

04/2025

South Asia

MACRO POVERTY OUTLOOK

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



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South Asia

AFGHANISTAN

Afghanistan's economy is estimated to have grown by 2.5 percent in FY2024, driven by agriculture, construction, and commerce. Aid and remittances supported aggregate demand, but uncertainty over external assistance, a persistent trade deficit, and restrictive laws affecting women pose significant risks. The outlook remains fragile, requiring policy reforms, improved trade balance, and continued external support for sustainable economic stability and growth.

Key conditions and challenges

Afghanistan's economy remains fragile, with a slow recovery following sharp contractions in 2021 and 2022. Foreign aid, once a key driver, has significantly declined since the Interim Taliban Administration (ITA) took power. While trade with neighboring countries and agricultural revival offers some stability, high unemployment and low household incomes persist. The banking sector struggles with liquidity shortages, international restrictions, and the shift to Islamic finance, limiting credit access. Although inflation has eased, food insecurity remains widespread due to climate shocks and deficient infrastructure.

In the medium term, Afghanistan faces structural challenges that hinder sustainable growth. Financial isolation limits foreign investment and access to global markets, while reliance on a cash-based informal economy creates inefficiencies. Policy uncertainty and restrictive social measures, particularly on female education and workforce participation, weaken human capital and productivity. Rapid population growth and limited job opportunities contribute to persistent poverty, vulnerability, and expanding informal employment. Deficient energy and transport infrastructure

Population ¹ million	Poverty
42.4	..
Life expectancy at birth ² years	School enrollment ³ primary (% gross)
62.9	110.0
GDP ⁴ current US\$, billion	GDP per capita ⁵ current US\$
20.7	486.6

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2022. 3/ 2019. 4/ 2024. 5/ 2024.

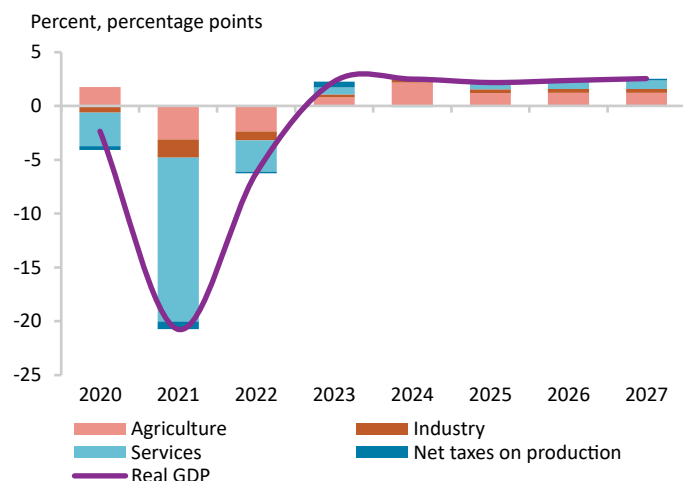
further stifles industrial and commercial activity, slowing economic recovery. Without meaningful reforms, Afghanistan risks prolonged stagnation, deeper poverty, and continued dependence on humanitarian aid.

Recent developments

In FY2024 (through March 21, 2025), Afghanistan's GDP is estimated to have experienced modest growth, driven by agriculture, mining, construction, and commerce. On the demand side, private consumption remained the primary growth driver, supported by a modest rebound in investment, particularly in real estate and construction. However, overall demand growth was limited by declining exports.

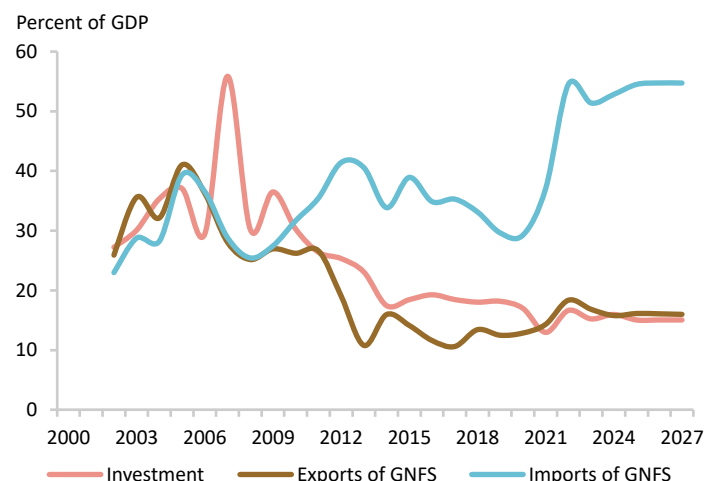
Deflationary pressures eased to negative 0.8 percent in January 2025 year-on-year, from negative 10.2 percent a year earlier as demand recovered. Food prices fell 3 percent due to better harvests and higher imports, while non-food prices increased 1.3 percent. Core inflation turned positive at 2 percent, indicating modest demand growth. On average, domestic prices declined 4.3 percent in 2024 from the previous year.

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



Sources: World Bank and National Statistics and Information Authority.

FIGURE 2 / Exports, imports, and investment



Source: World Bank.

On the labor market, wages of both skilled and unskilled workers continue to grow in both nominal and real terms despite high levels of unemployment, possibly indicating human capital constraints and geographic mismatch between supply and demand. Restrictive policies affecting women's education, employment and physical mobility exacerbate existing labor market challenges. The unemployment rate doubled between 2020 and 2023, with women and youth being the most affected.

International assistance, remittances, and deflationary trends contributed to stabilizing poverty rates at around 48 percent as of Spring 2023, a 4-percentage point decline compared to the same period in 2020. High levels of poverty are compounded by widespread vulnerability to shocks. Poverty in urban areas remains on an upward trend, reflecting the lack of economic opportunities. In rural areas, improvement in the security situation and better access to markets supported a decline in poverty, which, however, remains vulnerable to volatile agriculture sector outcomes and shocks.

Afghanistan's current account deficit is estimated to have widened to 24.6 percent of GDP in FY2024, up from 17.6 percent in FY2023, driven by a 1.4 percentage-point (pp) of GDP increase in the trade deficit and a 5.6 pp decline in net income. The trade deficit grew due to a stronger Afghani (local currency), tariff hike and temporary border closures with Pakistan. Declining net income stemmed from reduced foreign aid. Undisclosed financial flows have contributed to financing the current account deficit, given the limited foreign direct investment (FDI) and the absence of external borrowing capacity.

Domestic revenue rose by 1.4 percentage points to 16.9 percent of GDP in FY2024, partially offsetting a 4 pp decline in external grants to 14.3 percent of GDP. The fiscal deficit (cash basis) is projected to increase to 2.1 percent of GDP, with total expenditures at

31.2 percent of GDP. On-budget operating expenditures are estimated to have reached 16.6 percent of GDP, with higher development spending (from 0.2 pp of GDP in FY2023 to 1.5 pp of GDP in FY2024).

Outlook

Afghanistan's economic growth is expected to slow to 2.2 percent in 2025 due to aid disruptions before recovering to 2.5 percent in 2026-27, assuming no additional external shocks. Agriculture will remain the key growth driver, outpacing other sectors. However, given sustained population growth, per capita GDP is expected to remain stagnant and insufficient to sustain poverty reduction. Economic vulnerability, driven by external shocks and exacerbated by declines in aid, remains a major concern.

Afghanistan's current account deficit is projected to widen to 26.3 percent of GDP over the next three years, up from 24.6 percent in FY2024, driven by a 46.6 percent trade deficit. The fiscal deficit is expected to remain around 2 percent of GDP from FY2025 to FY2027, with revenue collection remaining slightly below 17 percent of GDP as the ITA seeks to offset declining aid. However, borrowing constraints mean any revenue increases will likely be matched by rising expenditures, limiting fiscal flexibility.

Afghanistan's economic outlook remains bleak, with risks tilted to the downside, primarily due to aid uncertainty. The humanitarian situation is even more precarious. According to the UN Office for the Coordination of Humanitarian Affairs (OCHA), nearly half of the population will require aid in 2025 as the country struggles to meet both chronic and acute needs. Further aid declines would weaken economic activity, deepen fiscal challenges, and strain the external sector.

Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth, at constant market prices	-6.2	2.3	2.5	2.2	2.4	2.5
Private consumption	0.6	6.4	4.9	3.2	2.9	2.8
Government consumption	-1.2	0.7	9.1	2.3	1.8	2.6
Gross fixed capital investment	29.2	-5.7	3.0	2.0	2.0	2.0
Exports, goods and services	18.6	-12.1	-3.0	2.5	2.0	2.0
Imports, goods and services	36.7	0.7	8.0	4.0	2.8	2.8
Real GDP growth, at constant factor prices	-6.4	1.8	2.5	2.2	2.4	2.5
Agriculture	-6.6	2.2	6.0	3.2	3.2	3.2
Industry	-5.7	1.8	2.1	2.5	2.5	2.5
Services	-6.5	1.5	-0.3	1.2	1.6	1.8
Inflation (consumer price index)	10.6	-7.7	-4.3	2.0	3.0	4.0
Current account balance (% of GDP)	-18.8	-17.6	-24.6	-26.4	-26.4	-27.3
Net foreign direct investment inflow (% of GDP)	0.0	0.3	0.0	0.0	0.0	0.0
Fiscal balance (% of GDP)	-1.0	-1.2	-2.1	-2.2	-2.2	-2.3
Revenues (% of GDP)	40.6	33.9	31.2	28.9	27.9	26.9
Debt (% of GDP)	13.9	13.6	13.8	14.4	14.9	14.9
Primary balance (% of GDP)	-1.0	-1.2	-2.1	-2.2	-2.2	-2.3
GHG emissions growth (mtCO2e)	2.1	2.4	2.8	3.0	2.9	2.7

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

BANGLADESH

Real GDP growth is expected to slow from 4.2 percent in FY24 to 3.3 percent in FY25, driven by declining investment amidst political uncertainty. Extreme poverty is projected to rise from 7.7 percent in FY24 to 9.3 percent in FY25, with inequality increasing by almost one Gini index point. The trade disruptions due to global trade policy uncertainty is expected to impact exports, investments and growth in the medium term.

