the previous year, other expenditures rose, driven by an increase in subsidies and capital spending. The fiscal deficit increased, as did government borrowing from domestic banks. Public debt was 33.8 percent of GDP at the end of FY19 and Bangladesh is at a low risk of debt distress.

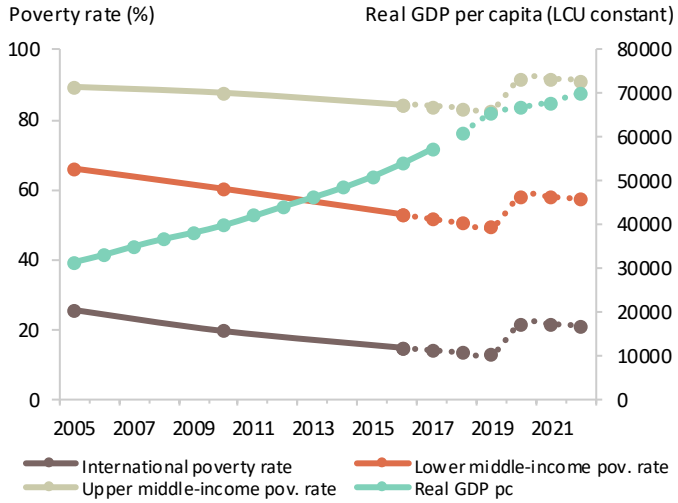
Projections suggest that the national poverty rate continued to fall through 2019, but at a slower pace. Fewer jobs created in the garment sector and an increase in poverty for urban households employed in the informal service sector contributed to this slower progress. In addition, poverty increased in Rangpur and stagnated in the Rajshahi and Khulna divisions. The Rohingya refugee crisis in Cox's Bazar continues to pose a largely localized development challenge.

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.

Outlook

GDP growth is projected to decelerate to 3.0 percent in FY20, driven by COVID-19 disruptions and the already weak performance of exports and private investment in the first half of the year. The national shutdown is likely to impact private consumption, the main engine of growth. While remittances were robust in the first half of the year, they are likely to decline, reducing household consumption. The uncertainties related to COVID-19 are likely to further dampen private investment. A shortage of intermediate inputs is expected to lower industrial production, while staff shortages could adversely impact all sectors. The government announced a preliminary COVID-19 fiscal stimulus to scale up existing social protection schemes and support payroll of the manufacturing sector, although details are still emerging. In the medium term, a gradual recovery in growth is expected, with some increase in export demand and higher public spending.

Inflation is projected to remain above Bangladesh Bank's 5.5 percent target due to expansionary monetary and fiscal policies and higher food prices. The current account deficit is expected to widen in FY20-21 with a decline in exports and remittances. As the government ramps up spending in response to the COVID-19 outbreak, the fiscal deficit is projected to increase. Recurrent spending is expected to pick-up in the short term as the government focuses on relief measures while capital expenditures are projected to increase when the recovery phase kicks in.

In the absence of mitigation measures, poverty is expected to increase substantially. About 1 in 4 households currently living in poverty are engaged in informal activities in the non-farm service and construction sectors, which have been significantly affected by closures and disruptions. The decline in national and global demand for manufactured goods, particularly in the garment sector, is expected to create unemployment and deepen poverty – 1 in 4 households with income from the manufacturing sector are already poor. The negative impact of COVID-19 on poverty rates is expected to be higher in urban centers, while the number of additional poor will be higher in rural areas. A decrease in international remittances is expected to have a smaller short-term impact on the poverty rate, as migrants tend to come from better-off households.

Risks and challenges

A protracted outbreak of COVID-19 with restrictive policies could reduce GDP growth in FY20 to 2.0 percent. In this scenario, private consumption and investment would decelerate along with a much larger contraction in exports. The main risk to the outlook is a large-scale domestic outbreak of COVID-19 with attendant social and economic costs. High density slum and urban areas and refugee camps in Cox's Bazar are particularly vulnerable. Other risks include concerns on the stability of the financial sector, stagnant tax administration reforms, expanded subsidy programs, and donor fatigue for the Rohingya response. Increased deficit financing from domestic banks is expected to put upward pressure on interest rates and may further constrain credit to the private sector.

The government's pandemic response will be paramount, including testing, quarantining and treating patients and providing economic relief to the poor and vulnerable. Other ongoing priorities remain, including strengthening fragile banks, accelerating reforms in business regulation, addressing exchange rate overvaluation and deepening fiscal reforms.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	7.3	7.9	8.2	3.0	2.9	3.9
Private Consumption	7.4	11.0	3.9	2.4	2.3	2.7
Government Consumption	7.8	15.4	9.0	7.7	2.3	2.9
Gross Fixed Capital Investment	10.1	10.5	8.4	5.7	4.5	6.2
Exports, Goods and Services	-2.3	8.1	10.9	-19.8	-7.4	8.2
Imports, Goods and Services	2.9	27.0	-2.0	-10.9	-3.7	6.9
Real GDP growth, at constant factor prices	7.2	7.9	8.4	3.0	2.9	3.9
Agriculture	3.0	4.2	3.9	3.5	3.1	3.1
Industry	10.2	12.1	12.7	2.0	3.5	6.1
Services	6.7	6.4	6.8	3.5	2.4	2.6
Inflation (Consumer Price Index)	5.4	5.8	5.5	5.7	5.7	5.8
Current Account Balance (% of GDP)	-0.5	-3.5	-1.7	-2.9	-3.2	-2.9
Net Foreign Direct Investment (% of GDP)	0.7	0.6	0.8	0.7	0.3	0.6
Fiscal Balance (% of GDP)	-3.4	-4.6	-5.4	-7.7	-9.8	-8.4
Debt (% of GDP)	30.8	31.9	33.8	39.1	45.6	50.2
Primary Balance (% of GDP)	-1.6	-2.8	-3.5	-5.3	-7.1	-5.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	14.1	13.5	12.8	21.8	21.5	21.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	51.7	50.6	49.3	58.3	57.9	57.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	84.0	83.4	82.8	91.8	91.6	91.4

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: 2017-2019. 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.

The cut-off date for information in this MPO was April 02, 2020.

BHUTAN

Table 1	2019
Population, million	0.8
GDP, current US$ billion	2.6
GDP per capita, current US$	3412
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	12.0
Upper middle-income poverty rate ($5.5)[a]	38.6
Gini index[a]	37.4
School enrollment, primary (% gross)[b]	101.3
Life expectancy at birth, years[b]	71.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2017).

Real GDP growth is expected to decelerate to 2.9 percent in FY20 due to significant disruptions from COVID-19 to domestic production, tourism, and services. The government's efforts to contain the impact of the pandemic are expected to increase the fiscal deficit. Medium term growth prospects remain subdued and downside risks remain, particularly from a domestic outbreak of COVID-19. Poverty, measured using the $3.20 poverty line, is expected to decrease slightly to 9.8 percent in 2020. Food security in remote areas needs to be closely monitored.

Recent developments

At 3.9 percent in FY19, growth is estimated to have been subdued because of weak performance in the country's main growth drivers: hydropower and tourism. Hydropower output fell (y-o-y) due to (i) prolonged maintenance work at the Tala hydropower plant; (ii) lower-than-expected rainfall; and (iii) delays in the commissioning of the Mangdechhu project. While tourist arrivals increased, tourism receipts declined significantly, reflecting lower average spending by visitors. As in previous years, growth was primarily driven by the services sector, including retail trade, transport and communication.

Annual inflation decelerated to 2.8 percent in FY19, its lowest level since 2003, reflecting a rapid decline in food prices. However, since mid-2019, food prices have increased, in line with price developments in India, Bhutan's largest trading partner.

Financial sector vulnerabilities have increased. The Non-Performing Loan (NPL) ratio in the financial sector rose to 18.4 percent in September 2019, up from 12.8 percent in September 2018. While this reflects mid-year cyclical factors, NPL and provisioning ratios have deteriorated, overall, in recent years. The banking sector has adequate cushions to absorb potential losses, given sufficient capital adequacy, but some non-bank financial institutions are fragile, particularly in the insurance sector.

