

Small States: *Fragile Recovery Ahead*

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Equitable Growth, Finance & Institutions

SHORT PRESENTATION

Two Questions

1 What is the state of the recovery in small states?

2 What are policy priorities for small states?

* *EMDEs = Emerging Market and Developing Economies*

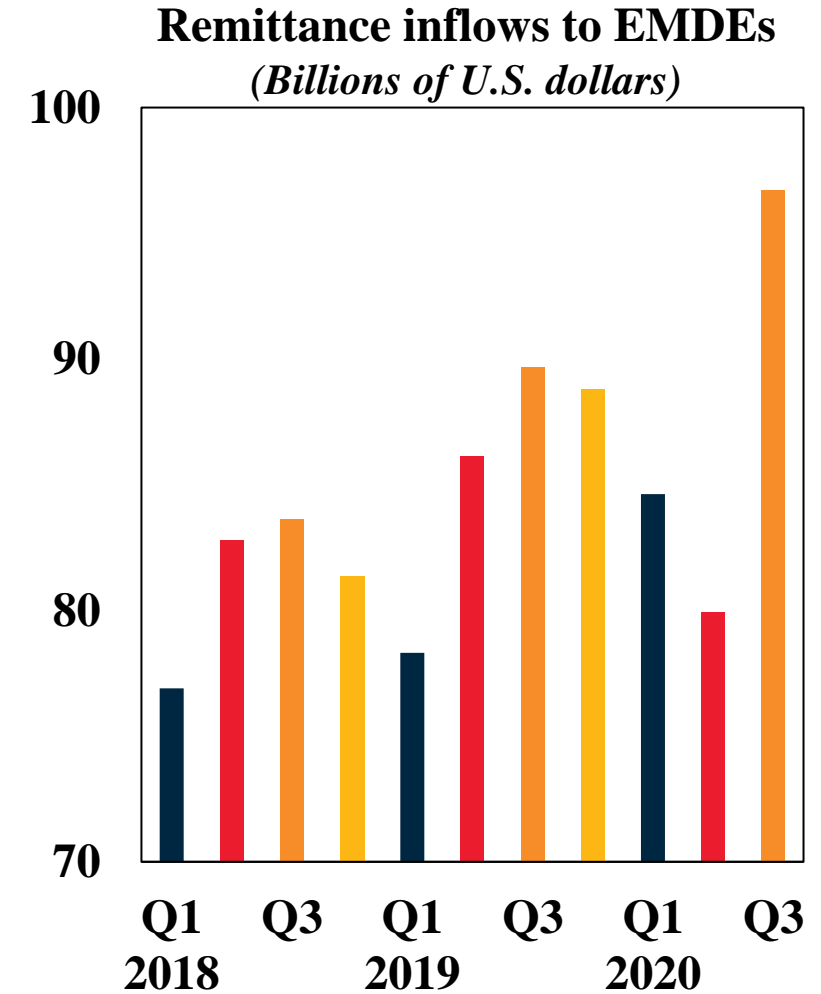
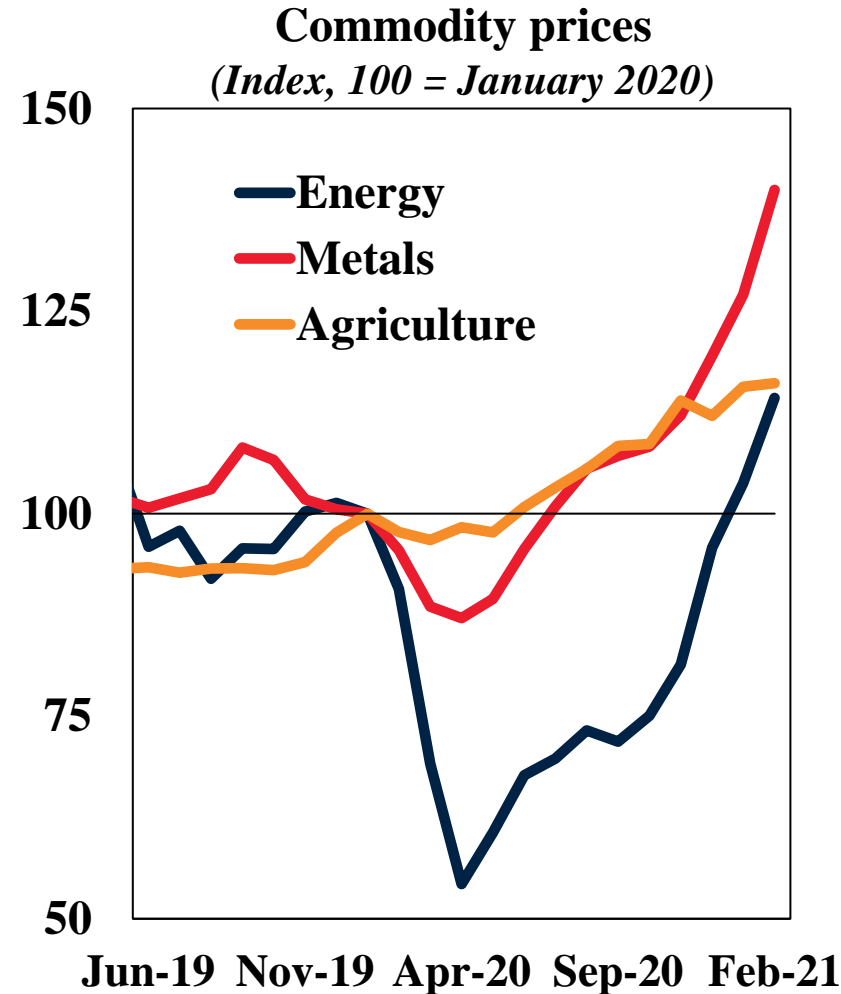
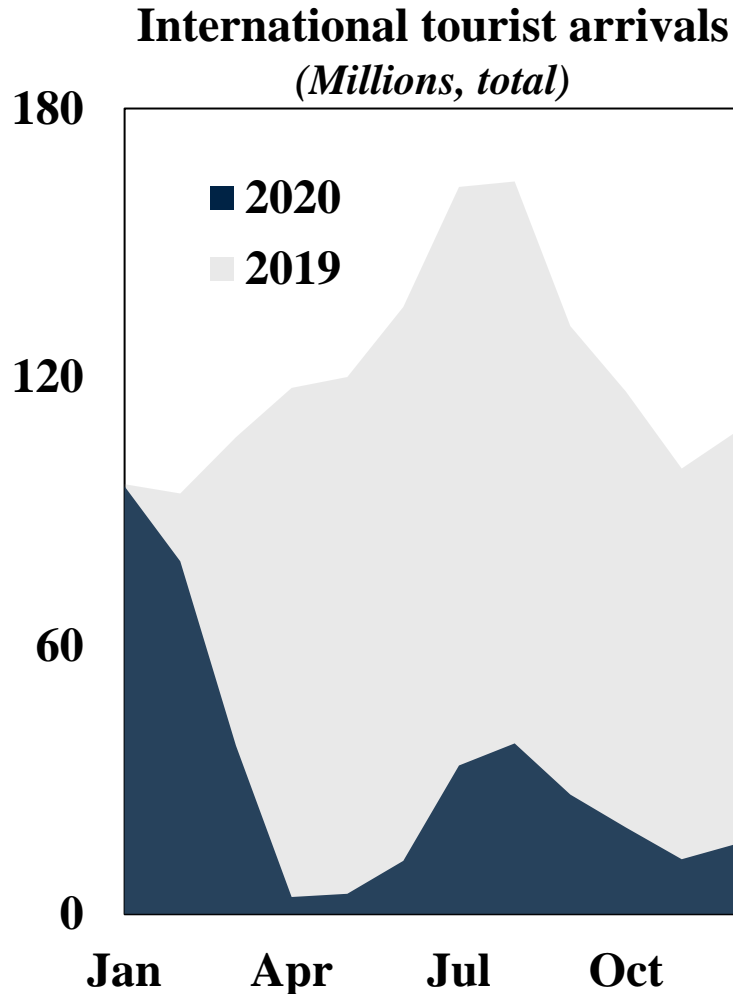
Two Questions