Key conditions and challenges

Bangladesh's economy continues to encounter challenges, including elevated inflation and vulnerabilities within the financial sector. Domestic political and global trade policy uncertainty could further hamper investment, exports, and growth prospects. However, some external sector pressures have eased, as evidenced by narrowing balance of payment (BoP) deficits and stabilizing foreign exchange (FX) reserves.

Labor market conditions worsened as labor force participation fell from 60.9 percent in 2023 to 59.2 percent in 2024, mainly due to declining female participation. The employment ratio dropped by 2.0 percentage points, while the unemployment rate rose slightly to 3.6 percent, largely driven by discouraged workers exiting the market. All sectors experienced job losses, with services hit hardest at 2.6 percent.

Comprehensive reforms to create more and better jobs, improve the business environment, and revenue mobilization will be critical to supporting growth. In the medium term, Bangladesh will need to improve governance and transparency,

Population ¹ million	Poverty ² millions living on less than \$3.65/day
173.4	50.9
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
73.7	111.6
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
450.4	2598.4

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2022 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

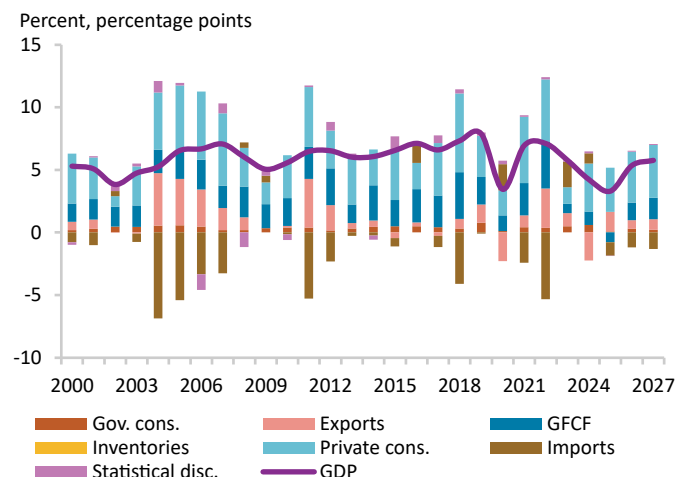
diversify exports, boost the quality of human capital, and address climate risks.

Recent developments

Real GDP growth declined to 4.2 percent in FY24 from 5.8 percent in FY23, primarily driven by a 17.1 percent decline in exports. On the production side, the slowdown was attributed to the industrial sector, where growth moderated to 3.5 percent in FY24 from 8.4 percent in FY23. Economic activity further decelerated in the first half of FY25, as evidenced by a slowdown in revenue collection, a decline in private sector credit growth and imports of capital goods, and rising non-performing loans (NPLs) from 9 percent in January 2024 to 17 percent in FY25Q1 to 12.5 percent in FY24Q4. Despite inflationary pressures, remittances continued to support private consumption growth.

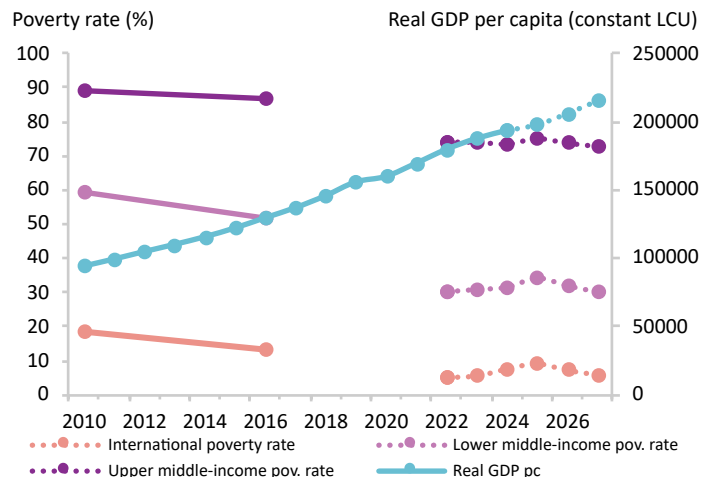
Inflation remained elevated at 9.3 percent in February 2025 due to exchange rate depreciation and supply-side challenges. The policy rate was raised by 150 basis points in FY25 to 10 percent. High inflation and job losses have strained welfare, especially for low-income households. In the first half of FY25, nearly

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



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

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



Source: World Bank. Notes: See footnotes in table on the next page.

4 percent of workers lost jobs, with wages falling by 2 percent for low-skilled and 0.5 percent for high-skilled workers. As a result, extreme poverty at the US\$2.15 (2017 PPP) threshold is expected to rise by 2.2 percentage points and inequality by less than half a Gini point. With over a million people leaving the country annually, remittance-receiving households are likely to remain more resilient amid the economic challenges.

The current account deficit (CAD) turned into a surplus of US\$33 million in the first half of FY25 from a deficit of US\$3.5 billion in the first half of FY24, as remittances and exports grew by 27.6 percent and 11.0 percent, respectively. The financial account was supported by the disbursement of budget support by the development partners. Improvement in the overall BoP helped FX reserves to remain stable at US\$20.4 billion as of March 2025 (3.0 months of import coverage). In the fiscal sector, revenue and capital expenditure growth slowed in the first half of FY25.

Outlook

Real GDP growth is projected to moderate to 3.3 percent in FY25 due to declining private and public investments growth. Policy uncertainty and rising borrowing and input costs are expected to contract private investment growth and keep industrial growth subdued. Public investment will decline as the government reduces the capital expenditure in FY25. However, the real GDP is expected to rise gradually in the medium term, driven by critical reforms.

The BoP balance is expected to improve in FY25, as robust remittance inflow narrows the CAD. The financial account is expected to be supported by budget support from the development partners. As a result, FX reserves are expected to stabilize in FY25. In the medium term, a decline in exports due to trade policy shifts will be partly offset by lower imports because of lower commodity prices. Overall BoP balance is expected to remain stable, supporting a gradual increase in FX reserves.

The growth slowdown in FY25 will disproportionately affect vulnerable populations. Extreme poverty is expected to rise to 9.3 percent, pushing 3 million more people into poverty. Inequality is projected to worsen by almost one Gini point, partially offset by remittance-receiving households. Additionally, 3 in 5 households are likely to experience greater financial stress by depleting savings in response to the shock.

The fiscal deficit is projected to widen to 4.4 percent of GDP in FY25 due to slow revenue collection. Although capital expenditure is expected to decline, this will be offset by rising current expenditure driven by rising subsidies and interest payments. In the medium term, the fiscal deficit is expected to remain within 5 percent of GDP.

Downside risks to the outlook have increased substantially. Increased political instability ahead of the election, international trade disruptions due to policy uncertainty, weak implementation of envisioned reforms, persistent inflation, energy shortages in the peak season, and further weakening of the banking sector could weigh on economic activities.

Recent history and projections

	2021/22	2022/23	2023/24e	2024/25f	2025/26f	2026/27f
Real GDP growth, at constant market prices¹	7.1	5.8	4.2	3.3	4.9	5.7
Private consumption	7.5	2.0	6.0	5.5	5.7	6.3
Government consumption	6.2	8.5	9.8	1.4	4.2	3.1
Gross fixed capital investment	11.7	2.2	3.3	-2.4	4.5	5.5
Exports, goods and services	29.4	8.0	-17.1	14.5	4.2	7.1
Imports, goods and services	31.2	-9.8	-4.6	7.0	6.7	7.4
Real GDP growth, at constant factor prices¹	7.2	6.2	4.3	3.3	4.9	5.7
Agriculture	3.1	3.4	3.3	3.2	3.0	3.3
Industry	9.9	8.4	3.5	1.9	3.9	5.1
Services	6.3	5.4	5.1	4.3	6.0	6.6
Inflation (consumer price index)	6.1	9.0	9.7	10.0	7.7	5.8
Current account balance (% of GDP)	-4.0	-2.7	-1.5	-0.5	-0.8	-1.0
Net foreign direct investment inflow (% of GDP)	0.4	0.4	0.4	0.2	0.3	0.3
Fiscal balance (% of GDP)	-4.6	-4.6	-3.9	-4.4	-4.5	-4.6
Revenues (% of GDP)	8.5	8.2	8.3	7.9	8.2	8.3
Debt (% of GDP)	33.8	37.0	36.6	37.8	39.5	41.2
Primary balance (% of GDP)	-2.7	-2.6	-1.7	-2.2	-2.3	-2.4
International poverty rate (\$2.15 in 2017 PPP)^{2,3}	5.0	5.5	7.7	9.3	7.1	5.8
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{2,3}	30.0	30.7	31.3	34.0	31.7	29.9
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{2,3}	74.1	74.1	73.5	75.2	73.8	72.8
GHG emissions growth (mtCO2e)	5.1	2.7	1.2	3.1	7.9	11.8

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ FY23 estimates based on BBS provisional estimates.

2/ Calculations based on SAR-POV harmonization, using 2022-HIES. Actual data: 2022. Nowcast: 2023-2024. Forecasts are from 2025 to 2027.

3/ Projections using microsimulation methodology.

BHUTAN

Economic growth remained robust at 4.9 percent in FY23/24 and is projected to increase to 6.6 percent in FY24/25 with new hydropower plants. In FY24/25, the fiscal deficit is expected to widen to 5.6 percent of GDP, and the current account deficit is expected to improve with higher hydropower, mining, and forestry exports, and lower cryptocurrency mining equipment imports. Despite significant poverty reduction, 19 percent of Bhutanese remain vulnerable to poverty.