The current account deficit widened in FY19, on the back of lower electricity and tourism receipts. Imports also fell, reflecting slower construction activity and fuel imports, but to a lesser extent.

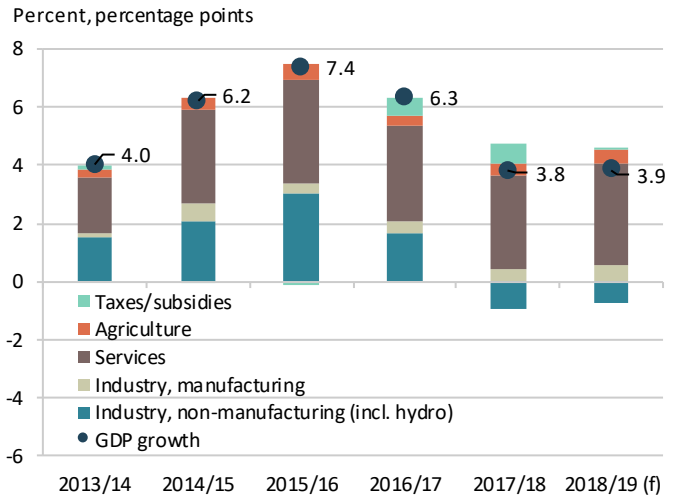
Despite a decline in revenues, the fiscal balance improved to a surplus of 0.8 percent of GDP in FY19, given a large decline in capital expenditures. Hydropower-related revenues, accounting for 17 percent of the total, decreased in line with lower production, while the discontinuation of excise duty refunds from India had a negative impact on non-hydro revenues. External grants, which mainly cover capital expenditures, decreased significantly due to delays in the initiation of new investment projects in FY19. Control over current expenditures remained tight.

The poverty headcount, measured at $3.20 per day per person (in 2011 PPP terms), is estimated to have decreased slightly, from 11.3 percent in 2018 to 10.7 percent in 2019. However, a recently published poverty map of rural gewogs showed deep pockets of poverty in Dagana, Monggar and Zhemgang, with poverty exceeding 50 percent in some gewogs in 2017. In contrast, most rural gewogs in Paro, Thimphu and Punakha had estimated poverty rates of less than 5 percent.

Outlook

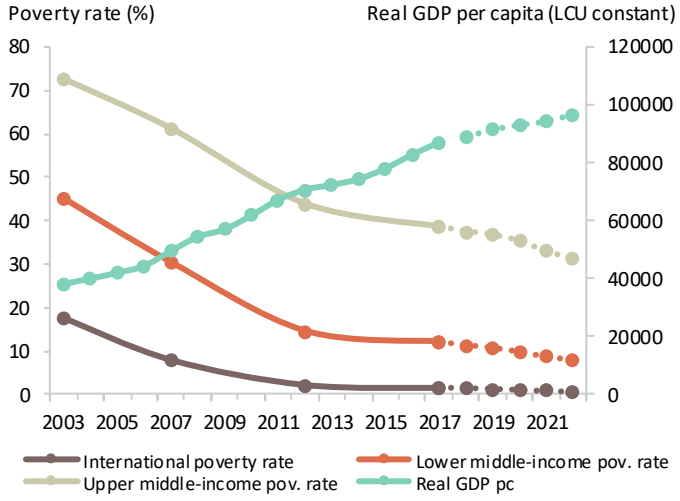
Growth is expected to decelerate to 2.9 percent in FY20, primarily because of COVID-19 related disruptions. The tourism industry has come to a standstill since the government suspended travel for incoming tourists in early March. A sharp

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.

drop in tourist arrivals in the second half of FY20 is expected to dampen services growth and exports, as well as government revenues. Agriculture, construction and exporting sectors are expected to be adversely affected by the COVID-19 pandemic due to supply side disruptions for critical inputs, labor shortages and lower external demand, especially from India. The growth outlook is likely to remain subdued in FY21 with some recovery expected in FY22.

Inflation is expected to remain moderate in the near term, as rising food prices in India and imported inflation are offset by low oil prices.

Exports and imports are expected to be depressed. The growth slowdown in India – exacerbated by the spread of COVID-19 – is expected to dampen external demand for non-hydro goods and services from Bhutan. In addition, domestic production in Bhutan is also likely to decline. Meanwhile import growth is projected to decelerate as the COVID-19 outbreak curbs hydropower and investment projects. On balance, the current account deficit is likely to persist given Bhutan's dependence on essential imports, both for consumption and investment. Over the medium-term, the external deficit is likely to narrow, in line with the increase in electricity exports, as the Mangdechhu and Punatsangchhu II projects come on line.

The fiscal deficit is expected to widen to 3.4 percent in FY20 due to a pickup in current spending in response to the COVID-19 outbreak, and an increase in salaries and wages. Capital expenditure is expected to decrease as the government reduces discretionary spending. While non-hydro revenues are projected to decline with the slowdown in the services sector, hydropower revenues will increase due to the one-off profit transfer from the commissioning of the Mangdechhu hydro power plant. Over the medium-term, improvements in tax policy and administration, and the implementation of the Goods and Services Tax will be critical to increase revenues.

Poverty reduction is projected to continue at a modest pace. The poverty headcount rate at $3.20 per day is projected to gradually decline to 9.8 percent in 2020. The impact of the COVID-19 outbreak on the poverty headcount rate is expected to be modest, as most of the poor work in subsistence agriculture. However, some social impacts may materialize primarily through an impact on labor income. A large number of households that directly or indirectly depend on tourism may suffer from job or earnings losses. Reduced demand for agricultural products could lower exports and hurt agribusinesses and their employees. Given high levels of pre-existing malnutrition, food security needs to be monitored closely, especially in remote areas.

Risks and challenges

In the event of a protracted outbreak of COVID-19 – with precautionary behaviors and restrictive policies remaining in place for several months, and supply chains and external demand continuing to be affected – economic growth could decelerate further to 2.2 percent in FY20. Further, a domestic outbreak of COVID-19 would have substantial societal and economic costs.

Other risks include possible further delays in hydro project completion and lower-than-expected rainfall, which would negatively impact growth, and reduce exports and government revenues. Slower than expected implementation of the Goods and Services Tax would also affect fiscal outcomes, because of the discontinuation of excise duty refunds and lower levels of grant financing from India. In addition, the risks from weaknesses in the non-banking financial sector remain and need to be monitored and contained.

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

	2016/17	2017/18	2018/19 e	2019/20 f	2020/21 f	2021/22 f
Real GDP growth, at constant market prices	6.3	3.8	3.9	2.9	2.5	3.5
Private Consumption	0.0	10.1	6.0	2.5	1.5	3.2
Government Consumption	4.3	3.7	4.5	8.0	7.0	3.0
Gross Fixed Capital Investment	4.4	-3.6	-0.5	-0.7	0.5	3.1
Exports, Goods and Services	0.4	5.5	-2.5	-2.0	-1.2	3.2
Imports, Goods and Services	-5.3	3.6	-1.2	-1.9	-1.0	2.4
Real GDP growth, at constant factor prices	6.0	3.3	3.9	2.9	2.5	3.5
Agriculture	3.6	3.7	4.2	3.0	3.3	3.5
Industry	4.7	-1.2	-0.5	3.3	2.7	3.6
Services	8.2	7.9	8.1	2.4	2.0	3.4
Inflation (Consumer Price Index)	4.3	3.7	2.8	2.7	3.1	2.7
Current Account Balance (% of GDP)	-23.6	-19.6	-23.9	-19.7	-22.3	-21.8
Fiscal Balance (% of GDP)	-4.8	-3.3	0.8	-3.4	-3.5	-2.7
Debt (% of GDP)	111.5	110.1	105.4	104.2	103.2	101.0
Primary Balance (% of GDP)	-3.5	-2.0	1.7	-2.5	-2.2	-1.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.5	1.4	1.3	1.1	0.9	0.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	12.0	11.3	10.7	9.8	8.8	8.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	38.6	37.6	36.7	35.4	33.1	31.4

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: 2018-2019. 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	2924.9
GDP per capita, current US$	2133
International poverty rate ($1.9)[a]	21.6
Lower middle-income poverty rate ($3.2)[a]	61.1
Upper middle-income poverty rate ($5.5)[a]	87.3
Gini index[a]	35.4
School enrollment, primary (% gross)[b]	113.0
Life expectancy at birth, years[b]	69.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011 PPPs.
(b) Most recent WDI value (2017).