- 1 **What is the state of the recovery in small states?** *Years of per capita income gains erased by the pandemic; weaker growth in small states than in EMDEs in 2021.*

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Global Conditions

Tourism Still Depressed; Commodity Prices Higher; Remittances Higher

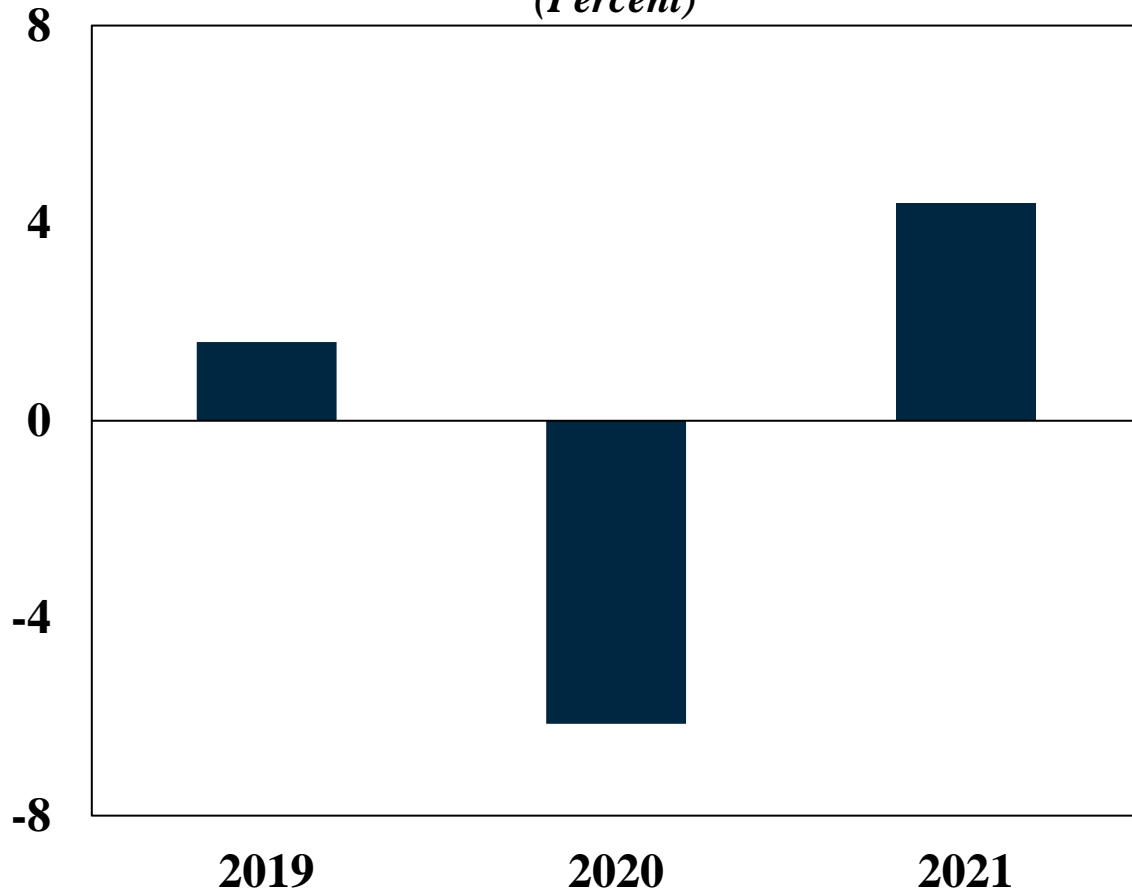


Sources: Haver Analytics, IMF, national sources, UN World Tourism Organization, World Bank.
Center Panel. Last observation is February 2021. Right Panel. Sample contains 66 EMDEs. Because remittances are seasonal, colors indicate quarters.