Key conditions and challenges

Increased emigration, especially of skilled workers, after the COVID-19 pandemic has prompted the Bhutanese government to prioritize private sector development and job creation under the 13th Five Year Plan (FYP), launched in July 2024. Hydropower sector is the main driver of economic growth but employs less than one percent of the labor force. The national unemployment rate dropped to 3.1 percent in Q4 of 2024 but remains high among youth and those with higher secondary and bachelor's degrees, especially women, and is a major factor driving emigration. Despite a moderation in emigration in 2024, around 9 percent of Bhutanese still live abroad. The country faces persistent fiscal deficits partly due to low spending efficacy and low tax revenue. International reserves have remained low, and the current account deficit (CAD) has been elevated since FY21/22 due to increased imports to finance the investment in cryptocurrency mining.

Economic growth and remittances helped reduce poverty during 2017-2022, nearly eradicating extreme poverty (\$2.15/day). The number of people living below \$3.65/day and \$6.85/day also dropped significantly. While education and sanitation improved,

Population ¹ thousand	Poverty ² thousands living on less than \$3.65/day
791.5	3.7
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
72.2	106.1
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
3.1	3968.6

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2022 (2017 PPPs). 3/ 2022. 4/ 2022. 5/ 2024. 6/ 2024.

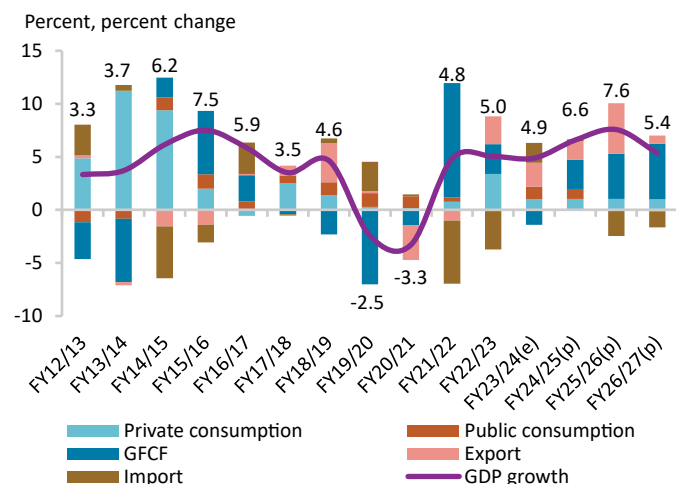
climate vulnerability and spatial inequalities remained. Poverty rates range from 1.5 percent in Thimphu to 41.4 percent in Zhemgang, with 87 percent of the poor living in rural areas. 60 percent of employment in rural areas remains in low-productive agriculture, with high vulnerability to climate change.

Domestic risks include delays in hydropower projects, persistent fiscal deficits, and materialization of financial sector contingent liabilities. External risks include volatile commodity prices due to geopolitical tensions, natural disasters, and climate-related hazards, affecting livelihoods and infrastructure. The direct and indirect impacts of recent global trade uncertainties are likely to be negligible, as trade with US is limited and 80 percent of Bhutan's trade exposure is with India. Sustained high levels of emigration of skilled workers may hinder medium-term growth. Cryptocurrency operations and the Gelephu Mindfulness City project entail significant upside and also downside risks.

Recent developments

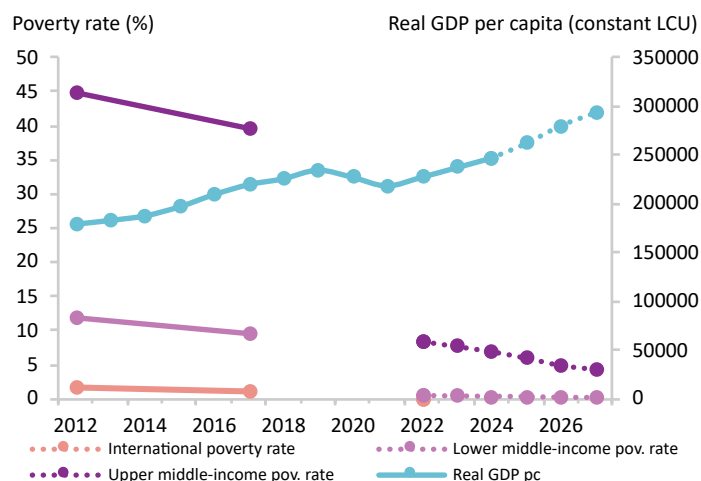
Real GDP grew by 4.9 percent in FY23/24 (July 2023 to June 2024), supported by a 6.8 percent growth in the services sector, led by

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



Sources: National Statistics Bureau (NSB) and World Bank.

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



Source: World Bank. Notes: See footnotes in table on the next page.

tourism-related services, financing, insurance, and real estate. The agriculture sector grew modestly at 1.5 percent due to lower crop yields caused by increasing vulnerability to climate change, shifts in land use, and wildlife-related crop damage. Industry growth at 3.0 percent was supported by strong growth in mining and quarrying (base metals and ferro-silicon). Demand side growth was driven by non-hydropower exports and consumption. Headline inflation decelerated from 4.6 to 4.3 percent, due to lower non-food inflation.

The fiscal deficit narrowed to 0.2 percent of GDP in FY23/24, down from 4.7 percent of GDP in FY22/23, driven by increased domestic revenue from higher tax collection and increased transfers from state-owned enterprises and the central bank. Also, capital expenditure remained low in FY23/24, as most of the capital spending of the 12th FYP was frontloaded in FY20/21 to support pandemic recovery. As a result, fiscal deficits narrowed despite increased current expenditures due to a major salary hike for public servants ranging from 55 to 74 percent, aimed at curbing the high attrition rate of public servants.

The CAD remained elevated at 22.1 percent of GDP in FY23/24, although this is a decline from 34 percent in FY22/23 due to a reduction in cryptocurrency related equipment imports and improved tourism exports. Hydropower exports declined despite the commissioning of the Nikachhu hydropower plant, as domestic energy demand from cryptocurrency mining operations increased. Gross international reserves increased modestly to US\$624 million in June 2024 (4.9 months of FY23/24 total imports).

Outlook

Real GDP growth is projected to rise to 6.6 percent in FY24/25, led by commissioning of Puna-II hydropower plant, and growth in the non-hydropower industries (construction, mining, and

quarrying) and tourism. On the demand side, growth is supported by exports and 13th FYP-related public investments. Medium-term growth will be driven by robust electricity production, construction of the Dorjilung hydropower plant, and mining and quarrying on the supply side and growth of exports and public investment on the demand side. The lifting of housing construction loan moratorium and launching of the collateral-free concessional credit line in FY24/25, which has a sluggish start, are expected to pick up and boost investment.

Poverty reduction is expected to continue, with the \$6.85/day poverty rate falling to 6.0 percent in FY24/25 and 5.0 percent in FY25/26. However, 19 percent of the population remain vulnerable to poverty due to climate hazards, with nearly half of the poor exposed to landslides (Bhutan Poverty and Equity Assessment, forthcoming).

Fiscal deficits are expected to widen to 5.6 percent and 7.2 percent in FY24/25 and FY25/26 due to high capital expenditure during the 13th FYP implementation phase. One-off profit transfers from commissioning of Puna II in FY25/26 and disbursement over the 13th FYP of the BTN 100 billion (US\$1.2 billion) grant from the Indian government will boost revenue. Primary non-wage recurrent expenditure is expected to remain moderate. Public debt is expected to rise to 128 percent of GDP in FY25/26 but is considered sustainable as most of it is hydropower-related. However, rising debt service may limit the fiscal space for spending on social programs.

The CAD is projected to decline to 17.6 and 9.2 percent of GDP in FY24/25 and FY25/26, before moderating further in the medium term due to continued decline in cryptocurrency mining related equipment imports. Export is projected to grow with higher hydropower exports from the commissioning of Puna-II, increased non-hydropower (mining and forestry), and tourism exports. As a result, international reserves are projected to increase to US\$643 million in June 2025 (4.7 months of FY24/25 total imports).

Recent history and projections

	2021/22	2022/23	2023/24e	2024/25f	2025/26f	2026/27f
Real GDP growth, at constant market prices	4.8	5.0	4.9	6.6	7.6	5.3
Private consumption	1.8	6.8	1.8	2.2	2.3	2.2
Government consumption	1.9	-0.5	5.8	4.5	-0.9	-0.9
Gross fixed capital investment	25.4	5.6	-2.6	5.7	9.0	11.0
Exports, goods and services	-4.1	9.8	8.6	6.2	16.7	2.6
Imports, goods and services	13.2	7.5	-3.7	-0.4	5.4	3.6
Real GDP growth, at constant factor prices	4.9	4.8	4.9	6.6	7.6	5.3
Agriculture	0.1	0.1	1.5	2.8	3.9	3.7
Industry	4.8	2.7	3.0	9.4	13.7	9.3
Services	6.3	7.4	6.8	5.9	4.8	3.2
Inflation (consumer price index)	5.9	4.6	4.3	4.4	4.1	3.9
Current account balance (% of GDP)	-28.1	-34.0	-22.1	-17.6	-9.2	-6.1
Fiscal balance (% of GDP)	-7.0	-4.7	-0.2	-5.6	-7.2	-3.4
Revenues (% of GDP)	25.1	25.2	26.9	26.1	26.8	28.6
Debt (% of GDP)	118.8	116.1	109.2	109.1	127.7	129.1
Primary balance (% of GDP)	-6.8	-4.1	0.6	-3.8	-5.7	-1.8
International poverty rate (\$2.15 in 2017 PPP)^{1,2}	0.0	..	..	..	..	..
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{1,2}	0.5	0.4	0.3	0.3	0.2	0.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{1,2}	8.4	7.7	7.0	6.0	5.0	4.4
GHG emissions growth (mtCO2e)	-1.6	-1.7	-1.6	-1.6	-1.6	-1.6

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on SAR-POV harmonization, using 2022-BLSS. Actual data: 2022. Nowcast: 2023-2024. Forecasts are from 2025 to 2027.