Growth is estimated to have decelerated to 5.0 percent in FY20 and it is expected to slow down again in FY21. Structural and financial-sector weaknesses are compounded by severe disruptions to economic activity caused by the COVID-19 outbreak. Fiscal balances are also being affected by weak tax proceeds and high spending needs. While poverty declined to an estimated 13.4 percent in 2015, at the $1.90 international poverty line, the slowdown in growth and in the rural economy may have dampened the pace of poverty reduction.

Recent developments

Economic growth moderated from 8.3 percent in FY17 to 6.1 in FY19. It slowed to 5.1 percent over the first three quarters of FY20 (y-o-y). On the expenditure side, weak private investment has been compounded by slowing private consumption growth. On the supply side, industry (especially manufacturing and construction) and services growth slowed to 1.6 percent and 7.2 percent, respectively. Because India's fiscal year ends in March, the full effects of the COVID-19 outbreak will materialize in FY21, with FY20 growth expected at 5.0 percent.

Between September 2019 and January 2020, CPI inflation increased due to a spike in food prices. Consequently, the Reserve Bank of India (RBI) paused its monetary easing stance and focused on improving macroprudential oversight to address financial sector vulnerabilities. In March 2020, however, given the extension of the COVID-19 outbreak, the RBI cut the repo rate by 75 basis points to 4.4 percent.

India's current account deficit declined to 1.0 percent of GDP during the first three quarters of FY20 (compared to 2.6 percent during the same period in FY19) thanks to a reduction in the trade deficit and an improvement in net services exports. Foreign reserves remained comfortable, at approximately 10 months of imports cover, thanks to continued positive net capital inflows, over the April-December 2019 period.

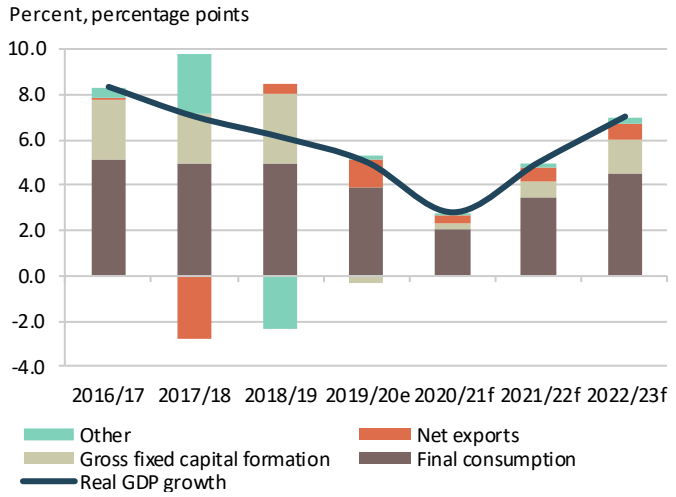
The general government deficit is expected to widen to 7.5 percent of GDP in FY20 reflecting the effects of a fiscal stimulus -adopted in March- and weak revenue growth. Public debt, though largely domestic and long term, is expected to rise significantly as a result.

Between FY12 and 2015, the poverty rate may have declined from 21.6 to 13.4 percent ($1.90 PPP/day), according to projections based on 2011-12 data, which is the most recent official survey available for India. Since then the deceleration in GDP-per-capita growth has likely magnified the risks for the poorest households, as shown by trends in key indicators. For example, real average daily rural wages have fallen by 4 percent between FY19 and FY20.

Outlook

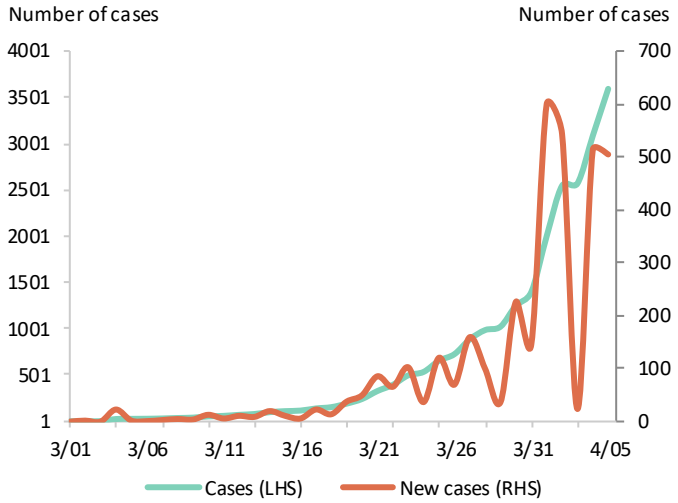
The COVID-19 outbreak came at a time when India's economy was already slowing, due to persistent financial sector weaknesses. To contain it, the government imposed a 'lockdown' with restrictions on mobility of goods and people. The resulting domestic supply and demand disruptions (on the back of weak external demand) are expected to result in a sharp growth deceleration in FY21, to 2.8 percent in a baseline scenario (an estimate subject to wide confidence intervals). The services sector will be particularly impacted. A revival in domestic investment is likely to be delayed given enhanced risk aversion on a global scale,

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



Sources: Central Statistics Office, World Bank staff calculations.

FIGURE 2 India / COVID-19 outbreak



Sources: World Bank, John Hopkins CSSE.

and renewed concerns about financial sector resilience. Growth is expected to rebound to 5.0 percent in FY22 as the impact of COVID-19 dissipates, and fiscal and monetary policy support pays off with a lag.

The balance of payments position is expected to improve. Weak domestic demand, low oil prices and COVID-19-related disruptions are expected to narrow the current account deficit to 0.2 percent in FY21 and to keep it low in the following years.

The general government deficit is anticipated to rise, owing to recently adopted tax cuts and the impact of significantly slower growth of tax proceeds, before moderating towards the end of the forecast horizon. The combined fiscal deficit of the center and states is projected to widen to 9.0 percent in FY21, as revenue performance dips with the growth slowdown and expenditure commitments increase in line with the stimulus program announced. Thereafter it should improve gradually.

Recent retail indicators from Nielsen show that rural and urban consumption growth fell to 5.0 and 8.0 percent respectively in Q3-2019 (for rural areas, this is an all-time low over the past seven years). Further, poorer households are more exposed to the risk of COVID-19. In a 2018 survey, only 22 percent households in the lowest consumption decile reported washing hands with soap before meals. The high density of households in urban slums further reduces the efficacy of social distancing measures. The lockdown will also have an adverse economic impact on self-employed and casual workers. The closure of shops, hotels and restaurants alone will affect 11 percent of such workers in these sectors. Domestic migrants scrambling to return to their homes in rural areas and currently stuck in transit are also facing significant vulnerabilities. A welfare package from the government can help poorer households cope with short-term COVID-related losses. Lower oil prices, if sustained over the medium-term, could also help mitigate inflationary concerns.

Risks and challenges

The COVID-19 outbreak has magnified pre-existing risks to the outlook. The government is undertaking measures to contain the health and economic fallout, and the RBI has begun providing calibrated support in the form of policy rate cuts and regulatory forbearance. Given significant uncertainties, there is a wide confidence interval around the baseline estimate. If a large-scale domestic contagion scenario is avoided, early policy measures pay-off, and restrictions to the mobility of goods and people can be lifted swiftly, an upside scenario could materialize in FY21, with growth around 4 percent. However, if domestic contagion is not contained, and the nationwide shutdown is extended, growth projections could be revised downwards to 1.5 percent, and fiscal slippages would be larger.

Broad-based poverty reduction with respect to (i) presently excluded groups (such as women and scheduled tribes), and (ii) extending gains to a broader range of human development outcomes remains a major challenge. The prolonged distress in the rural economy high youth unemployment; and the potentially regressive impacts of COVID-19 on prices and labor markets, present risks to sustaining the rate of poverty reduction. Furthermore, outdated information on indicators of poverty and employment limit the scope of reliably correlating growth forecasts with projected rates of poverty reduction.