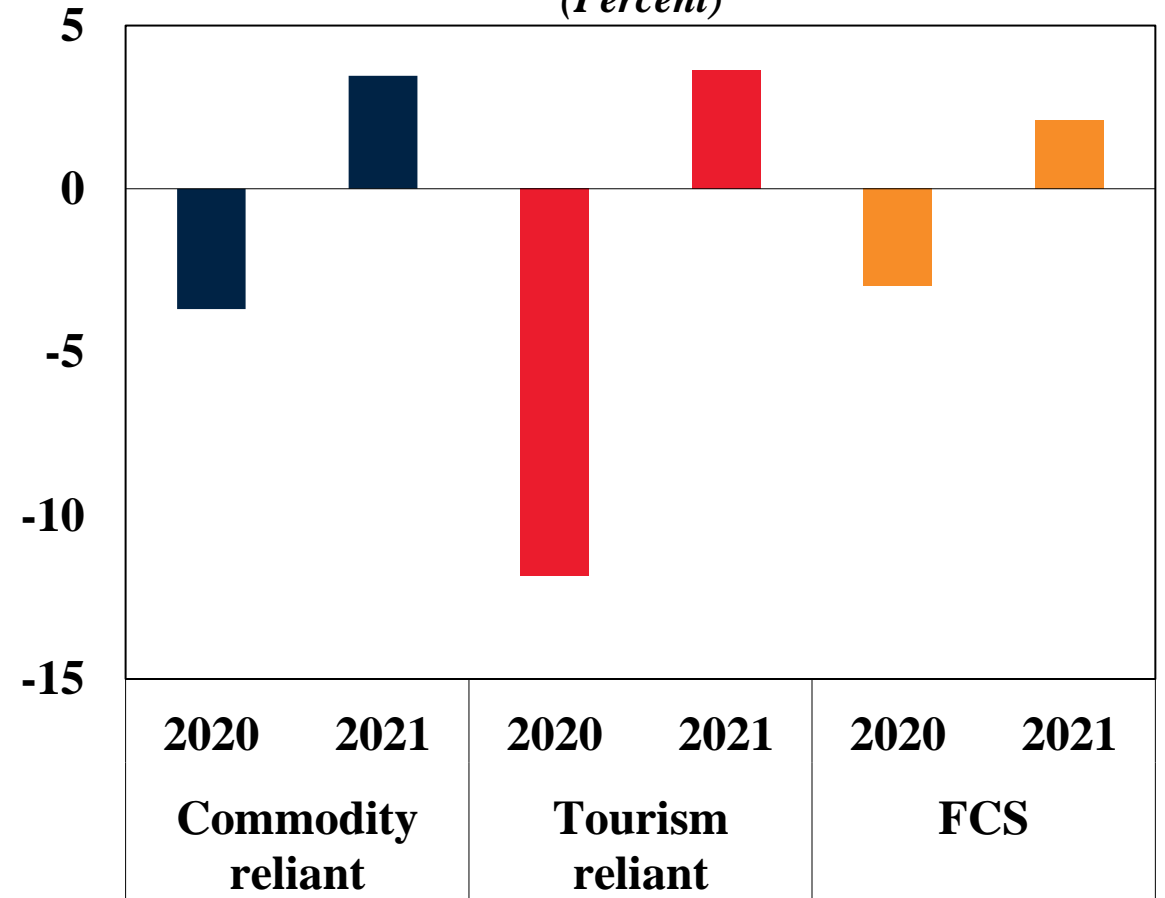
Growth in Small States

Deeper Recessions in 2020 and Softer Rebound in 2021 than in EMDEs

GDP growth forecasts in small states
(Percent)



GDP growth forecasts for small states, by subgroup
(Percent)