2/ Projection using neutral distribution (2022) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

INDIA

Growth is estimated to have slowed to 6.5 percent in FY25 (2024-25). Services growth was steady, agriculture activity accelerated, but industrial growth slowed. On the demand side, growth was held back by lackluster investment. Poverty at the lower-middle income country line fell from 61.8 to 28.1 percent between 2011-12 and 2022-23 (2017 PPP). Amid heightened global uncertainty, growth is projected to reach 6.3 percent in FY26.

Key conditions and challenges

Between 2000 and 2023, India's economy expanded nearly fourfold in real terms. Rapid growth was driven by capital deepening and total factor productivity, while labor accumulation contributed marginally. Improvements in the business environment and greater participation in global trade characterized this period. While the COVID shock triggered a steep growth contraction in FY21 (-5.8 percent), growth rebounded rapidly in FY22 (9.7 percent) and remained strong over the subsequent period (averaging 7.8 percent between FY23 and FY25). As of FY25, real GDP was around 5 percent below the pre-pandemic trend level.

The extreme poverty rate decreased from 16.2 to 2.3 percent between 2011-12 and 2022-23, while the poverty rate at the lower-middle income country (LMIC) line declined by 33.7 percentage points (table footnote 2/). Free and subsidized food transfers supported poverty reduction, and the rural-urban poverty gap narrowed. The five most populous states account for 54 percent of the extremely poor. Poverty estimates will change with 2021 PPPs and new international poverty lines based on an updated reference set of national poverty lines. Given India's inflation rate

Population ¹ million	Poverty ² millions living on less than \$3.65/day
1450.9	400.8
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
67.7	112.0
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
3897.2	2686.0

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2022 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

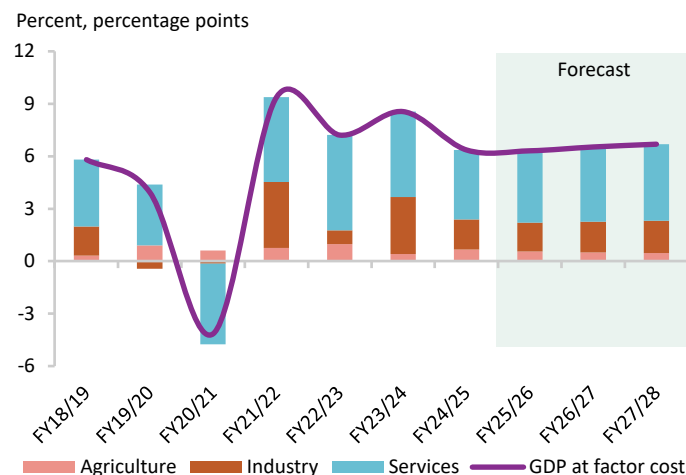
between 2017 and 2021, a revised extreme poverty line of \$3.00 would constitute a 15 percent higher threshold than \$2.15 expressed in 2021 prices and result in a 5.3 percent poverty rate in 2022-23. A new LMIC line of \$4.20 would imply a 5 percent lower threshold for poverty than \$3.65 adjusted in 2021 prices and yield a poverty rate of 23.9 percent.

The labor market is characterized by low female labor force participation (35.6 percent in 2023, compared to 47 percent for middle-income countries), high unemployment among tertiary-educated youth (29 percent), and high prevalence of unpaid work (16.5 percent of jobs), despite a notable increase in female worker-to-population ratio from 19.2 to 33.8 percent between 2017-18 and 2023-24.

Recent developments

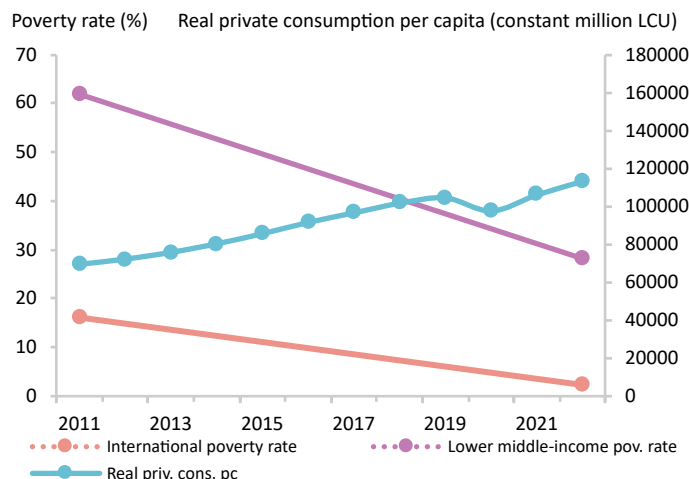
Growth is estimated to have slowed from 9.2 percent in FY24 to 6.5 percent in FY25. Agricultural activity rebounded and construction and services growth remained stable. However, industrial expansion decelerated. On the demand side, private consumption growth accelerated thanks to increasing real wages

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



Sources: National Statistics Office (NSO) and World Bank.
Note: FY18/19 refers to the fiscal year 2018-19 (April 2018-March 2019) and so on.

FIGURE 2 / Actual poverty rates and real private consumption per capita



Source: World Bank. Notes: See footnotes in table on the next page.

and the positive rural outlook, but investment growth decelerated owing to delays in public infrastructure spending and weak private investment.

Since 2021-22, employment has grown faster than the working-age population (table footnote 1/). Recent data indicate a reversal of pandemic era urban-to-rural migration, with rural male workers moving back to urban areas for work, while rural female employment in agriculture increased.

Headline inflation fell to 3.6 percent y-o-y in February 2025, thanks to lower food and fuel prices. With this additional headroom and below-potential growth, the RBI's Monetary Policy Committee reduced the policy rate twice by 25 basis points, to 6.25 percent in February 2025 and 6.0 percent in April.

The general government's fiscal deficit is estimated to have narrowed to 7.6 percent of GDP in FY25, from 8.4 percent in FY24. This was mainly thanks to consolidation at the central level, driven by strong tax revenue growth and a decline in current expenditure as a share of GDP. As a result, public debt is estimated to have declined from 81.8 percent of GDP in FY24 to 81.2 percent in FY25. The current account deficit remained stable at 0.7 percent of GDP in FY25. A modest widening of the merchandise trade deficit was offset by buoyant services exports. Net FDI increased to around 1 percent of GDP in FY25, while net foreign portfolio investment declined to 0.2 percent of GDP (from 1.2 percent in FY24) as portfolios were rebalanced toward China and the US. As a result, foreign exchange reserves fell from US\$ 646.4 billion at end-FY24 to US\$ 638.6 billion in February 2025 (remaining at around 11 months of import cover).

Outlook

Growth is expected to reach 6.3 percent in FY26, lower than previously anticipated. This delayed recovery toward potential reflects heightened global uncertainty and its expected negative impact on domestic investment and global growth. On the one hand, private consumption should benefit from easing inflation (further supported by lower commodity prices), recent income tax cuts, and good agricultural prospects. However, overall investment growth is likely to be held back by elevated uncertainty. Shifts in trade policy and the anticipated global economic slowdown are also expected to reduce external demand for India's goods and services.

Headline inflation is projected to converge to the RBI's target of 4 percent over the medium term, mainly thanks to slower growth in food prices and benign commodity prices. The overall fiscal deficit is projected to decline gradually, with robust revenue growth, continued consolidation in current spending, and capital spending stabilizing as a share of GDP. The public debt-to-GDP ratio is expected to fall below 80 percent by FY28. The current account deficit is expected to average around 1.2 percent of GDP over FY26-28 and remain adequately financed by capital inflows. Foreign exchange reserves are projected to remain stable at around 16 percent of GDP.

Growth should gradually converge back to potential over FY27-28 assuming the current global uncertainties are resolved in an orderly fashion. The outlook, however, is subject to significant downside risks, as policy shifts may continue to unfold globally. Elevated trade tensions would dampen demand for India's exports and further delay the recovery in investment.

Recent history and projections

	2022/23	2023/24	2024/25e	2025/26f	2026/27f	2027/28f
Real GDP growth, at constant market prices	7.6	9.2	6.5	6.3	6.5	6.7
Private consumption	7.5	5.6	7.6	7.1	7.0	7.0
Government consumption	4.3	8.1	2.4	6.2	5.7	6.0
Gross fixed capital investment	8.4	8.8	6.5	6.6	6.8	6.8
Exports, goods and services	10.3	2.2	7.1	6.0	6.5	7.1
Imports, goods and services	8.9	13.8	-1.1	8.3	7.5	7.5
Real GDP growth, at constant factor prices	7.2	8.6	6.4	6.3	6.5	6.7
Agriculture	6.3	2.7	4.6	3.9	3.5	3.5
Industry	2.5	10.8	5.6	5.4	5.8	6.1
Services	10.3	9.0	7.3	7.5	7.7	7.8
Employment rate (% of working-age population, 15 years+)¹	51.8	53.6	53.5	53.4	53.4	53.4
Inflation (consumer price index)	6.7	5.4	4.5	4.1	4.0	4.0
Current account balance (% of GDP)	-2.0	-0.7	-0.7	-1.1	-1.2	-1.2
Net foreign direct investment inflow (% of GDP)	0.8	0.3	0.3	0.5	1.0	1.2
Fiscal balance (% of GDP)	-9.6	-8.4	-7.6	-7.2	-7.0	-6.9
Revenues (% of GDP)	21.5	21.4	22.0	21.9	22.1	22.0
Debt (% of GDP)	82.7	81.8	82.0	81.3	80.4	79.4
Primary balance (% of GDP)	-4.4	-3.2	-2.3	-1.9	-1.7	-1.6
International poverty rate (\$2.15 in 2017 PPP)²	2.3	..	..	..	..	..
Lower middle-income poverty rate (\$3.65 in 2017 PPP)²	28.1	..	..	..	..	..
GHG emissions growth (mtCO₂e)	4.1	3.3	2.7	3.2	2.9	3.0

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ These estimates are based on the current weekly activity status in the Periodic Labour Force Surveys until 2023-24. The current weekly status (7-day recall) is aligned with ILO recommendations.