TABLE 2 India / Macro poverty outlook baseline scenario (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	7.0	6.1	5.0	2.8	5.0	7.0
Private Consumption	7.0	7.2	5.4	2.0	4.5	7.5
Government Consumption	11.8	10.1	8.1	9.1	9.1	3.0
Gross Fixed Capital Investment	7.2	9.8	-0.9	0.6	2.4	5.3
Exports, Goods and Services	4.6	12.3	-2.0	-1.0	4.0	10.0
Imports, Goods and Services	17.4	8.6	-6.5	-3.0	1.0	6.0
Real GDP growth, at constant factor prices	6.6	6.0	4.9	2.7	5.0	7.0
Agriculture	5.9	2.4	3.5	2.7	3.0	3.5
Industry	6.3	4.9	1.9	0.0	3.0	6.5
Services	6.9	7.7	6.9	4.1	6.6	8.2
Inflation (Consumer Price Index)	3.6	3.4	4.1	3.0	3.5	4.0
Current Account Balance (% of GDP)	-1.8	-2.1	-1.0	-0.2	-0.3	-0.3
Net Foreign Direct Investment (% of GDP)	1.1	1.1	1.3	0.9	1.1	1.5
Fiscal Balance (% of GDP)	-5.8	-6.2	-7.5	-9.0	-7.9	-7.7
Debt (% of GDP)	69.5	70.2	72.3	76.7	78.4	78.0
Primary Balance (% of GDP)	-1.1	-1.4	-2.6	-3.8	-2.4	-2.0

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

MALDIVES

Table 1	2019
Population, million	0.5
GDP, current US$ billion	5.7
GDP per capita, current US$	12677
School enrollment, primary (% gross)[a]	97.1
Life expectancy at birth, years[a]	78.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Growth is expected to contract by 8.5 percent in 2020 as the COVID-19 outbreak dampens tourism and construction. The current account deficit will improve as remittance outflows and imports decline, more than offsetting the contraction in exports. The decline in capital expenditures is not expected to cover for the loss in tourism revenues, leading to an increase in fiscal deficit and public debt. Poverty is expected to increase as livelihoods are heavily linked to tourism and fisheries.

Recent developments

After three years of rapid expansion, real GDP growth decelerated to an estimated 5.2 percent in 2019 due to a slowdown in retail trade and construction. Construction expanded by just 0.5 percent over January -September 2019 (y-o-y) as several infrastructure projects concluded, compared to 19.2 percent the previous year.

Tourism flourished in 2019 as visitor arrivals grew by 14.7 percent (y-o-y). Total arrivals reached a record 1.7 million. China remained the largest source, accounting for 16.7 percent of all visitors, whereas India contributed the most to arrivals growth. However, the impact of the COVID-19 pandemic is beginning to weigh down on the prospects of the sector, and more broadly, on the economy of the Maldives. Visitor arrivals have started to dwindle in February (arrivals dropped by 11.2 percent (y-o-y)) and are expected to contract further as travel bans and wide -ranging entry restrictions to contain the spread of COVID-19 have become more stringent around the world.

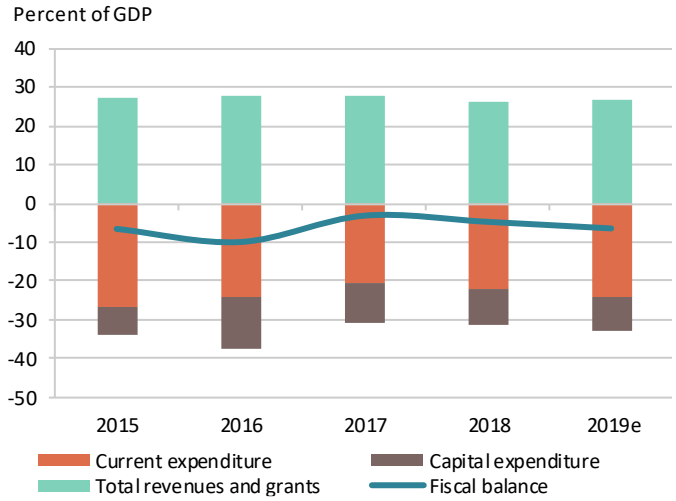
The overall CPI inflation was muted in 2019 (0.2 percent y-o-y). However, to prevent price hikes as COVID-19 disrupts imports, authorities have implemented a range of price controls on staple foods. In addition, to ensure financial system stability, the Maldives Monetary Authority (MMA) announced measures aimed at providing liquidity to financial institutions. The MMA also obtained a foreign currency swap facility amounting to US$150 million with the Reserve Bank of India. The Maldives maintains a de facto stabilized exchange rate arrangement.

The current account deficit narrowed to an estimated 21.8 percent of GDP in 2019 as imports of machinery and materials declined. Despite record tourist arrivals, tourism-related services exports only grew by 4.1 percent y-o-y in 2019 compared to 10.4 percent y-o-y previously. Gross official reserves increased to US$753 million at end-2019, but usable reserves (after netting out short-term foreign currency liabilities to domestic banks) only amount to US$316 million, equivalent to 1.4 months of goods imports. As of end-February 2020, usable reserves have further declined to US$278 million, as lower tourist flows reduce foreign exchange earnings.

The fiscal deficit widened to an estimated 6.4 percent of GDP in 2019. Total expenditure grew by 11.7 percent y-o-y while total revenues increased by 6.0 percent due to lower GST collections and state-owned enterprise dividends. As a result of the COVID-19 outbreak, revenues fell by an estimated 23.4 percent in the first quarter of 2020 (y-o-y) as tourist-related revenues shrank, whereas spending grew by 10.2 percent. Central government debt rose to an estimated 61.8 percent of GDP in 2019 from 58.5 percent in 2018.

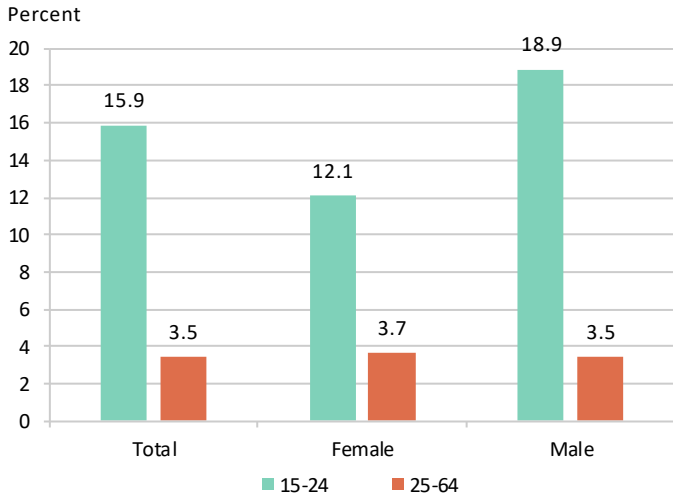
Last available estimates (2016) indicate that 8.2 percent of the population is under the national poverty line of MVR 74 (US$4.80) or 6.6 percent under the international poverty line of US$5.50 for upper middle-income countries. Many households are bunched close to the poverty

FIGURE 1 Maldives / Fiscal developments



Sources: WB calculations and estimates based on Ministry of Finance data.

FIGURE 2 Maldives / Unemployment rate of adults and youth



Sources: WB estimates based on HIES 2016.

line; hence, a small change in their consumption levels could lead to a sizeable increase in the national poverty rate. The poverty rate (12.8 percent) is significantly higher in the atolls than that in Male' (1.7 percent). The Gini coefficient of 31.3 compares favorably to that of other South Asian countries.

Outlook

Real GDP is expected to contract by 8.5 percent in 2020, 13.9 pp lower than the baseline (pre-COVID-19). This is mostly due to the slump in tourism, which directly and indirectly accounts for two-thirds of GDP, but also due to suppressed construction activity. The shock to tourism adversely affects employment and household earnings, as one-third of adult males and a quarter of females are engaged in tourism-related jobs. Lower-income households that depend on fisheries are also affected as exports of raw fish have ceased due to weak demand. The national poverty rate is expected to increase as households close to the poverty line would likely fall into poverty due to the loss of income sources. A larger impact is expected in the atolls, as there is greater dependence on fisheries and the poverty rate was already higher.