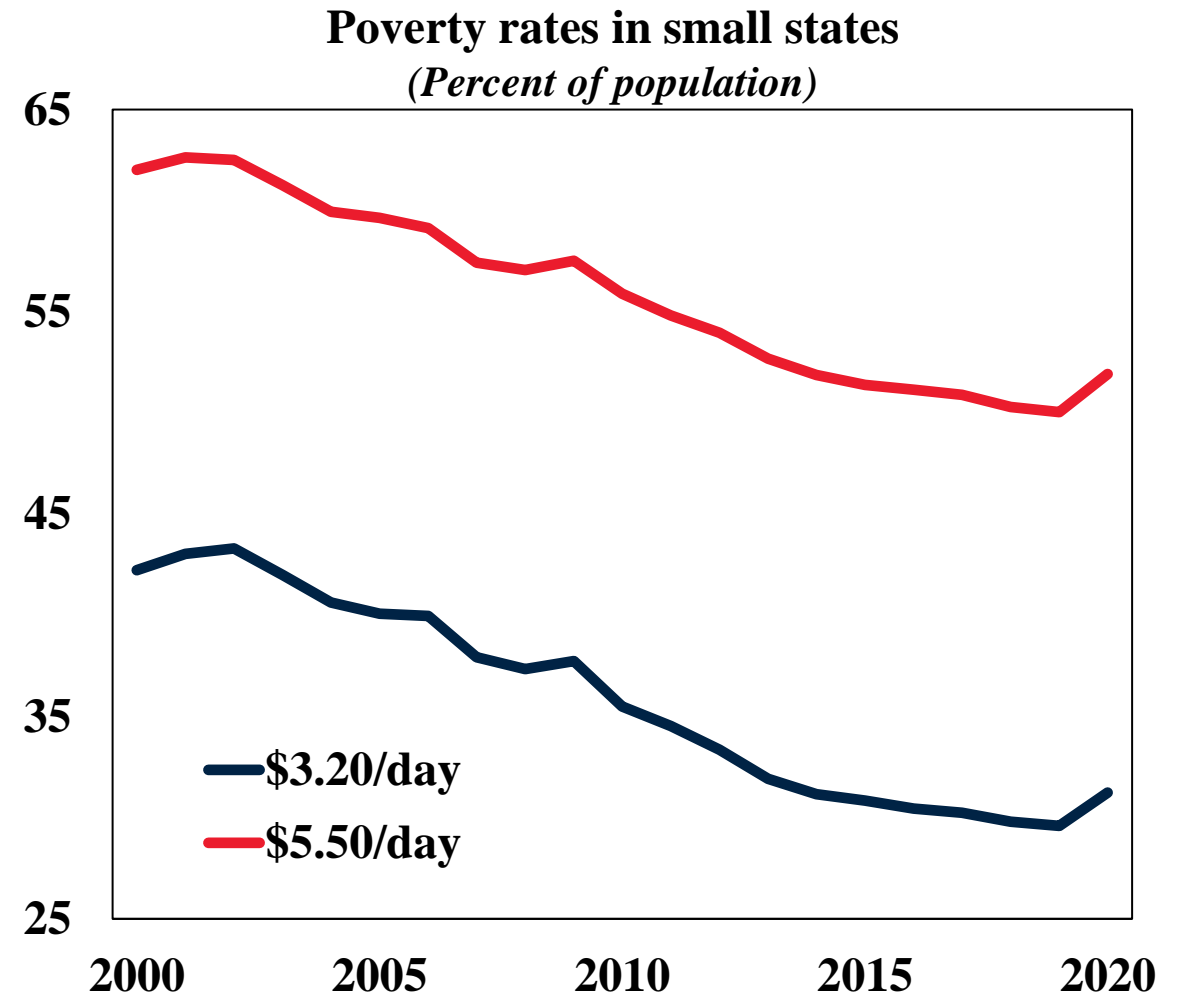
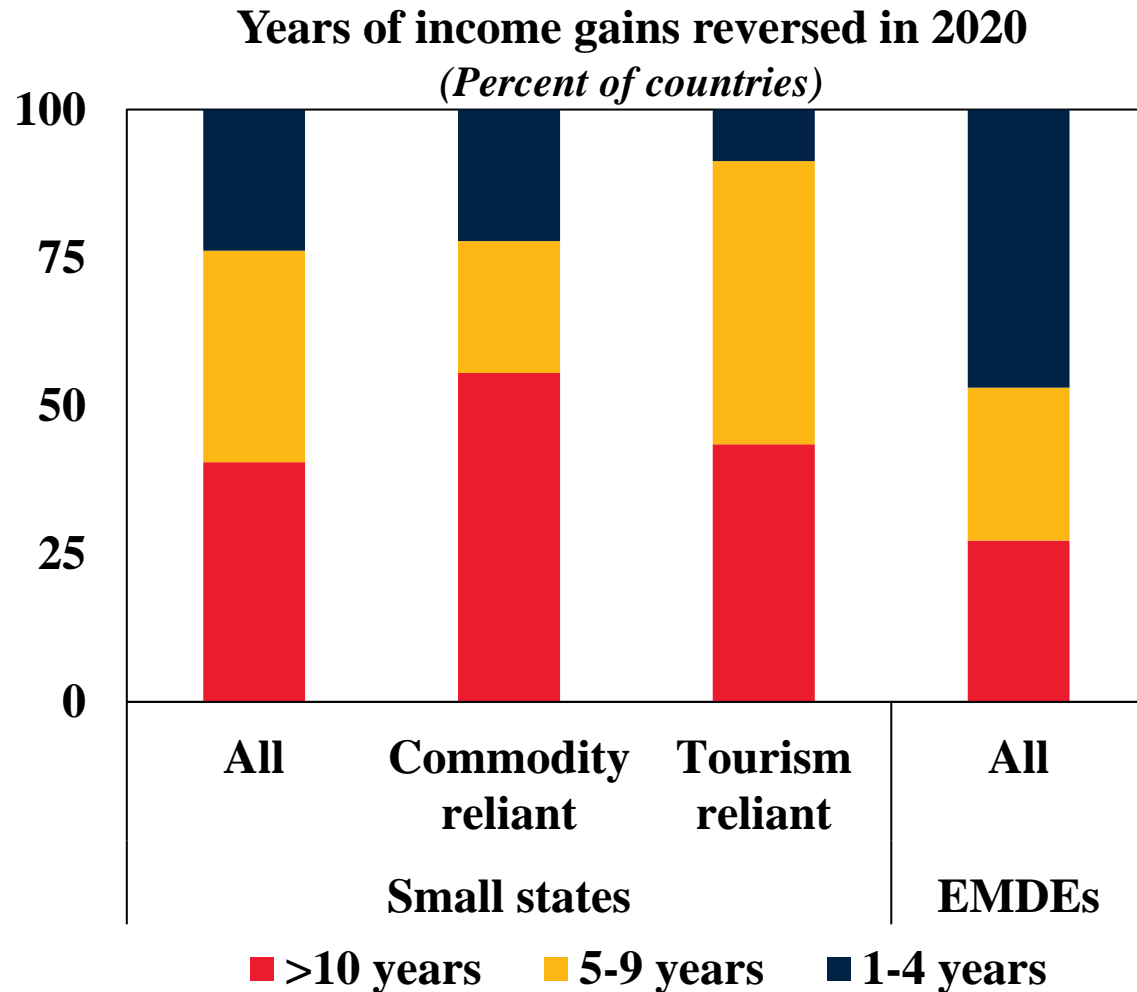