2/ Calculations based on the 2011-12 Consumption Expenditure Survey (CES) and the 2022-23 Household Consumption Expenditure Survey (HCES), using the modified mixed reference period and a spatially and intertemporally deflated welfare aggregate. The estimates in this brief will change due to a revision of international poverty lines and the adoption of 2021 PPPs.

MALDIVES

Economic growth is expected to remain positive over the medium term driven by tourism. Substantial fiscal and external imbalances continue to present rising liquidity and solvency concerns. Maintaining economic stability requires significant fiscal consolidation, while protecting the poor and vulnerable from declining welfare. The forecast is subject to heightened downside risks due to global trade uncertainties.

Key conditions and challenges

Tourism represents about 21 percent of GDP directly and continues to bolster economic activity. Tourist arrivals have increased significantly in recent years, with China, Russia, and Western Europe the leading markets. Spending per tourist has been moderating. Domestic employment sources are vulnerable to economic and fiscal shocks: 40 percent of employment is informal, gender gaps are persistent, and formal sector employment is dominated by the public sector. Only a third of resort island employees are Maldivian.

Substantial increases in government spending, including for subsidies and capital expenditures, and a reliance on non-concessional borrowing in the last decade have led to heightened fiscal and external vulnerabilities. High levels of subsidies have, nevertheless, contributed notably to supporting the budgets of vulnerable households.

The government announced a homegrown fiscal adjustment reform agenda in early 2024, focused on reducing non-targeted subsidies and replacing these with targeted transfers, rationalizing

Population ¹ thousand	Poverty ² thousands living on less than \$6.85/day
527.8	18.9
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
80.8	97.5
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
7.0	13292.9

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2019 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

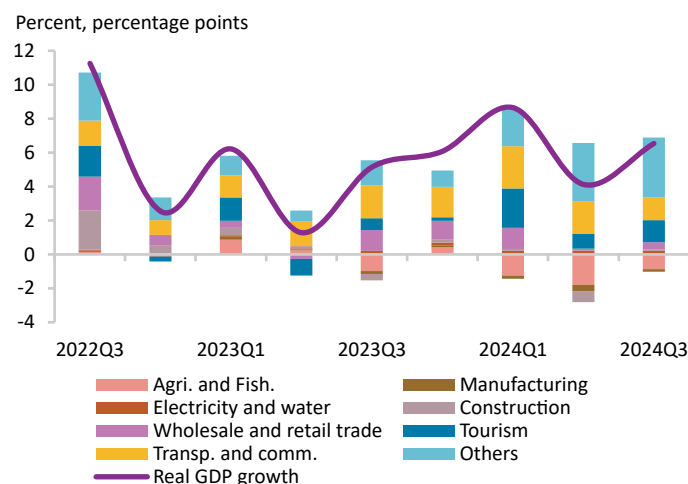
capital spending, reforming state-owned enterprises and reducing rising public health spending. Delay in implementation of these reforms has led to increase in fiscal and external deficits, elevated public debt and declining foreign exchange reserves. This has also raised concerns regarding the financial health of certain sectors in the real economy.

Recent developments

Tourist arrivals increased by 8.9 percent (y-o-y) and reached an all-time high of 2.05 million in 2024. Real GDP is estimated to have grown by 5.5 percent (y-o-y) in 2024 due to robust performance in tourism and related services, bringing poverty back below pre-pandemic levels.

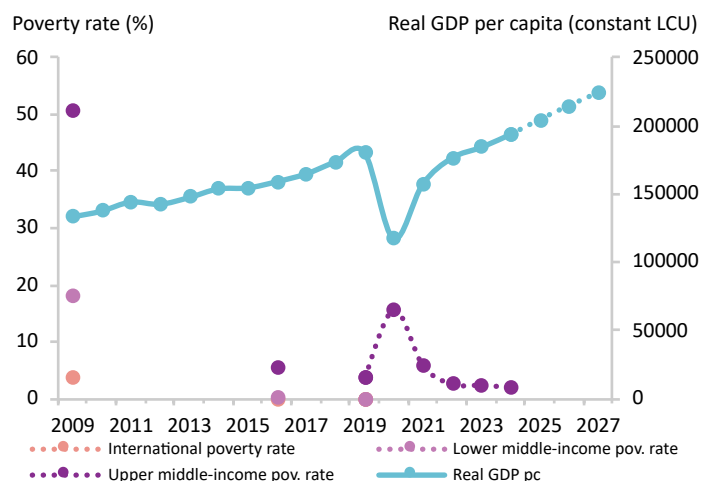
Overall headline inflation remained low at 1.4 percent (y-o-y) in 2024 reflecting the continued provision of subsidies on a wide range of food and non-food items. Inflation has, however, picked up in recent months – to 4.1 and 4.8 percent (y-o-y) in November and December—driven by a rapid increase in tobacco, restaurant and accommodation prices. Food price inflation has also been elevated, reaching an average of 6.6 percent (y-o-y) in 2024, posing

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



Source: World Bank.

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



Source: World Bank. Notes: See footnotes in table on the next page.

concerns as poor and vulnerable households spend more than a third of their budget on food.

Driven by a 50 percent (y-o-y) decline in fish exports and 4.0 percent (y-o-y) growth in goods imports, the trade deficit widened from US\$3.1 billion in 2023 to US\$3.3 billion in 2024. High import costs and external debt repayments have put significant pressure on official reserves, which fell to US\$371.2 million in September 2024 (0.8 months of imports). Reserves subsequently recovered to US\$832.1 million (1.7 months of imports) in February 2025, with the support of a US\$400 million currency swap agreement signed with the Reserve Bank of India, and new FX regulations for the tourism sector. Despite recovery in official reserves, the coverage of usable reserves—compared to short-term essential imports and external debt service needs—remains low at less than one month.

The fiscal deficit is estimated to have widened to 12.3 percent of GDP in 2024 from 10.6 percent of GDP in 2023, as recurrent expenditure growth outpaced tepid revenue collection. Due to delays in subsidy reforms and rising spending on health and wages, total expenditure is estimated to have grown by 6.4 percent (y-o-y) in 2024. Capital expenditure fell by 7.8 percent (y-o-y) in the first three quarters. Revenues grew slowly at an estimated 1.0 percent (y-o-y) in 2024, primarily due to the decline in non-tax revenues.

Outlook

The completion of the new terminal at Velana International Airport is expected to support increased tourist arrivals, leading to a projected economic growth of 5.2 percent on average over the medium term.

This baseline outlook assumes limited fiscal expenditure reduction. As a result, the fiscal deficit is expected to remain elevated and only slowly narrow to 9.8 percent of GDP in 2027 assuming come back-loaded consolidation measures kick-in. With high fiscal deficits and moderation in GDP growth over the medium term, public debt is projected to rise to 135.7 percent of GDP in 2027.

Given the assumption of limited fiscal adjustment, imports are expected to remain elevated. As a result, the current account deficit is expected to remain elevated and decline marginally to 18.4 percent of GDP in 2027. High external financing requirements—including rising debt servicing obligations in 2025 and 2026—are expected to put further pressure on official reserves and jeopardize macroeconomic stability.

Risks to the outlook are significantly on the downside. Heightened global trade uncertainties and potential global economic slowdown may lead to a shock to tourism and harm the growth outlook, which would limit the scope for redistribution. Limited domestic and external financing may further worsen the liquidity and solvency situation, especially with the approaching spike in external debt repayments. These risks could affect households through reduced purchasing power, limited access to essential imports, and fewer economic opportunities. Unmitigated budget cuts may impact public employment. Rising production costs could reduce labor demand and incomes, especially in the construction sector, increasing poverty and vulnerability. Limited local food production may also heighten food insecurity. On the upside, a decline in global commodity prices could help ease pressures on the current account and inflation. An immediate and sizeable fiscal adjustment, which includes targeted mitigation measures to lessen the impact on household welfare, remains the key priority.

Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth, at constant market prices	13.8	4.7	5.5	5.7	5.3	4.7
Real GDP growth, at constant factor prices	14.3	4.6	5.5	5.7	5.3	4.7
Agriculture	6.2	3.2	-19.3	3.7	3.3	3.1
Industry	19.6	3.3	0.1	3.2	3.5	4.3
Services	14.3	4.8	7.6	6.0	5.6	4.8
Inflation (consumer price index)	2.3	2.9	1.4	4.3	3.8	2.0
Current account balance (% of GDP)	-16.9	-21.2	-20.5	-20.1	-18.9	-18.4
Net foreign direct investment inflow (% of GDP)	11.9	11.6	11.5	11.2	10.8	10.6
Fiscal balance (% of GDP)	-8.9	-10.6	-12.3	-11.8	-10.9	-9.8
Revenues (% of GDP)	30.5	33.7	31.9	33.4	33.4	32.5
Debt (% of GDP)	112.6	124.2	134.2	131.0	132.9	135.7
Primary balance (% of GDP)¹	-5.3	-6.5	-7.5	-6.8	-6.1	-4.9
Upper middle-income poverty rate (\$6.85 in 2017 PPP)²	2.7	2.5	2.2	..	..	..
GHG emissions growth (mtCO₂e)	13.2	9.0	6.6	6.5	6.5	6.3

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ The primary balance excludes interest payments received.

2/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU. Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2024. Forecasts from 2025 to 2027 are not available for Maldives given uncertainty on the poverty outlook. Poverty estimates are based on the international poverty line for upper-middle-income countries (UMIC) set at \$6.85 per person per day, in 2017 PPP. The upcoming shift to 2021 PPPs will be accompanied by a revision of the UMIC line and poverty rates will change accordingly.

NEPAL

Growth is projected to increase in FY25, driven by domestic trade, as well as higher electricity and paddy production. Poverty is expected to decline, although a significant share of the population remains vulnerable. The fiscal deficit will remain unchanged, while the current account surplus will narrow due to tepid remittance growth. Risks include global trade uncertainties and deteriorating asset quality of the domestic financial sector.