Despite the slump in tourism and related services exports, the current account balance is projected to improve to 15.7 percent of GDP, as remittance outflows and imports related to construction, fuel and tourism decline. The fiscal deficit is projected to double to 12.9 percent of GDP as tourism-related revenues plummet further. Although income taxes will be collected for the first time in 2020, the amount is unlikely to make a significant impact in the current environment. The government has pledged to cut expenditure by MVR 1 billion (equivalent to 1.2 percent of GDP) to address the revenue shortfall, and to reallocate resources to the health sector, and economic relief for affected households and businesses. Central government debt is expected to rise to 72.9 percent of GDP by end-2020 as the government seeks new sources of external financing to cover the fiscal gap.

Risks and challenges

The key short-term challenge is to contain the spread of COVID-19 while trying to limit the economic repercussions. Should infections fail to decline domestically and in key tourist markets in Q2, resulting in an extension of the lockdown, growth would contract more significantly. Fiscal sustainability risks, already high in the pre-COVID scenario, are further elevated as foreign exchange receipts dry up.

The negative shock to tourism will significantly hurt household incomes, as those employed in related sectors will see temporary or permanent job losses or wage cuts. As the Maldives no longer focuses solely on luxury tourism, the shock will also affect the livelihoods of small guesthouse owners and their employees on local islands.

Although tourist arrivals are expected to rebound once the pandemic subsides, the loss in global wealth will dampen worldwide tourism growth, especially the luxury segment. Construction activity will be constrained by limited fiscal space. In the medium term, it is critical to build stronger fiscal buffers and more resilience to macroeconomic shocks. It is also important to enable the expansion of a more vibrant private sector that can create more and better jobs. This is especially critical for the growing working-age population, as youth are more likely to be unemployed than adults.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	6.8	6.9	5.2	-8.5	7.3	5.5
Real GDP growth, at constant factor prices	6.7	6.9	5.2	-8.5	7.3	5.5
Agriculture	8.3	4.8	6.0	2.0	3.5	4.0
Industry	10.7	10.5	5.0	-0.5	1.5	3.0
Services	6.0	6.5	5.2	-10.3	8.5	6.0
Inflation (Consumer Price Index)	2.8	-0.1	0.2	1.3	1.2	1.1
Current Account Balance (% of GDP)	-21.7	-26.1	-21.8	-15.7	-16.3	-17.7
Fiscal Balance (% of GDP)	-3.1	-4.7	-6.4	-12.9	-11.9	-9.9
Debt (% of GDP)	60.1	58.5	61.8	72.9	74.3	75.7
Primary Balance (% of GDP)	-1.4	-3.4	-4.6	-10.6	-9.9	-7.9

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

NEPAL

Table 1	2019
Population, million	29.9
GDP, current US$ billion	30.7
GDP per capita, current US$	1025
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]	143.9
Life expectancy at birth, years[b]	70.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2010), 2011 PPPs.
(b) Most recent WDI value (2017).

Growth is expected to decelerate to 2.8 percent in FY20, reflecting lower remittances, trade and tourism, and broader disruptions caused by the COVID-19 outbreak. Consequently, the twin deficits are likely to increase significantly. Risks to the outlook stem primarily from a large-scale domestic transmission of COVID-19 and weak capacity of the government to implement emergency relief and recovery measures. The risk of falling into poverty is high, and it will increase in 2020.

Recent developments

During July-January FY20 (H1FY20), weak agricultural activity is expected to have depressed economic growth. Delays in the monsoons and crop damage by army worms and fake seeds reduced paddy production by 1.1 percent (y-o-y). Growth in services, particularly, hotels and restaurants, is also likely to have moderated with lower tourist arrivals in H1FY2020, mainly from India. On the demand side, growth was primarily supported by government consumption (higher wages) and net exports (lower imports).

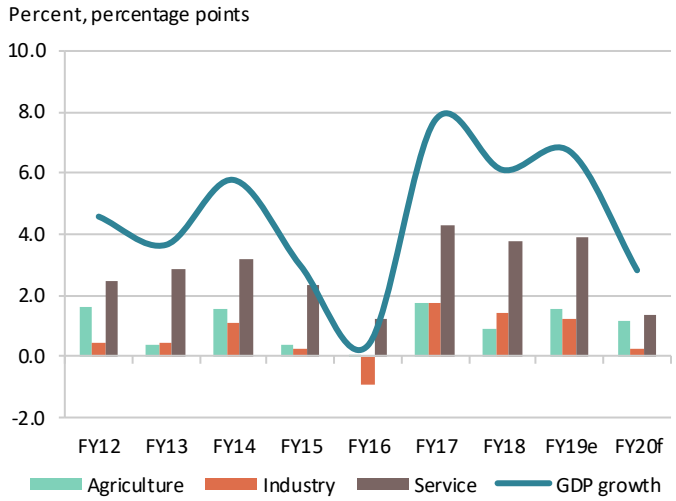
Average inflation was 6.4 percent (y-o-y) in H1FY20, driven by higher vegetable prices and increased import duties on certain agricultural and industrial goods. This widened the inflation gap with India and contributed to a 2.1 percent real effective exchange rate appreciation of the Nepalese Rupee. Credit growth, at 8.7 percent, exceeded deposit growth, reducing loanable funds. But the financial sector remained well-capitalized, with the non-performing loan ratio at 1.8 percent in January 2020.

The current account deficit narrowed by 44.3 percent (y-o-y) during H1FY20, as the trade deficit contracted because of lower imports. Imports declined by 3.5 percent (y-o-y), with lower demand for reconstruction-related industrial supplies (iron, steel, and coal) and gold (due to higher prices) and lower petroleum prices. Exports remained low (3.3 percent of GDP in FY19) but grew by 22.2 percent y-o-y on the back of higher external demand for refined palm and soybean oil. Meanwhile, remittance inflows grew only by 1.2 percent (y-o-y) to US$3.9 billion, reflecting reduced net outmigration. Loans and a drawdown of foreign exchange reserves financed the external deficit. As a result, foreign reserves stand at US$9.7 billion or 8.4 months of imports as of January 2020.

As in H1FY19, the budget remained in surplus in H1FY20. The recorded surplus was however larger, y-o-y, because of lower execution of the capital budget, at 15.4 percent of the total in H1FY20 (compared with 17.7 percent in H1FY19). Recurrent spending in H1FY20 grew by 3.7 percent y-o-y, driven by transfers to subnational governments and higher wages and social security payments. Meanwhile, revenue growth decelerated to 13.3 percent in H1FY20, y-o-y, because of lower import tax proceeds.

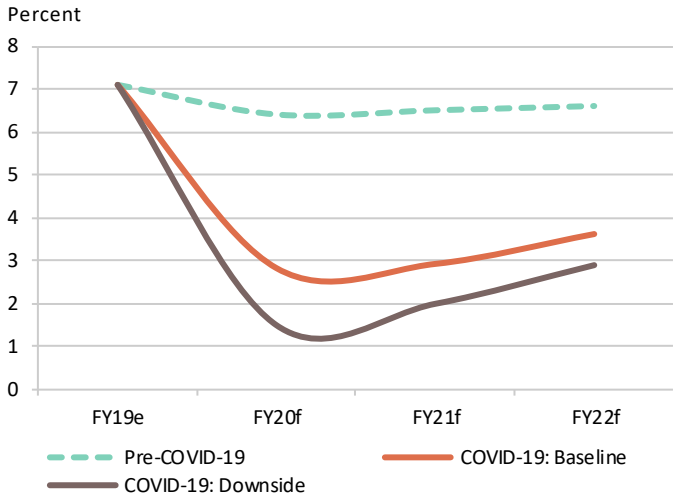
In 2019, the poverty headcount ratio (at the international line of USD 1.90/day) is estimated at 8 percent (down from 15 percent in 2010) while 39 percent of the population is estimated to be poor at a higher line (US$3.20/day). About 31.2 percent of the population that are estimated to live between US$1.9 and US$3.2 a day face significant risks of falling into extreme poverty, primarily because of reduced remittances, foregone earnings of potential migrants, job losses in the informal sector, and rising prices for essential commodities as a result of COVID-19.