Source: World Bank.

Note: Growth for country groupings is GDP-weighted. Advanced economy small states are excluded. Left Panel. Sample includes 43 small states. Right Panel. Sample includes 20 commodity-reliant small states, 24 tourism-reliant small states, and 9 fragile and conflict-affected small states. Tourism-reliant countries are those with inbound tourism expenditure as a share of GDP in the top quartile among 146 EMDEs.

Income and Poverty in Small States

Large Income Losses; Higher Poverty



Source: World Bank.

Left Panel. The share of countries with per capita income gains reversed in 2020, by the number of years indicated. Sample includes 42 small states, including 18 commodity-reliant and 23 tourism-reliant small states, and 147 EMDEs. Right Panel. Lines show the shares of population below respective poverty lines in small states and reflect population-weighted means. Sample includes 32 small-state EMDEs covered in the World Bank's PovcalNet.

Two Questions

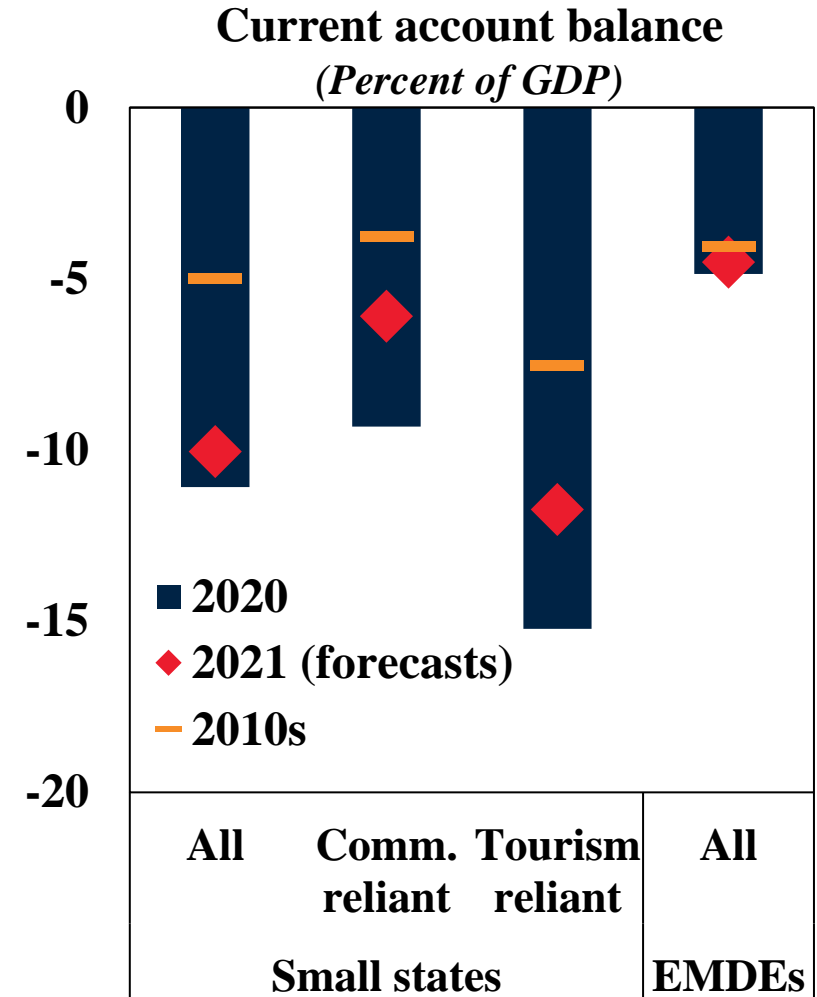
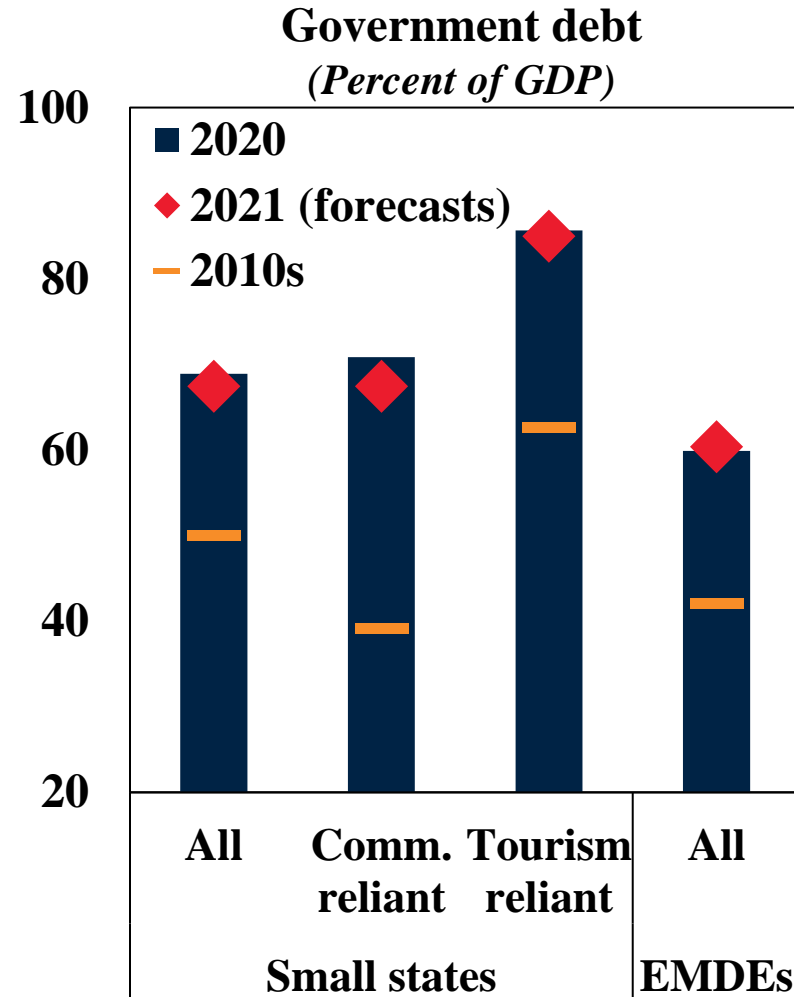
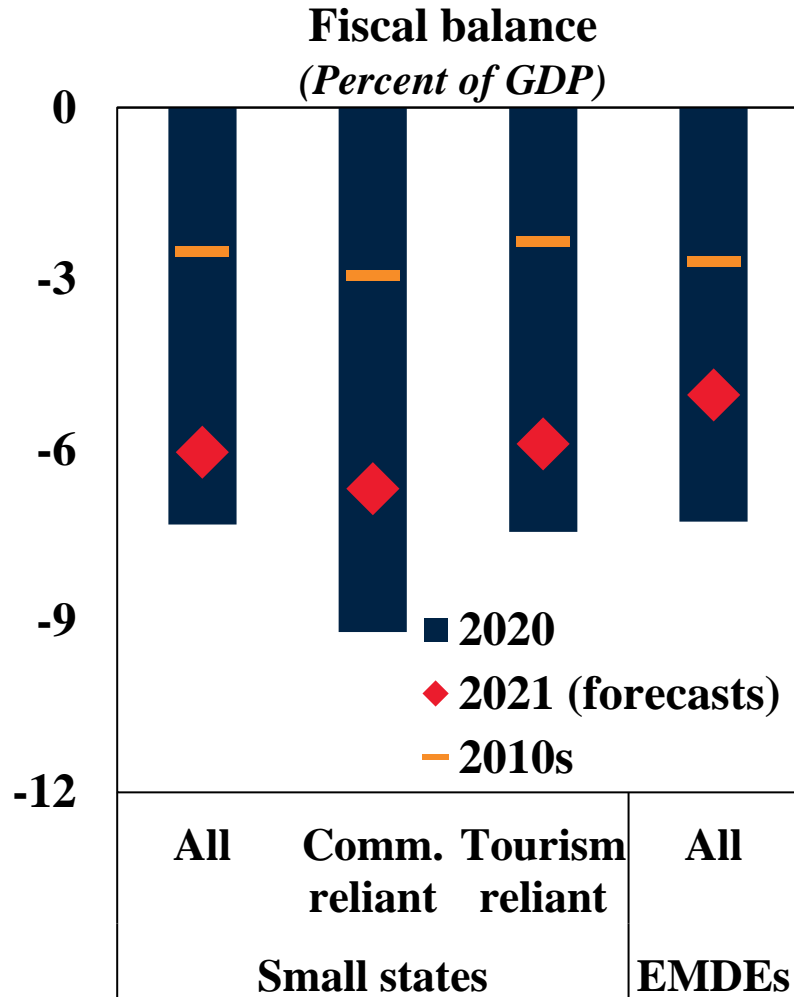
2