Key conditions and challenges

Nepal's economy expanded at an average annual rate of 4.2 percent from FY12 to FY23, slower than that of its peers, due to sluggish productivity and a private sector hindered by transportation syndicates, geographic vulnerabilities, and governance issues. Sluggish job creation and a high youth unemployment rate (22.7 percent) have made emigration a preferred option for many young male Nepalis, contributing to a loss of skilled workforce.

Nevertheless, remittances have been critical for growth, accounting for 23 percent of GDP, and for driving welfare improvements, despite weak economic performance and major disruptions such as the 2015 earthquake and the COVID-19 pandemic. Without remittances, over 2.6 million additional people would be classified as poor.

Human capital and access to basic services have improved, though with significant regional disparities. Nearly 94 percent of households have gained access to electricity, and substantial progress has been made in reducing the distance to public hospitals and expanding the availability of paved roads. However, the poorest

Population ¹ million	Poverty ² millions living on less than \$3.65/day
29.7	2.2
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
70.5	123.0
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
42.9	1446.2

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2022 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

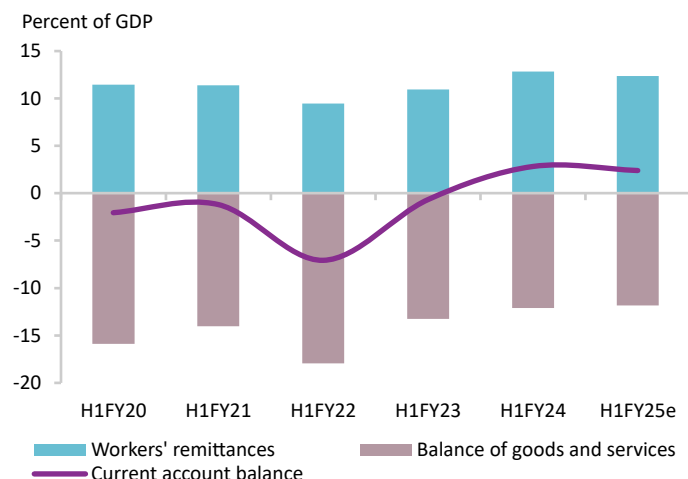
provinces, such as Sudurpashchim and Karnali, continue to lag in essential infrastructure.

Structural reform to boost private sector led growth has suffered from weak implementation, as reflected in the non-implementation of eight business law amendments passed in 2024. In March 2025, Parliament passed five ordinances (introduced in January 2025), demonstrating reform intent to support private sector-led growth. Sustained progress hinges on prioritizing and implementing planned reforms.

Recent developments

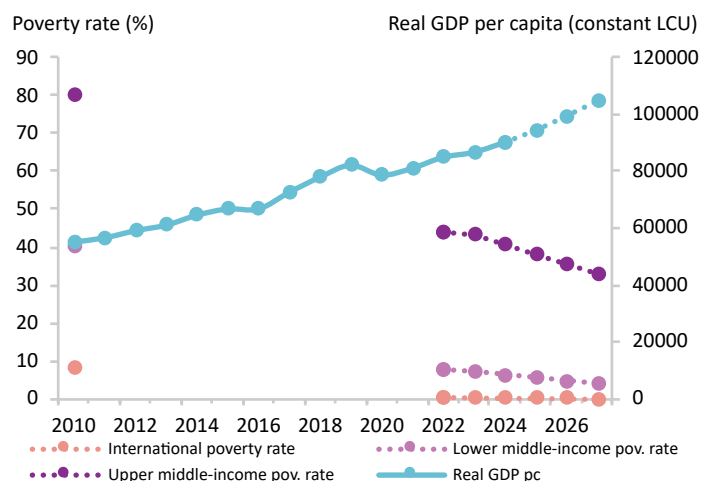
Growth increased from 4.3 percent in the first half of FY24 (H1FY24) to 4.9 percent in H1FY25, primarily due to a pickup in industry and agriculture. Industrial activity was supported by increased hydroelectric capacity. Higher paddy production, driven by a favorable monsoon amidst September 2024 floods, bolstered agriculture. However, services sector growth moderated slightly, reflecting weaker growth in financial and insurance and accommodation and food services. The financial sector continued to face subdued private credit demand and rising non-performing

FIGURE 1 / The current account surplus narrowed in H1FY25



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

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



Source: World Bank. Notes: See footnotes in table on the next page.

loans. In February 2025, Nepal was re-listed on the Financial Action Task Force (FATF) grey list for not fully implementing money laundering and terrorist financing reforms.

Average headline inflation eased from 6.5 percent in H1FY24 to 5 percent in H1FY25, mainly due to lower housing, utilities, and restaurant and hotel inflation. However, food inflation remained elevated at 7.5 percent, with vegetable prices surging into double digits, with potential negative impacts on vulnerable households.

The current account (CA) turned to a surplus of 3.9 percent of GDP in FY24, due to increased remittances. The surplus narrowed in H1FY25 due to sluggish remittance growth, reflecting the lagged impact of the decline in migrant outflows, and higher merchandise imports, partly driven by rising LPG and rice imports. This offset higher merchandise exports, aided by India's tariff hikes on refined edible oil, while Nepal benefitted from zero-duty SAFTA access. Despite a services trade deficit, foreign exchange reserves remained comfortable at 14.4 months of import cover by end-H1FY25.

The fiscal deficit narrowed to 2.5 percent of GDP in FY24 and continued declining into H1FY25, as higher revenue outpaced slower expenditure. Revenue growth was broad-based, with higher excise duty collections on alcoholic beverages. While expenditure broadly declined, capital spending remained stable at 0.9 percent of GDP.

Outlook

Growth is expected to pick up marginally from 3.9 percent in FY24 to 4.5 percent in FY25, before averaging 5.4 percent annually in

FY26 and FY27. As a result, poverty (\$3.65/day) is expected to decline to 5.5 percent, 4.8 percent, and 4 percent in 2025, 2026, and 2027, respectively. The services sector, employing about one-fifth of the local workforce, will drive growth, backed by a rebound in domestic trade. The industrial sector will benefit from expanded hydroelectric capacity. However, a growth slowdown in the financial and accommodation and food services sectors may weigh on activity, while agriculture remains resilient. Consumer inflation is forecast to average below 5 percent in the medium term, reflecting improved domestic agricultural production.

The CA surplus is projected to narrow in the medium term, due to rising imports to support economic activity. Electricity exports are expected to remain below import levels in FY25 but will increase in FY26 and FY27, with higher exports to Bangladesh and India.

The fiscal deficit is projected to stay at 2.5 percent of GDP in FY25, as lower revenues are offset by decreased expenditures, partly due to lower budget allocations for medical allowances and goods and services. However, the deficit is expected to widen to 2.9 percent of GDP by FY27, in part due to higher interest payments and capital spending. Public debt is expected to increase marginally, while remaining sustainable.

The forecast faces domestic and external risks. Global trade uncertainties could slow growth, including in Nepal's key partner countries, which may lead to reduced tourist and remittance inflows. Domestically, deteriorating financial sector asset quality, frequent bureaucratic reshuffles, FATF grey list status, and delayed capital spending reforms may weigh on growth. On the upside, lower global oil prices may ease the import bill.

Recent history and projections

	2022	2023	2024	2025f	2026f	2027f
Real GDP growth, at constant market prices	5.6	2.0	3.9	4.5	5.2	5.5
Private consumption	6.8	0.7	1.1	1.6	2.1	2.3
Government consumption	9.6	-21.2	-4.2	-6.7	4.6	7.0
Gross fixed capital investment	3.4	-10.0	17.0	13.7	14.7	13.4
Exports, goods and services	34.1	3.3	18.1	18.7	13.4	10.5
Imports, goods and services	16.4	-18.7	-2.3	8.5	10.3	9.1
Real GDP growth, at constant factor prices	5.3	2.3	3.5	4.5	5.2	5.5
Agriculture	2.4	2.8	3.0	3.2	3.3	3.3
Industry	10.7	1.4	1.3	4.7	6.7	7.4
Services	5.3	2.4	4.5	5.0	5.8	6.1
Employment rate (% of working-age population, 15 years+)	75.6	75.6	75.7	75.9	76.1	76.4
Inflation (consumer price index)	6.3	7.7	5.4	5.0	4.5	4.3
Current account balance (% of GDP)	-12.5	-0.9	3.9	3.6	2.8	2.4
Net foreign direct investment inflow (% of GDP)	0.4	0.1	0.1	0.2	0.2	0.3
Fiscal balance (% of GDP)	-3.2	-5.8	-2.5	-2.5	-2.8	-2.9
Revenues (% of GDP)	22.9	19.3	19.4	19.2	19.4	19.7
Debt (% of GDP)	40.5	42.9	42.7	43.2	43.3	43.4
Primary balance (% of GDP)	-2.2	-4.5	-1.0	-1.2	-1.3	-1.2
International poverty rate (\$2.15 in 2017 PPP)^{1,2}	0.4	0.3	0.2	0.2	0.2	0.1
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{1,2}	7.5	7.1	6.3	5.5	4.8	4.0
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{1,2}	44.1	43.2	40.7	38.0	35.5	32.9
GHG emissions growth (mtCO2e)	-1.0	-0.4	3.5	3.2	4.0	3.6

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on SAR-POV harmonization, using 2022-LSS-IV. Actual data: 2022. Nowcast: 2023-2024. Forecasts are from 2025 to 2027.

2/ Projection using neutral distribution (2022) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

PAKISTAN

Pakistan's economy continues to stabilize with easing inflation, improving financial conditions, and current account and primary fiscal surpluses. Despite strengthening, growth is expected to remain tepid, making job creation and poverty reduction amid high population growth challenging. Downside risks persist due to tight fiscal space, high financing needs, modest reserves, and global trade uncertainty. Reforms remain key to reviving the private sector and reducing poverty.