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.

The cut-off date for information in this MPO was April 02, 2020.

Outlook

Growth is expected to decelerate to 2.8 percent in FY20 reflecting headwinds to agricultural growth, a significant reduction in remittances and tourism, and broader disruptions from the pandemic. Industrial sector growth is expected to decline because of lower industrial imports, supply chain disruptions, and shortages of skilled workers. The countrywide lockdown together with lower remittances and tourist arrivals is likely to impact services growth. Economic growth during FY21 is also likely to remain subdued due to the lingering effects of the pandemic and slow growth in India. Some recovery is expected in FY22.

Limited availability of imported goods, higher duties on certain agricultural and industrial imports, and the removal of value-added-tax exemptions on some intermediate goods and services are likely to raise inflation over the medium term, despite the decline in oil prices.

The current account deficit is expected to widen to 10.2 percent of GDP in FY20, and remain elevated over the medium term, because of a significant decline in remittances. With the fall in oil prices and limited prospects for outmigration, remittance inflows are likely to remain subdued over the medium-term.

The fiscal deficit is expected to increase to 7.3 percent of GDP in FY20 because of increased spending on quarantine and health facilities to contain COVID-19, higher salaries, social security, and fiscal transfers (also in response to the pandemic) to local governments. Meanwhile, revenues are projected to remain subdued because of slower growth and lower import tax proceeds.

Risks and challenges

A prolonged outbreak of COVID-19 would impact growth significantly with a further deceleration or contraction in services and industrial production. In this scenario, growth could fall further to 1.5 percent in FY20 but with a large confidence interval given the uncertainties surrounding the evolution of the pandemic.

The biggest risk to the outlook is from large-scale domestic transmission of COVID-19 with significant social and economic costs. The weak capacity of the recently formed subnational governments to effectively implement relief and recovery efforts compounds the risks. With the government machinery focused on dealing with the pandemic, there could be further delays in hiring staff and building subnational institutional capacity, which could in turn hamper spending and impede service delivery, and eventually growth.

TABLE 2 **Nepal** / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	8.2	6.7	7.1	2.8	2.9	3.6
Private Consumption	2.6	2.5	6.5	-1.5	0.8	1.1
Government Consumption	10.5	13.4	8.3	6.2	9.2	12.0
Gross Fixed Capital Investment	44.3	18.1	14.3	-8.7	-5.8	5.4
Exports, Goods and Services	11.3	7.8	7.9	-14.6	3.2	4.6
Imports, Goods and Services	27.2	19.0	17.9	-9.4	-2.3	3.5
Real GDP growth, at constant factor prices	7.7	6.1	6.7	2.8	2.9	3.6
Agriculture	5.2	2.8	5.0	3.8	3.3	3.9
Industry	12.4	9.6	8.1	1.7	2.6	4.1
Services	8.1	7.2	7.3	2.5	2.8	3.3
Inflation (Consumer Price Index)	4.5	4.2	4.5	5.8	6.0	5.9
Current Account Balance (% of GDP)	-0.4	-8.2	-7.7	-10.2	-8.8	-4.7
Fiscal Balance (% of GDP)	-3.1	-6.7	-2.6	-7.3	-6.7	-5.3
Debt (% of GDP)	26.1	30.2	30.1	35.5	39.8	41.9
Primary Balance (% of GDP)	-2.7	-6.1	-2.0	-6.5	-5.9	-4.3

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

The cut-off date for information in this MPO was April 02, 2020.

PAKISTAN

Table 1	2019
Population, million	204.7
GDP, current US$ billion	282.5
GDP per capita, current US$	1380
International poverty rate ($1.9)[a]	3.9
Lower middle-income poverty rate ($3.2)[a]	34.7
Upper middle-income poverty rate ($5.5)[a]	75.4
Gini index[a]	33.5
School enrollment, primary (% gross)[b]	90.6
Life expectancy at birth, years[b]	66.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2017).

Pakistan made considerable progress toward macroeconomic stabilization during the first 8 months of FY20. Measures taken by the authorities helped reduce domestic and external imbalances although at the cost of dampened economic activity. COVID-19 pandemic related disruptions have further strained economic activity. Output is expected to contract sharply in Q4-FY20, bringing overall FY20 growth to -1.3 percent. These developments have put pressure on Pakistan's fiscal position, as tax collection is being adversely impacted while spending needs are increasing.

Recent developments

In July 2019, Pakistan entered into a 39-month Extended Fund Facility (EFF) arrangement with the International Monetary Fund. Stabilization measures under the EFF were expected to moderate aggregate demand pressures in the economy. Leading indicators suggested a slowdown in growth in the first 7-8 months of FY20. The output of large-scale manufacturing (which accounts for around 50 percent of industrial output) contracted by 3.4 percent in Jul-Jan FY20. The agriculture sector, however, registered growth in the rice and livestock sub-sectors.

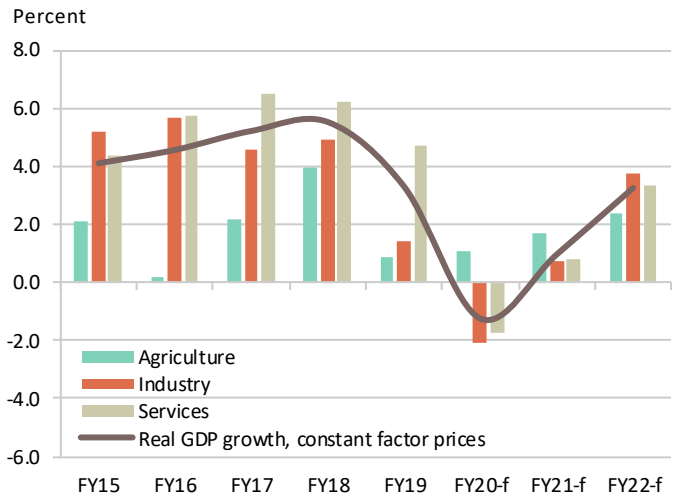
However, the rapid spread of the COVID-19 virus since February 2020 has brought economic activity to a near-halt. Most of the country has been placed under a partial lockdown. The closure of non-essential businesses and domestic supply chain disruptions are having a significant impact on wholesale and retail trade and transport, storage and communication, the largest sub-sectors of the services sector. The drop in domestic and global demand is also compounding the woes of the industrial sector, which is hit by both supply and demand shocks. In addition, the country's main industrial sector – textiles and apparel – is highly exposed to COVID-19 related disruptions due to its labor-intensity. As a result, real GDP growth in FY20 is expected to contract by 1.3 percent.

Average inflation increased to 11.8 percent during Jul-Mar FY20 (from 6.8 percent in Jul-Mar FY19) reflecting upward adjustments in administrated prices and exchange rate depreciation pass-through. The State Bank of Pakistan (SBP) maintained a tight monetary stance during this period, keeping the policy rate at 13.25 percent to dampen inflationary expectations. However, as the COVID-19 pandemic spread, it reduced the policy rate to 11.0 percent in March 2020.

The Current Account Deficit (CAD) narrowed to 1.0 percent of GDP in Jul-Feb FY20, from 3.5 percent in the same period in FY19, thanks to a 17.5 percent decline in goods imports. This, together with large multilateral disbursements and higher foreign investment flows, helped shore up gross international reserves to US$13.2 billion (as of March 27th, 2020)—or equivalent to 3.5 months of imports. However, due to global developments, foreign investors have offloaded more than half of their position in domestic securities since February 2020. The exchange rate, which had remained relatively stable through June-February FY20 depreciated by 7.3 percent in March.