What are policy priorities for small states? *Protect lives threatened by the pandemic; maintain the foundations of the economy and address major risks; and set the stage for green, resilient, and inclusive development (GRID).*

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Fiscal and External Positions in Small States

Deteriorated



Sources: International Monetary Fund; Kose et al. (2017, 2020).

Note: Median across respective country groups, based on 45 small-state EMDEs, including 20 commodity-reliant and 24 tourism-reliant small states, and 155 EMDEs for fiscal balance (Left Panel), 44 small-state EMDEs, including 20 commodity-reliant and 23 tourism-reliant small states, and 154 EMDEs for government debt (Center Panel), and 45 small-state EMDEs, including 20 commodity-reliant and 24 tourism-reliant small states, and 156 EMDEs for current account balance (Right Panel).

Policy Priorities

Policies for Recovery and Resilience

Save lives threatened by the pandemic and protect the vulnerable

- Accelerate rollout of COVID-19 vaccines, taking into account country-specific challenges (logistical challenges, geographical remoteness, limited economies of scale); continue testing and contact tracing
- Support vulnerable populations with social protection measures

Maintain the foundations of the economy and the private sector

- Assist viable firms in sectors still affected by the pandemic
- Improve debt sustainability
- Preserve financial stability and rebuild external buffers

Set the stage for green, resilient, and inclusive development (GRID)

- Boost resilience to climate change and extreme weather
- Advance diversification in countries highly concentrated in a small number of sectors
- Develop innovative ways to attract investment, improve human capital, and support digital technologies
- Advance regional integration through trade
- Collaborate globally to address global challenges

The GRID Approach

Green, Resilient, and Inclusive Development

Green

- Invest in solutions that sustain natural capital, including climate, to ensure that today's decisions are resilient and do not undermine tomorrow's growth

Resilient

- Invest in risk management to prevent and prepare for climate change, pandemics, natural hazards, socioeconomic and financial shocks

Inclusive

- Invest in human capital and foster policies for inclusive growth to create jobs and tackle exclusion and inequality

Cross-cutting enablers

- *Investment in all forms of capital*
- *Mobilizing capital at scale, especially private sector*
- *Macro and structural policies, institutional strengthening, technological innovation*

WBG capacity

- *Advisory services & analytics, and IFC advisory services*
- *Investment lending, IFC loans and equity investments, MIGA guarantees*
- *Convening and coordinating international cooperation*

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