Key conditions and challenges

Amid the economic crisis at the start of FY24, Pakistan undertook measures to prevent a sovereign default, stabilize the currency, and curb inflation. Multilateral funding helped to bridge financing gaps and restore confidence, allowing import controls to ease. Strong agricultural growth supported economic stabilization by year-end. However, fiscal consolidation, high interest rates, double-digit inflation, and supply chain disruptions weighed on economic activity, leading to declining real labor incomes and stagnating poverty. Weak growth has carried over to H1 FY25. Downside risks remain elevated, with continued stabilization dependent on the IMF-EFF program staying on track. Domestic policy and global trade uncertainties also pose significant risks. Continued fiscal consolidation and deep structural reforms, as included in the *Prime Minister's Economic Transformation Agenda and Implementation Plan* and *Uraan Pakistan* remain critical. Trade liberalization, reducing the state's economic presence, and addressing business environment constraints are required for higher exports and real incomes, as well as better jobs, including for youth and women.

Population ¹ million	251.3	Poverty ² millions living on less than \$3.65/day	90.4
Life expectancy at birth ³ years	66.4	School enrollment ⁴ primary (% gross)	82.7
GDP ⁵ current US\$, billion	373.4	GDP per capita ⁶ current US\$	1486.2

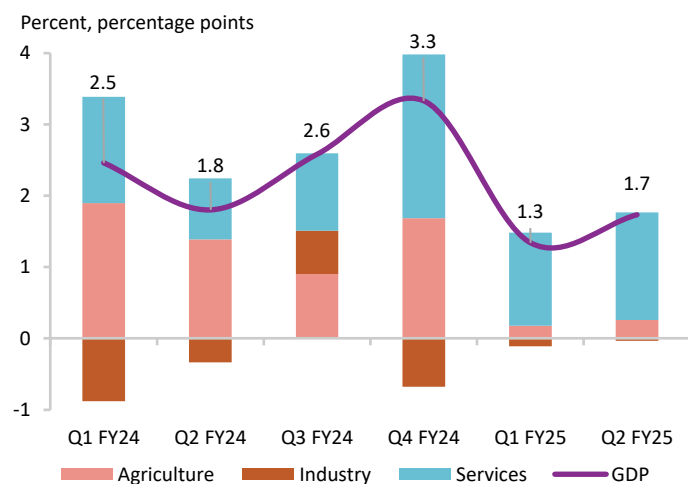
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2018 (2017 PPPs). 3/ 2022. 4/ 2022. 5/ 2024. 6/ 2024.

Recent developments

Real GDP at factor cost rose by an average of 1.5 percent y-o-y in H1 FY25, slower than the 2.1 percent expansion in H1 FY24. Agriculture, with 37 percent of the labor force, posted a muted growth of 0.9 percent, due to drought-like conditions, pest infestations, and high base effects. Industry contracted by 0.4 percent, driven by high input costs, increased taxes, and lower government development spending. Services, employing 39 percent of the workforce, grew by 2.4 percent but was weighed down by weak agricultural and industrial spillovers, and failed to offset real income declines in agriculture and manufacturing. The employment-to-population ratio remains far below potential, particularly among the youth and women.

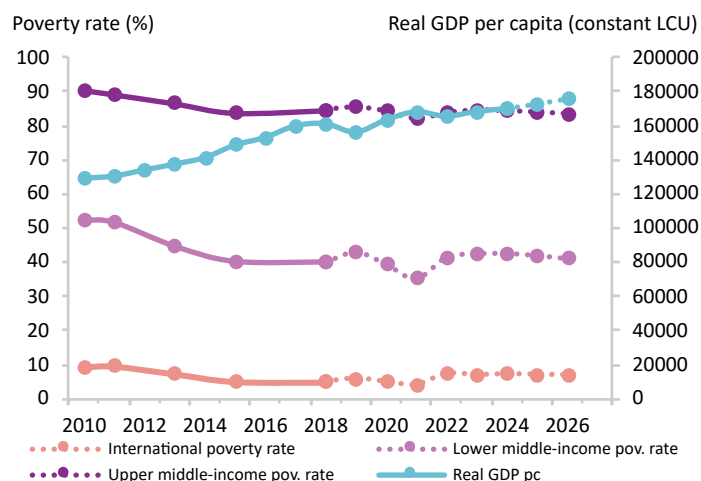
The current account posted a surplus of 0.6 percent of GDP in H1 FY25, reversing a 0.8 percent deficit in H1 FY24. Despite lower commodity prices, higher imports, driven by base effects, rising domestic demand and relaxed import controls, outpaced exports and widened the trade deficit. Investment also surged, increasing

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



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

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



Source: World Bank. Notes: See footnotes in table on the next page.

demand for imported machinery in power, textiles, and mining. Higher remittances, stemming from reduced political uncertainty and the market-determined exchange rate, more than offset the wider trade and primary income deficits. With lower external inflows and higher debt repayments, the balance of payments surplus narrowed to 0.9 percent of GDP, while gross reserves grew to \$12.9 billion at end-December 2024.

Headline inflation averaged 7.2 percent y-o-y in H1 FY25 down from 28.8 percent in H1 FY24. Food inflation declined due to adequate supply and lower global prices, while energy inflation fell with stabilizing electricity tariffs. Core inflation, though still high, moderated as transportation and production costs dropped. Nonetheless, the persistently high price levels continue to strain the most vulnerable households. With slowing inflation, the policy rate was reduced from 20.5 percent in July 2024 to 12.0 percent. Real interest rates, however, rose into the double digits.

The overall fiscal deficit narrowed to 2.8 percent of GDP in H1 FY25 from 4.7 percent in H1 FY24, as revenues outgrew expenditures. Total revenue and tax revenues rose to 18.0 and 12.3 percent of GDP, respectively, following policy changes (higher taxes on industry and excise tax rates, and reduced GST exemptions) and improved collections. A one-time high State Bank of Pakistan profits boosted non-tax revenue. Total expenditures rose to 20.8 percent of GDP in H1 FY25 primarily due to higher interest payments. Fiscal consolidation limited development spending, weakening the construction industry that employs 17 percent of the poor in daily wage jobs. Consequently, the primary fiscal surplus almost doubled to a historic high of 6.6 percent of GDP in H1 FY25.

Outlook

Real GDP growth is projected at 2.7 percent in FY25, supported by expanding private consumption and investment driven subdued inflation, lower interest rates, and recovering consumer and business confidence. Output growth is expected to pick up in FY26 and FY27 but will remain low due to continued tight monetary and fiscal policies aimed at rebuilding buffers, and mitigating risks of imbalances and global trade uncertainties. Combined with slower wage and employment increases, and high population growth, the poverty headcount for FY25 is estimated to remain broadly unchanged at 42.4 percent, close to peak levels during COVID-19, implying an additional 1.9 million poor people from FY24. However, the poverty rate is expected to decrease to 41.0 percent by FY27.

The current account is expected to record a surplus of 0.2 percent of GDP in FY25, supported by stronger remittances and lower oil prices. Still, it is projected to swing to a deficit as domestic demand recovers, driving imports higher. Due to large interest payments, the fiscal deficit is estimated to remain elevated at 6.8 percent of GDP in FY25, before gradually declining. Fiscal sustainability will remain predicated on managing interest payments, rationalizing expenditures, and strengthening revenue mobilization through expanding the tax base and reducing exemptions. Inflation is expected to bottom out at 5.0 percent in FY25, driven by base effects and lower commodity prices, before rising in the medium term due to stronger demand and additional tax measures. The planned expansion of poverty reduction programs (BISP) to 500,000 beneficiaries and inflation-adjustment of benefits could help cushion the poor from economic shocks but will be insufficient to reduce poverty markedly.

Recent history and projections

	2021/22	2022/23	2023/24e	2024/25f	2025/26f	2026/27f
Real GDP growth, at constant market prices	4.8	0.0	3.2	2.7	3.1	3.4
Private consumption	7.0	2.6	6.3	3.1	3.6	3.7
Government consumption	-1.3	-3.9	-11.8	3.9	1.1	2.1
Gross fixed capital investment	4.6	-15.5	-3.6	3.6	3.3	3.6
Exports, goods and services	5.9	3.2	-1.1	0.7	1.7	2.5
Imports, goods and services	11.0	1.8	4.1	4.4	3.6	3.7
Real GDP growth, at constant factor prices	6.2	-0.2	2.5	2.7	3.1	3.4
Agriculture	4.2	2.2	6.2	1.7	2.9	3.1
Industry	7.0	-3.8	-1.7	1.7	2.6	3.0
Services	6.7	0.0	2.3	3.3	3.4	3.7
Employment rate (% of working-age population, 15 years+)	49.8	49.7	49.7	49.7	49.7	49.7
Inflation (consumer price index)	12.2	29.2	23.4	5.0	6.0	7.0
Current account balance (% of GDP)	-4.7	-1.0	-0.5	0.2	-0.5	-1.0
Net foreign direct investment inflow (% of GDP)	0.5	0.2	0.6	0.6	0.6	0.6
Fiscal balance, including grants (% of GDP)	-7.8	-7.7	-6.8	-6.8	-6.2	-5.6
Revenues (% of GDP)	12.1	11.5	12.6	15.4	14.3	14.3
Debt (% of GDP)	80.6	81.5	72.7	74.6	77.0	76.9
Primary balance, including grants (% of GDP)	-3.1	-0.9	0.9	1.9	1.5	1.6
International poverty rate (\$2.15 in 2017 PPP)^{1,2}	4.1	7.3	7.0	7.2	7.1	6.9
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{1,2}	35.4	41.4	42.3	42.4	41.8	41.0
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{1,2}	82.0	83.6	84.4	84.2	83.8	83.4
GHG emissions growth (mtCO₂e)	4.1	2.1	4.2	4.9	4.7	4.5

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2024. Forecasts are from 2025 to 2027.

2/ Poverty projections based on microsimulations using 2018-HIES and aggregate macroeconomic indicators (see Barriga-Cabanillas et al (2024)).

SRI LANKA

The economic recovery continues, with growth, fiscal balances, and external buffers exceeding expectations. However, household incomes, employment, and non-monetary welfare remain well below pre-crisis levels, resulting in elevated poverty and food insecurity. Amid high global economic uncertainty, medium-term growth and poverty reduction prospects hinge on continued macro stability and the sustained and successful implementation of structural reforms.

Key conditions and challenges

The economy began stabilizing in mid-2023, following the country's worst post-independence economic crisis. Long-standing macroeconomic mismanagement and structural weaknesses, exacerbated by exogenous shocks, led to the depletion of foreign reserves and a public debt default in 2022. Poverty increased by 10 percentage points between 2021 and 2022 due to declining real incomes amid job losses and high inflation. Reforms under an IMF Extended Fund Facility (EFF) program helped stabilize the economy, limiting the cumulative GDP contraction to 9.5 percent between 2021 and 2023. Headline inflation eased (to 4 percent in December 2023 from 69.8 percent in September 2022), usable official reserves rose (to 2.1 months of imports by end-2023 from 0.3 months at end-2022), and the public and publicly guaranteed (PPG) debt-to-GDP ratio fell (to 111.7 percent at end-2023 from 119.2 at end-2022). However, the reforms, including utility pricing adjustments and new revenue mobilization measures, strained household budgets. Facing higher living costs, households adopted risky coping strategies, such as cutting human capital spending, borrowing more, and reducing nutritious food intake.

Population ¹ million	22.0	Poverty ² millions living on less than \$3.65/day	2.5
Life expectancy at birth ³ years	76.6	School enrollment ⁴ primary (% gross)	95.9
GDP ⁵ current US\$, billion	84.4	GDP per capita ⁶ current US\$	3828.0

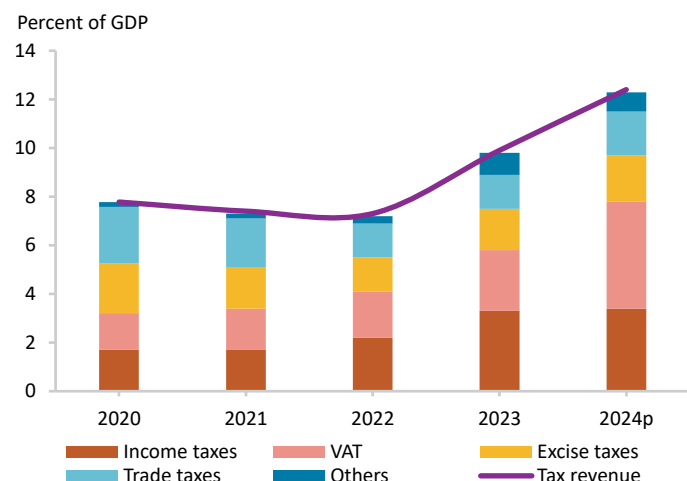
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2019 (2017 PPPs). 3/ 2022. 4/ 2022. 5/ 2023e. 6/ 2023e.

Recent developments

The economy grew by 5 percent in 2024, driven by a construction-led rebound in industry and strong performance in tourism-related services. Headline inflation, measured by the Colombo Consumer Price Index, has remained negative since September 2024 (reaching -4.2 percent, y-o-y, in February 2025) due to downward adjustments in energy prices, currency appreciation, and subdued household demand. With declining inflation, the central bank reduced policy rates by 150 basis points in 2024, totaling a 800 basis points reduction since 2023. As commercial lending rates followed suit, private credit began to recover, growing by 10.7 percent y-o-y in December 2024.

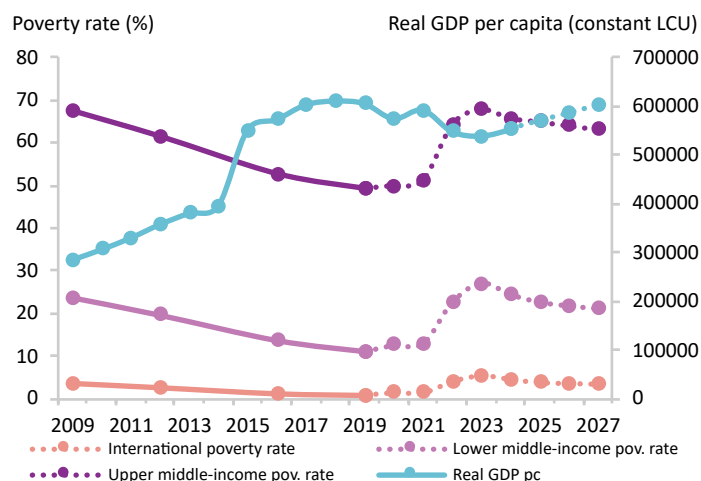
The merchandise trade deficit widened by 23.9 percent in 2024, as imports grew faster than exports. However, strong tourism revenues and remittances flows supported a current account surplus for the second consecutive year in 2024. Foreign exchange purchases by the central bank, amid the continued debt service suspension, and inflows from development partners, bolstered usable reserves to 3.0 months of imports. This enabled the government to remove all remaining import restrictions, primarily on vehicles. The

FIGURE 1 / Composition of tax revenue as a share of GDP



Sources: Central Bank of Sri Lanka, Budget Speech 2025, Department of Census and Statistics, and World Bank staff calculations.

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



Source: World Bank. Notes: See footnotes in table on the next page.

rupee gained a cumulative 19.4 percent against the US dollar compared to end-2022.

The primary surplus reached 2.2 percent of GDP in 2024, surpassing the IMF EFF's 2024 target (at Board approval) of 0.8 percent. This was driven by higher VAT revenues (due to increased rates and the removal of exemptions) and under-execution of the capital budget. Alongside growth and currency appreciation, the improved primary balance helped reduce estimated PPG debt to 102.4 percent of GDP at end-2024. External debt restructuring is nearly concluded, with nearly 98 percent of Eurobonds exchanged and strong progress made towards finalizing bilateral agreements with official creditors. The IMF EFF's third review was completed in March 2025.

Growth resulted in a poverty reduction of 2.7 percentage points in 2024, as 60 percent of the poorest quintile work in industry and services. However, the economic recovery has not translated into widespread welfare improvements, with poverty (below \$3.65 per person per day, 2017 PPP), still at 24.5 percent, twice the 2019 level. Despite easing inflation, food prices more than doubled between 2021 and 2024, contributing to elevated malnutrition and food insecurity. The employment ratio declined from 46.0 percent in Q2 2023 to 45.5 percent in Q2 2024 (y-o-y), and real wages remain below their 2019 levels. Limited economic opportunities are driving emigration, with applications to the Foreign Employment Bureau increasing y-o-y in the first nine months of 2024.

Outlook

Despite the recovery in 2024, medium-term growth is expected to remain modest, reflecting the scarring effects of the crisis, structural impediments to growth, and global economic uncertainties.

The current account is expected to be in deficit in 2025, as the impact from reduced exports (due to trade-related uncertainties), outweighs the impact on imports (from reduced demand and global oil prices). With a revival in domestic demand, inflation is projected to turn positive by mid-2025 but remain below the central bank's medium-term target. Despite continued fiscal consolidation, financing pressures will persist due to large T-bill refinancing needs. Reflecting the crisis's continued impact, over a third of the population is expected to be in, or at the risk of falling into, poverty in 2025.

Although fiscal and external buffers are being rebuilt, downside risks remain exceptionally high. Moderating global growth, high global interest rates, and unprecedented trade policy uncertainty are likely to constrain capital inflows, deter investment, and weaken export demand, resulting in potential trade-related job losses. Further regressive indirect taxes could worsen the poverty outlook. The increased prevalence of stunting and malnutrition raises concerns about long-term human capital development and intergenerational poverty transmission. Limited economic opportunities and consequent increased outmigration of skilled workers pose concerns for the recovery, and the quality of public service delivery, particularly in an aging society.

To ensure stronger medium-term growth, it is critical to maintain policy consistency and pursue structural reforms that support macro-fiscal-financial stability, enhance competitiveness, and attract fresh, non-debt-creating capital inflows. Developing human capital by improving education and health service delivery standards is equally critical. Strengthening the social protection system will safeguard the most vulnerable and ensure the recovery's benefits are inclusive and broad-based.

Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth, at constant market prices¹	-7.3	-2.3	5.0	3.5	3.1	3.1
Private consumption	-0.5	-1.6	3.2	3.3	3.4	3.4
Government consumption	1.4	-5.4	-0.8	1.6	1.1	1.0
Gross fixed capital investment	-24.5	-8.4	18.8	7.0	4.0	4.7
Exports, goods and services	10.2	12.0	5.6	-6.3	2.1	2.4
Imports, goods and services	-19.9	6.5	11.1	-4.1	3.2	4.3
Real GDP growth, at constant factor prices	-7.0	-2.6	4.6	3.5	3.1	3.1
Agriculture	-4.1	1.6	1.2	1.5	1.8	1.9
Industry	-16.0	-9.2	11.0	5.9	4.1	3.3
Services	-2.6	-0.2	2.4	2.6	2.8	3.1
Employment rate (% of working-age population, 15 years+)	47.5	46.3	45.2	45.2	45.2	45.2
Inflation (consumer price index)	46.4	17.4	1.2	2.5	3.2	4.5
Net foreign direct investment inflow (% of GDP)	1.2	0.8	0.9	0.5	0.6	0.7
International poverty rate (\$2.15 in 2017 PPP)²	4.1	5.4	4.6	3.9	3.7	3.5
Lower middle-income poverty rate (\$3.65 in 2017 PPP)²	22.7	27.1	24.5	22.7	21.9	21.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP)²	64.4	68.0	65.9	65.0	64.1	63.2
GHG emissions growth (mtCO2e)	-6.7	-3.6	5.2	5.4	5.1	4.8

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Components of GDP by expenditure for 2022-2024 are estimates, as the data published on March 18, 2025, by authorities only included GDP by production.

2/ Calculations based on SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2024. Forecasts are from 2025 to 2027.