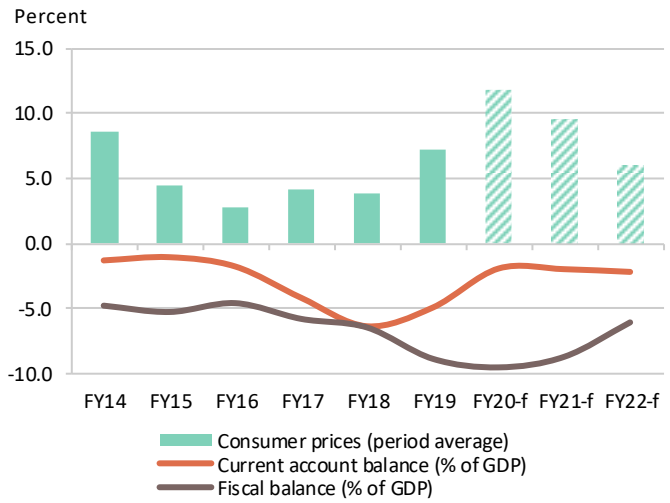
In H1-FY20, the fiscal deficit stood at 2.3 percent of GDP, compared to 2.7 percent in H1-FY19. The fiscal adjustment was achieved through increases in domestic revenue collections and slower growth in non-interest recurrent expenditures. However, the COVID-19 pandemic is likely to put significant pressure on expenditures whereas revenue collections are expected to be negatively impacted. Pakistan's public debt, which stood at 87.5 percent of GDP at the end of FY19, may rise as a result.

FIGURE 1 Pakistan / Real GDP growth (supply-side)



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 / Twin deficits and consumer prices



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

The cut-off date for information in this MPO was April 02, 2020.

The informal sector and daily wage workers employed in the formal sector are expected to bear most of the costs of expected slow-down in internal demand. The informal sector accounts for 72 percent of employment (LFS 2017) while informal workers in the formal sector account for another 5 percent of the total. The expected reduction of employment and incomes in the informal sector will have negative impact on poverty, particularly in urban areas. Poverty projections will be updated upon the release of the HIES 2018-19 household survey data.

Outlook

Real GDP growth is projected to contract by 1.3 percent in FY20 as domestic and global economic activity slows down sharply in the last four months of the fiscal year. The outbreak of COVID-19 will impact growth beyond FY20. Under the baseline scenario, growth will remain muted at 0.9 percent in FY21 before reaching 3.2 percent in FY22. Inflation is expected to average 11.8 percent in FY20 and to gradually decline thereafter.

The current account deficit is projected to narrow to 1.9 percent in FY20, as imports contract more than exports. Export growth is expected to remain negative in FY21 but to rebound thereafter and reach 6.7 percent in FY22. Similarly, imports are expected to recover slowly from FY22 onwards, as domestic industrial activities pick up. Remittances are expected to contract by 6.5 and -6.0 percent in FY20 and FY21, respectively, due to lower growth in the Gulf Cooperation Council economies. Increased multilateral and bilateral flows are expected to be the main financing sources over the medium-term.

The fiscal deficit is expected to remain elevated, at 9.5 and 8.7 percent of GDP in FY20 and FY21, respectively. Revenue mobilization efforts will be negatively impacted by subdued domestic activity, while expenditures will increase to contain the spread of COVID-19 and support the economy. The fiscal deficit is expected to fall gradually to 6.0 percent of GDP by FY22 as the impact of the crisis tapers-off. However, the public debt-to-GDP ratio is expected to increase and remain elevated over the medium-term, with Pakistan's exposure to debt-related shocks remaining high.

The poverty outlook for FY21 will depend critically on the ability of the informal off-farm sector to recover from the current crisis. The duration of the crisis and the capacity of government interventions to protect investments in physical and human capital of the most vulnerable segments of the population will be important to prevent long lasting consequences.

Risks and challenges

There are considerable downside risks to the outlook. If the COVID-19 outbreak worsens or lasts longer than expected, the real GDP for FY20 could contract by 2.2 percent before marginally recovering to 0.3 percent growth in FY21 (an estimate subject to a wide interval). In the near-term, continued outflows of portfolio investments in government securities may further erode Pakistan's limited external buffers and contribute to exchange rate volatility. Additionally, volatility of oil prices and difficulty in rolling-over of bilateral debt from non-traditional donors (China, KSA and UAE) would compound Pakistan's external risks and contribute to higher financing gaps. The immediate challenge for the government is to contain the spread of the COVID-19 pandemic, while minimizing economic losses and protecting the poorest. In the medium-to-long term, the government should remain focused on implementing much needed structural reforms to boost private investment sustainably.

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

	2016/17	2017/18	2018/19	2019/20 f	2020/21 f	2021/22 f
Real GDP growth, at constant market prices	5.6	5.8	3.3	-1.3	0.9	3.2
Private Consumption	8.5	6.8	4.1	-4.9	0.3	3.2
Government Consumption	5.3	8.6	10.0	1.4	1.1	1.9
Gross Fixed Capital Investment	10.3	7.1	-8.9	-4.3	-1.0	3.8
Exports, Goods and Services	-0.6	10.4	13.2	-19.7	-5.3	7.3
Imports, Goods and Services	21.2	15.8	5.8	-26.3	-7.7	4.8
Real GDP growth, at constant factor prices	5.2	5.5	3.3	-1.3	0.9	3.2
Agriculture	2.2	3.9	0.8	1.0	1.7	2.3
Industry	4.6	4.9	1.4	-2.1	0.7	3.7
Services	6.5	6.2	4.7	-1.7	0.8	3.4
Inflation (Consumer Price Index)	4.2	3.9	7.3	11.8	9.5	6.0
Current Account Balance (% of GDP)	-4.1	-6.3	-4.9	-1.9	-2.0	-2.2
Net Foreign Direct Investment (% of GDP)	0.9	1.1	0.6	0.7	0.6	0.8
Fiscal Balance (% of GDP)	-5.8	-6.4	-8.8	-9.5	-8.7	-6.0
Debt (% of GDP)	70.0	75.2	87.5	90.6	91.8	89.6
Primary Balance (% of GDP)	-1.5	-2.1	-3.4	-3.2	-2.5	-0.2

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

The cut-off date for information in this MPO was April 02, 2020.

SRI LANKA

Table 1	2019
Population, million	21.8
GDP, current US$ billion	87.7
GDP per capita, current US$	4030
International poverty rate ($1.9)[a]	0.8
Lower middle-income poverty rate ($3.2)[a]	10.1
Upper middle-income poverty rate ($5.5)[a]	40.4
Gini index[a]	39.8
School enrollment, primary (% gross)[b]	100.6
Life expectancy at birth, years[b]	76.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2017).

The COVID-19 outbreak will lead to a contraction in the economy. Periods of economic inactivity and disruptions will trigger jobs and earnings losses in 2020. Poverty is expected to increase, especially if the outbreak is protracted. The 2019 growth stimulus package and possible additional spending in the wake of the COVID-19 outbreak will exert pressure on fiscal sustainability, in a context of preexisting constrained fiscal space. Macroeconomic vulnerabilities will remain high, with limited fiscal buffers, high indebtedness and large refinancing needs.

Recent developments

Growth is estimated to have been 2.6 percent in 2019, an 18-year low, partly explained by the impact of the April terrorist attacks. The COVID-19 outbreak is believed to have further weakened growth at the outset of 2020. An island-wide curfew and a lockdown of several hotspots is likely to have affected manufacturing and services activity. Tourism has also been severely affected by the closure of international airports for arrivals since March 19.

Inflation remained benign amid weak demand. Annual average inflation measured by the Colombo Consumer Price Index was 4.7 percent in March 2020. Muted inflation and the outbreak of COVID-19 prompted the Central Bank to ease monetary policy several times in the first half of 2020, bringing the policy rates down by 100 basis points.

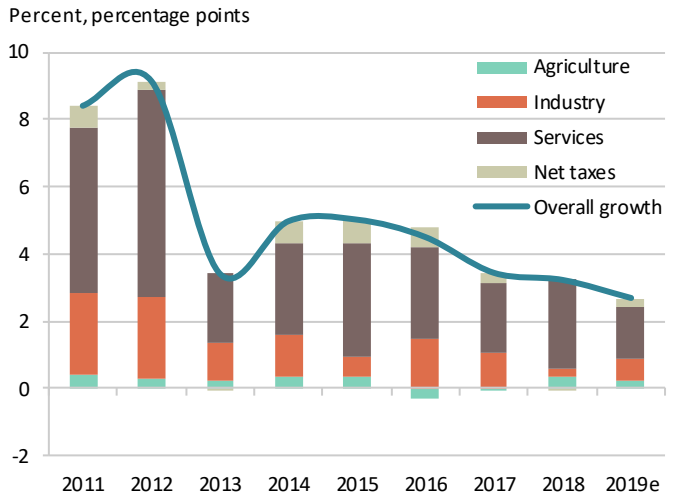
The external current account deficit is estimated to have narrowed to 2.1 percent of GDP in 2019, thanks to a reduction in imports, despite the slowdown in tourism receipts. The issuance of international sovereign bonds (USD 4.4 billion) helped debt repayment. However, reserves are low relative to short-term external liabilities. The exchange rate, which had been stable against the US Dollar since August 2019, depreciated by 4.5 percent in the second half of March 2020, after the first Sri Lankan COVID-19 case was reported.

Fiscal accounts deteriorated in 2019. Tax revenues fell due to weak collection of VAT, excise and import taxes. Meanwhile, expenditures increased due to relief packages adopted after the April attacks and the implementation of expansionary budget proposals in an election year. As a result, the budget deficit is estimated to have increased to 6.4 percent of GDP. The central government debt-to-GDP ratio is high (84 percent), with more than half of the debt denominated in foreign currency.

With a view to raise growth in the medium-term, the new administration announced a growth stimulus package in December 2019. It combines tax cuts - including a reduction of the VAT rate from 15 percent to 8 percent, new hiring of civil servants and debt relief for SMEs. Fitch and S&P revised Sri Lanka's outlook from 'stable' to 'negative' on account of rising risks to debt sustainability. The COVID-19 is likely to worsen fiscal accounts through reduced revenues and increased expenditures related to further fiscal stimulus.

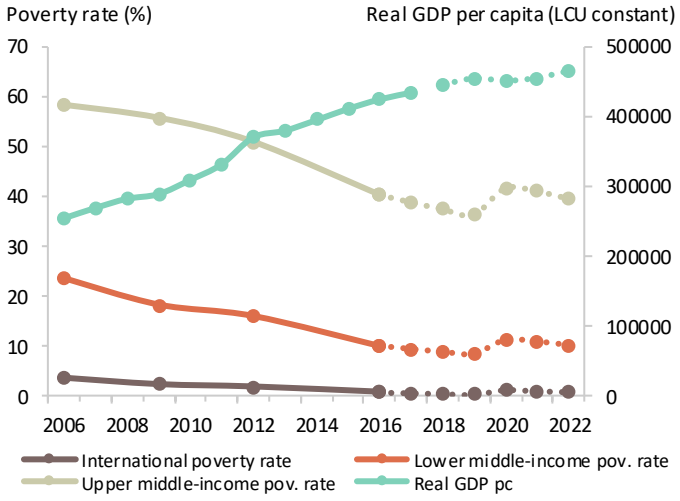
Poverty measured using the $5.50 poverty line (in 2011 PPP) is estimated to have declined from 37.6 percent in 2018 to 36.5 percent in 2019. The reduction in the VAT rate, to the extent that the benefits were passed on to consumers, was likely pro-poor. Labor market outcomes – both employment and wages – are expected to have deteriorated since the curfew was imposed in the second half of March. While there is no food shortage, access to food remains a challenge in poorer areas.

FIGURE 1 Sri Lanka / Real GDP growth and contributions to real GDP growth



Sources: Department of Census and Statistics, and Staff calculations.

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



Sources: World Bank. Notes: see Table 2.

Outlook

The COVID-19 outbreak has substantially weakened the outlook as it exacerbated an already challenging macroeconomic situation of low growth rates and significant fiscal pressures. The economy is expected to contract by 0.5 percent in 2020 as the outbreak dampens export earnings, private consumption and investment. The external current account deficit is expected to remain benign thanks to the reduction in oil prices and a deceleration of imports, which will largely offset the reduction in receipts from garment exports, tourism and remittances. Refinancing requirements will be high, with annual gross foreign exchange requirements estimated at 6-7 percent of GDP during 2020-2022. The fiscal deficit will further expand, and the debt level is expected to increase due to the implementation of the stimulus package and settling of arrears. Public investment will be reduced to mitigate the impact of revenue shortfalls and create space for additional recurrent expenditures under the stimulus package and for COVID-19 related expenses.

The slowdown in economic activity will trigger sharp jobs and earnings losses. Informal workers comprise about 70 percent of the workforce and are particularly vulnerable as they lack employment protection or paid leave. Social-distancing measures will directly impact services sector activities and extended travel restrictions will hurt tourism. Construction activities slowed down at the start of the year due to a shortfall of Chinese workers and projects are at risk of being stalled. The apparel industry which accounts for about half a million jobs has announced significant job cuts due to low global demand and a shortage of raw materials. Meanwhile, agricultural production is expected to be largely undisrupted, amid government efforts to ramp up domestic production and import substitution. However, export-related subsectors will be negatively affected.

As a result of deteriorating labor market conditions, the $5.50 poverty rate is projected to increase to 41.7 percent in 2020. Remittances will fall in response to the global slowdown as well as the recent drop in oil prices, which will adversely impact some poor households. Cash support to beneficiaries of various social protection programs have been announced in response to the fallout from the COVID-19 outbreak. However, many poor and vulnerable people are excluded from these initiatives and the cash amount is likely not sufficient to effectively help mitigate the adverse impacts.

Risks and challenges

The immediate challenge is to contain the domestic spread of COVID-19. A prolonged outbreak could lead to further movement restrictions and deeper disruptions in economic and labor market activities. Small and Medium Enterprises will struggle to survive. In this scenario the economy would contract by 3.0 percent and poverty would increase to 43.9 percent in 2020. Fiscal sustainability would be further strained.

Sri Lanka is vulnerable to uncertain global financial conditions as the repayment profile requires the country to access financial markets frequently. A high deficit and rising debt levels could further deteriorate debt dynamics and negatively impact market sentiments.

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

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	3.4	3.2	2.6	-0.5	1.2	2.5
Private Consumption	2.5	2.3	2.3	-0.6	1.2	2.5
Government Consumption	-5.4	-5.5	2.7	5.8	3.9	2.5
Gross Fixed Capital Investment	5.9	-1.3	0.5	-4.2	-0.1	2.8
Exports, Goods and Services	7.6	0.5	-0.8	-17.8	1.3	2.9
Imports, Goods and Services	7.1	1.8	-2.7	-12.7	0.1	1.9
Real GDP growth, at constant factor prices	3.4	3.6	2.6	-0.4	1.2	2.5
Agriculture	-0.4	4.8	3.2	1.0	2.0	2.5
Industry	4.1	0.9	2.6	-0.5	1.1	2.4
Services	3.6	4.7	2.5	-0.5	1.2	2.5
Inflation (Consumer Price Index)	6.6	4.3	4.3	5.0	5.0	5.0
Current Account Balance (% of GDP)	-2.6	-3.2	-2.1	-2.1	-2.3	-2.4
Net Foreign Direct Investment (% of GDP)	1.5	1.7	0.7	0.1	0.5	1.1
Fiscal Balance (% of GDP)	-5.5	-5.3	-6.4	-9.8	-8.1	-8.1
Debt (% of GDP)	76.9	82.9	84.1	91.6	95.9	99.0
Primary Balance (% of GDP)	0.0	0.6	-0.4	-3.5	-1.7	-1.7
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	0.7	0.6	0.5	1.2	1.0	0.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,c]	9.5	8.9	8.5	11.3	11.0	10.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,c]	39.0	37.6	36.5	41.7	41.1	39.7

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.
(c) Projections for 2020 are from a microsimulation.

The cut-off date for information in this MPO was April 02, 2020.

Macro Poverty Outlook

04/
2020

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity