East Asia and the Pacific

Macro Poverty Outlook

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

Annual Meetings 2020

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

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East Asia and the Pacific

Annual Meetings 2020

Cambodia
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Papua New Guinea
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South Pacific Islands
Thailand
Timor-Leste
Vietnam

CAMBODIA

Table 1	2019
Population, million	16.6
GDP, current US$ billion	27.0
GDP per capita, current US$	1633.3
School enrollment, primary (% gross)[a]	107.4
Life expectancy at birth, years[a]	69.6

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

Cambodia's economy and its key growth drivers—namely construction, tourism, and merchandise exports—continue to be severely affected by the global crisis unleashed by the Covid-19 pandemic. The economy is projected to register negative growth of -2.0 percent in 2020, the sharpest decline in Cambodia's recent history, with adverse impacts on household welfare and increased poverty likely. Government fiscal intervention is unprecedented, amounting to 5 percent of GDP, alongside accommodative monetary policy. It is crucial that the authorities prepare an effective post-Covid-19 economic recovery.

Recent developments

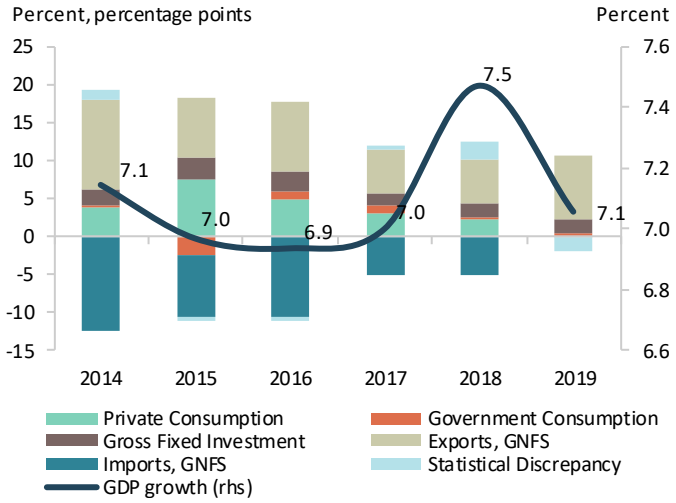
Cambodia was enjoying robust economic growth prior to the global crisis unleashed by the Covid-19 pandemic, reaching 7.1 percent real growth in 2019 (figure 1). In 2020, the pandemic has severely hit Cambodia's key growth drivers, namely the construction, tourism, and merchandise export sectors, which contributed more than 70 percent of growth and 39 percent of total paid employment in 2019. Covid-19 has effectively stalled the construction and real estate boom that relies heavily on foreign investment. Steel and cement imports in the first six months of 2020 contracted by 45.1 percent and 8.2 percent y/y, respectively, as some large development projects were put on hold. The pandemic has similarly led to contractions in Cambodia's key export sectors. Due to travel restrictions and lockdowns, Cambodia's tourism and hospitality sector has collapsed. International arrivals fell by 64.6 percent in the first six months of 2020. The global demand shock has significantly weakened Cambodia's manufacturing export sector. Exports of garment, travel goods, and footwear products fell by 7.2 percent during the first six months of 2020 (figure 2), while imported inputs of fabric sank 85.4 percent.

Rising food prices in recent months pushed up inflation, reaching 3.1 percent y/y in July 2020. Imports eased significantly, reflecting shrinking domestic demand. Passenger vehicles and motorcycles, Cambodia's key durable imports, contracted by 21.8 percent and 30.9 percent, respectively. As the decline in exports more than offset that of imports, the current account deficit widened, and is projected to reach 12.8 percent of GDP in 2020, up from 10 percent of GDP in 2019, expected to be financed by FDI inflows. Gross international reserves are projected to remain at US$19 billion in 2020 or about 7 months of imports.

Broad money growth eased, growing 12.3 percent y/y in June 2020, compared to 18.2 percent in 2019. Implementing monetary policy easing, the central bank reduced the reserve requirement ratio for six months starting in April 2020. Growth of foreign currency deposits fell to 9.2 percent in June 2020, down from 16.0 percent at the end of 2019, reflecting easing of capital inflows. As demand for credit weakened, growth of depository corporation credit to the private sector eased to 18.9 percent y/y in June 2020, down from 27.0 percent in 2019.

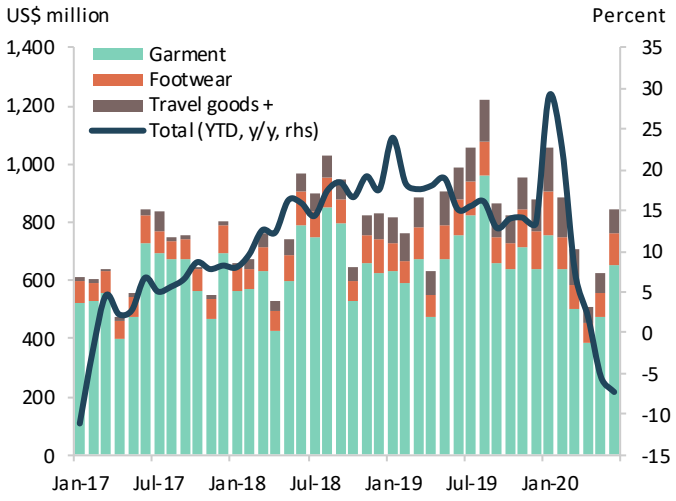
The economic and social costs of the pandemic are being felt widely. A May 2020 survey revealed that 12 percent of the 700 household respondents had stopped working and 82 percent of non-farming family businesses experienced income reductions due to Covid-19– much higher than that of wage employment. As a result, six in 10 households reported reductions in food and nonfood consumption. Firms are also facing economic hardship. A June 2020 survey found that 18 percent of the 537 firm respondents had either temporarily or permanently closed because of Covid-19. This has resulted in adverse impacts on welfare, especially the

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



Sources: Cambodian authorities and World Bank staff estimates.

FIGURE 2 Cambodia / Cambodia garment, footwear and travel good exports



Sources: Cambodian authorities; note: Travel goods + denotes travel goods and other textile products. RHS = right-hand scale. YTD = year to date. yiy = year on year.

poor and vulnerable who have fewer mechanisms to cope with shocks.

Government intervention is unprecedented, amounting up to 5 percent of GDP. A broad package of support includes health related spending and income assistance, equity injections and guarantees on loans, and development spending and tax relief. The government's large fiscal support program is expected to turn the budget from a surplus into a deficit. In 2019, revenue (including grants) peaked, estimated to have reached 26.3 percent of GDP, driven mainly by rising revenue from taxes on goods and services (including imports) and direct taxes. Government outlays also peaked, reaching 25.5 percent of GDP in 2019, driven mainly by a rising wage bill. Overall the fiscal balance is estimated to have been in a surplus of 0.8 percent of GDP in 2019. During the first half of 2020, central government domestic revenue dipped by 2.9 percent (y/y) while central government expenditures expanded quickly to 16.8 percent (y/y). This year's overall fiscal deficit is projected to reach a record high of 10.5 percent of GDP, half of which is expected to be financed by government savings that stood at 20.2 percent of GDP in 2019. The unprecedented expansion of social assistance will substantially (though not fully) mitigate the pandemic's impact on the poor and near-poor.

Outlook

As global economic crisis caused by Covid -19 continues, the economy in 2020 is projected to contract by 2.0 percent (table 2), the sharpest decline in Cambodia's recent history. The partial withdrawal of the EU's "Everything But Arms" (EBA) trade preferential treatment has also become effective since August 12, 2020, affecting approximately 20 percent of Cambodia's exports to the EU.

With easing of social distancing measures, Cambodia's domestic economic activity has been gradually returning to normalcy. Domestic demand including domestic travel and tourism is picking up. Cambodia and China announced the conclusion of negotiations of the Cambodia-China Free Trade Agreement (CCFTA) that will likely enter into force in 2021. During the first half of 2020, total approved FDI project value rose by 40 percent, compared to the same period last year.

Risks and challenges

Cambodia's unfavorable growth outlook alongside disruptions to jobs, lower household income and higher food prices is likely to increase poverty. Reduced human capital accumulation is also a risk as school closures lowered access to educational activities and worsened learning outcomes.

Significant uncertainty remains in Cambodia's growth outlook. Downside risks include a local covid-19 outbreak, deeper and prolonged decline in tourist arrivals linked to a prolonged global outbreak and the speed with which a vaccine becomes widely available, as well as increased global trade tensions and protectionism. An extension of the social assistance scheme beyond the currently planned timeframe would put significant pressure on the budget. It is crucial that the authorities are well prepared for post-COVID-19 economic recovery. Close attention may now focus on potential regional investment and trade expansion arising from the CCFTA. There is an urgent need to further accommodate domestic and foreign investment, boosting domestic value addition, and generating more jobs. Strengthening domestic demand, protecting the local consumer purchasing power amid external shocks of public health and/or natural disasters are the way to move forward. It is imperative to continue to closely monitor vulnerabilities arising from a prolonged construction and property boom and the increase of credit provided to the construction/real estate sector.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	7.0	7.5	7.1	-2.0	4.3	5.2
Private Consumption	3.7	3.0	7.0	-1.4	3.4	4.7
Government Consumption	23.5	5.1	10.0	6.7	8.6	5.8
Gross Fixed Capital Investment	6.1	6.1	6.9	6.3	7.3	7.1
Exports, Goods and Services	5.3	5.3	7.8	-12.6	5.4	5.4
Imports, Goods and Services	4.1	4.1	6.0	-8.9	5.5	5.4
Real GDP growth, at constant factor prices	6.8	7.4	6.8	-2.0	4.3	5.2
Agriculture	1.7	1.1	-0.5	1.5	0.9	1.0
Industry	9.7	11.6	11.3	-1.2	6.9	7.1
Services	7.0	6.8	6.2	-4.3	3.4	5.1
Inflation (Consumer Price Index)	3.3	3.1	3.2	3.0	2.5	2.5
Current Account Balance (% of GDP)	-9.7	-8.9	-10.0	-12.8	-13.1	-12.4
Net Foreign Direct Investment (% of GDP)	12.1	12.6	13.2	7.7	10.4	9.5
Fiscal Balance (% of GDP)	-0.8	0.4	0.8	-10.5	-10.3	-4.1
Debt (% of GDP)	30.3	30.0	30.0	30.3	32.0	30.1
Primary Balance (% of GDP)	-0.4	0.8	1.2	-10.1	-9.8	-3.6

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

CENTRAL PACIFIC ISLANDS

Table 1	2019
Population, million	
Kiribati	0.12
Nauru	0.01
Tuvalu	0.01
GDP, US$, billion	
Kiribati	0.19
Nauru	0.12
Tuvalu	0.05
GDP per capita, current US$	
Kiribati	1625
Nauru	9516
Tuvalu	4104

Sources: WDI, World Bank staff estimates.

The Central Pacific countries – Kiribati, Nauru and Tuvalu – have been less severely affected by the pandemic than their tourism-dependent neighbors. Nonetheless a slowdown in donor-driven construction activity and visitor arrivals is still expected to result in economic contractions in 2020, of about 1 percent in Tuvalu and 2 percent in Kiribati and Nauru.

Recent developments

Kiribati is expected to have experienced about 2 percent growth in 2019, supported by government spending, including donor-financed construction projects. However, a GDP contraction of about 2 percent is expected in 2020 due to the impacts of COVID-19. On the supply side, border closures have hampered donor-financed project activity and also caused some disruptions to cargo imports for the retail sector. Tuna loin exports have also been affected by a lack of international air freight capacity and weak international demand for restaurant-grade tuna. Lack of expatriate demand has severely impacted on hotels and restaurants, while quarantine measures have also affected demand for fisheries transshipment services. The Government of Kiribati (GOK) has introduced a COVID-19 response package worth 5 percent of GDP, including unemployment relief to limit poverty impacts, support for affected state-owned enterprises, and plans for a strategic cargo stockpile to manage the risks of import disruptions on food and fuel security.

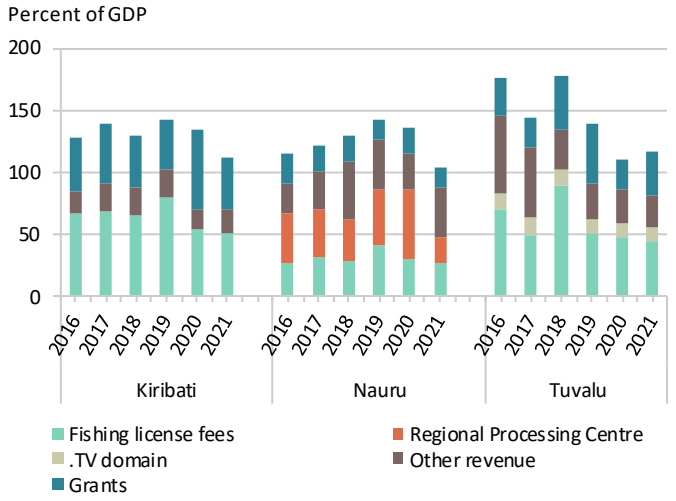
The fiscal balance reached an 11 percent of GDP surplus in 2019, as Kiribati enjoyed record high fishing license revenues of A$210m (80 percent of GDP). This helped further build the substantial cash reserve buffer to 75 percent of GDP, while also funding major outlays on an ambitious expansion project for the national airline. Fisheries revenues appear to have held up relatively well in 2020, helped by the fact that most fishing licenses for the year were already sold prior to the onset of Covid-19. The sovereign wealth fund, the Revenue Equalisation Reserve Fund (RERF), has also recovered in value to 430 percent of GDP, after the global equities' correction earlier in the year.

Nauru has experienced volatile growth in recent years, due to fluctuations in activity associated with Australia's Regional Processing Centre (RPC) for asylum-seekers, phosphate mining, and fishing. After growing at 1 percent in FY19, GDP is expected to have contracted by around 2 percent in FY20. This was due mainly to the impact of COVID-19 international travel restrictions, supply-chain disruptions of construction activity, and the departure of expatriates. The government's initial fiscal response to COVID-19 amounted to 5.5 percent of GDP. It focused on health measures and financial support to the state-owned Nauru Airlines (to ensure maintenance of critical services) as well as other SOEs.

A fiscal surplus of 9.4 percent of GDP is expected in FY20. Fishing license and RPC revenues were much higher than expected, more than offsetting reductions in travel-related revenues due to COVID-19. Large fiscal surpluses in recent years have been used to build the Nauru Trust Fund (currently at 70 percent of GDP) and government deposits (around a third of GDP).

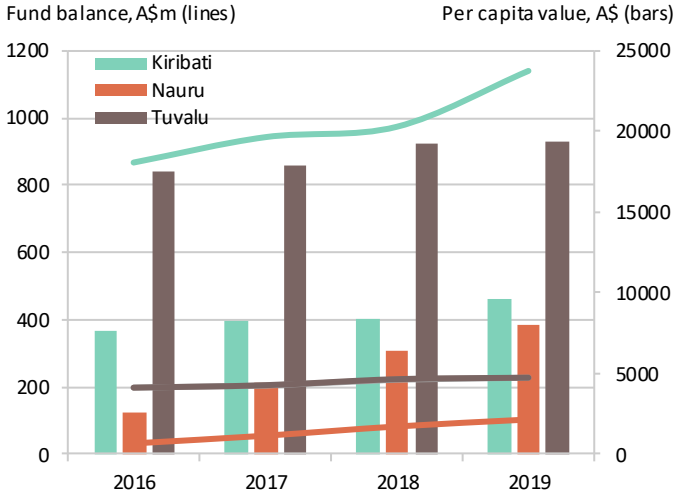
Tuvalu's recent macro-economic performance has been favorable supported by strong fishing license revenue and donor grants. Growth in 2019 reached 4.1

FIGURE 1 Central Pacific Islands / Sources of revenue – projections to 2021



Sources: Country authorities, and World Bank and IMF staff estimates and projections as of Dec 2019. Nauru data are June years; Kiribati and Tuvalu are calendar years.

FIGURE 2 Central Pacific Islands / Sovereign wealth fund balances



Sources: Country authorities, and World Bank and IMF staff estimates and projections as of Dec 2019. Nauru data are June years; Kiribati and Tuvalu are calendar years. The Nauru Trust Fund was established in 2016.

percent and inflation moderated to 3.4 percent in response to lower food and fuel costs. The current account continued to post a surplus, of 5 percent of GDP, with the deficit in goods and services offset by income inflows. Reserve coverage remains adequate at an estimated 10 months of imports in 2019. Tuvalu has a very narrow domestic economic base and the public sector is the main driver of growth. The banking sector is fragile, and credit provides only modest support to growth. The Australian dollar serves as legal tender.

The fiscal deficit reached 3 percent of GDP in 2019. Revenue from fishing license fees, the internet domain, and donor grants account for around three quarters of domestic revenues. In recent years, revenues have been strong, including a windfall gain from the regional fishing license pool in 2018 that raised the post-grant fiscal surplus of around 24 percent of GDP. Surpluses have served to replenish the Consolidated Investment Fund (CIF) and capitalize the Tuvalu Trust Fund (TTF) and the Tuvalu Survival Fund (TSF). The combined value of the funds was around 370 percent of GDP at end-2019.

Outlook

In **Kiribati**, a relatively strong recovery is expected in 2021, with 3 percent growth driven by the assumed easing of border restrictions and the resumption of construction activity in the latter half of the year. The expected introduction of new cash transfers will support poor and vulnerable households and also provide a boost to demand in the retail sector. The near-term outlook for fisheries revenues is relatively weak, however, due to COVID-19 restrictions on port activity and the likelihood of unfavorable weather conditions, both of which could impact on the demand for fishing licenses. The government is expected to register sizable fiscal deficits in 2020 and 2021 of around 10-15 percent of GDP. This is the result of lower revenues and higher spending on the COVID-19 response and social protection programs. The fiscal deficit will be financed through drawdowns on Kiribati's cash reserve buffer and through donor budget support.

In **Nauru**, the economy is not expected to grow in FY21 due to the persistence of COVID-19 impacts. Over the medium term, modest growth of between 1 and 2 percent is expected. Growth remains dependent on the still uncertain outlook for the RPC for asylum seekers and fishing license revenues. Port construction activity is likely to continue to support medium term growth, although the execution of this and other infrastructure projects may be subject to ongoing delays due to supply chain disruptions. A balanced budget is expected in FY21, owing to a substantial fall in both government revenues and spending. Given the projected decline in RPC-related revenues over the medium term, the large fiscal surpluses seen in recent years are unlikely to persist.

In **Tuvalu**, the economy is projected to contract by 1 percent in 2020 but to regain momentum in 2021 with growth projected at 3.5 percent. Over the medium-term, modest growth of around 2 percent is anticipated. Fiscal deficits of 5 to 7 percent of GDP are expected to emerge as fishing revenues moderate due to changing weather patterns, and donor grants decline. Implementation of a multi-year capital budget framework and measures to strengthen public financial management are expected to keep capital spending within fiscally sustainable parameters.

Risks and challenges

Kiribati is heavily reliant on fishing license revenues and its sovereign wealth fund to meet its substantial long-term development financing and climate adaptation needs, but COVID-19 has highlighted the inherent volatility of these revenue sources. The Government should strengthen its fiscal framework to anchor spending around the medium-term fisheries revenue estimate, to ensure that higher-than-expected revenues continue to be saved in order to smooth spending in low-revenue years.

Nauru faces significant challenges in sustaining growth and ensuring fiscal and debt sustainability over the longer-term, despite recent efforts to build fiscal buffers. Its economy will be heavily affected by the expected scaling down of the RPC. COVID-19 may continue to constrain activity in the construction and services sectors. While fishing license fees have provided a welcome (albeit volatile) stream of revenue in recent years, the biggest challenge is to diversify the economy further given that neither phosphate mining nor the RPC are sustainable drivers of growth in the long run.

Tuvalu also confronts significant challenges stemming from geographic remoteness; narrow revenue base characterized by volatile fishing revenues and donor grants, and near total dependency on imports of food and fuel. Disruptions to air freight due to COVID-19 might impact the export of fresh fish. Tuvalu is one of the most climate-change challenged countries in the world and climate-related adaptation measures impose long-term fiscal costs. It also confronts escalating fiscal costs associated with health care needs of an aging population and prevalence of non-communicable diseases.

TABLE 2 Central Pacific Islands / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019p	2020p	2021p	2022p
Real GDP growth, at constant market prices						
Kiribati	0.9	2.3	2.3	-1.9	3.0	2.6
Nauru	-5.5	5.7	1.0	-2.0	0.0	2.0
Tuvalu	3.2	4.3	4.1	-1.0	3.5	4.0

Sources: Country authorities and World Bank and IMF staff estimates. 2017 estimates are not yet available for Kiribati. Nauru data are based on the fiscal year ended June; Kiribati and Tuvalu are calendar years.
Notes: p = projection.

CHINA

Table 1	2019
Population, million	1395.4
GDP, current US$ billion	14115.8
GDP per capita, current US$	10116.2
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	5.4
Upper middle-income poverty rate ($5.5)[a]	23.9
Gini index[b]	38.5
School enrollment, primary (% gross)[c]	100.2
Life expectancy at birth, years[c]	76.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent estimate (2016), based on grouped data.
(c) WDI for School enrollment (2015); Life expectancy (2018).

China's economy has started to rebound from the COVID-19 induced shock, but the recovery remains uneven. While supply side constraints have largely eased, the recovery of domestic demand and especially private consumption has trailed, reflecting lingering behavioral impacts of the pandemic, labor dislocation and slower growth in household incomes. Growth is projected to slow to 2.0 percent in 2020, dampening the pace of poverty reduction.

Recent developments

Following a sharp contraction in the first quarter China's economy has started to rebound, but the recovery remains uneven with industrial production and infrastructure investment normalizing much faster than services, consumption and private investment. On the production side, the rebound was led by industry, which expanded 4.7 percent y/y in Q2. In contrast, growth in the service sector remained subdued at 1.9 percent y/y, reflecting remaining restrictions. On the demand side, investment recovered strongly, driven mainly by infrastructure and real estate investment, while manufacturing and private investment continued to contract. Final consumption remained a drag on growth, contributing -2.3 percentage points y/y in Q2. The contribution of net exports to growth turned positive (0.5 pp) in Q2, due to declining imports as well as stronger than expected exports driven by a surge in shipments of medical equipment and electronics.

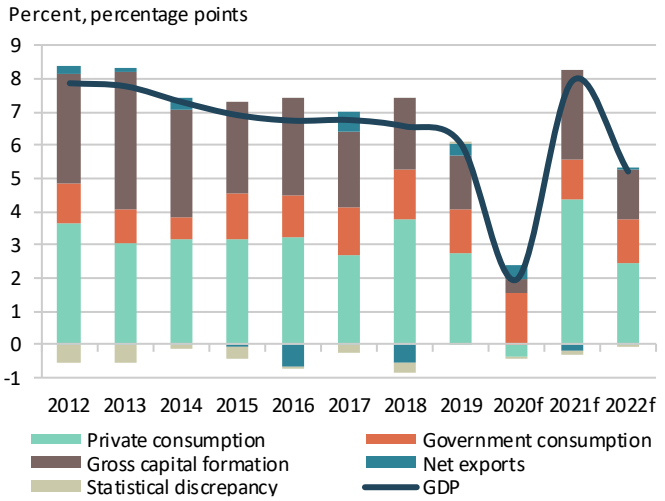
Labor market impacts have been significant, with rising unemployment and significant labor dislocation. The official surveyed urban unemployment rate jumped from 5.3 percent in January to 6.2 percent in February but has since dropped slightly to 5.6 percent in August. Self-employed workers and those in less secure, informal jobs, particularly migrant workers -which are not counted in the official labor market statistics- were especially hard hit.

Real household disposable income per capita recovered moderately to 2.0 percent y/y in Q2, but income losses, social distancing, elevated unemployment levels and uncertainty continue to weigh on private consumption. Per capita consumer spending continued to contract by 5.6 percent y/y in Q2.

Meanwhile, debt levels—already elevated before the crisis—have increased sharply and eroded deleveraging gains made over the past two years. The confluence of a collapse of corporate profits, rising unemployment, and lost income has elevated credit risks in Chinese banks, and asset quality has started to deteriorate. While the nonperforming loan (NPL) ratio of the whole banking system inched up only slightly by 8pp to 1.94 percent between December 2019 and June 2020, the balance sheets of smaller reginal banks are particularly vulnerable, due to their higher exposure to unsecured consumer lending and micro and small enterprises (MSEs), as well as weaker capital buffers even before the crisis.

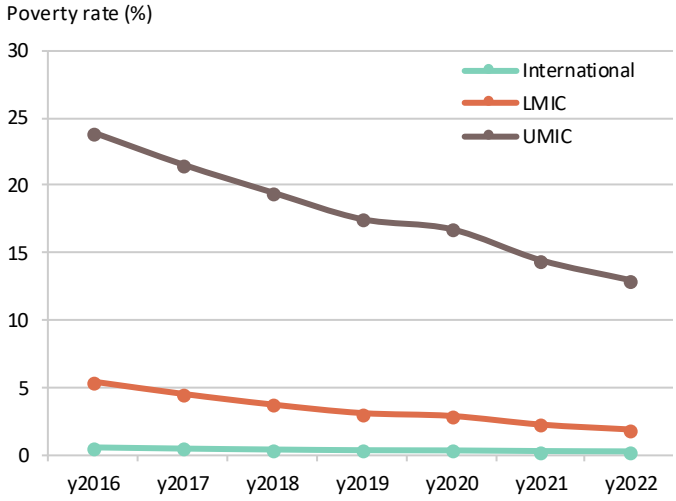
Economic policy measures have cushioned some of the economic and social impacts of the pandemic-induced downturn. The initial policy response aimed to bolster market confidence, relieve near-term cash flow problems, and mitigate more permanent economic damage in the form of bankruptcy, unemployment, and rising NPLs. As lockdown measures were eased, policies shifted toward supporting the recovery with additional fiscal policy measures, amounting to about 5.4 percent of GDP, largely to fund tax relief and public investment.

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



Sources: National Bureau of Statistics; World Bank staff estimates.

FIGURE 2 **China** / Poverty estimates and projections



Sources: World Bank staff estimates using tabulated data from China NBS.

Outlook

The baseline forecast envisions a sharp slowdown of growth to 2.0 percent this year, which would mark the slowest expansion since 1976. The baseline assumes that efforts to suppress the virus will broadly succeed, and that localized COVID-19 flareups are effectively contained without causing major disruptions in economic activity. Under this scenario, a sharp contraction in 2020Q1, and a subsequent rebound in 2020Q2, would be followed by a gradual but sustained recovery as aggregate demand progressively normalizes. Under this scenario, poverty reduction is expected to slow down significantly, reflecting labor dislocation, elevated unemployment rate and slower growth in household incomes. Only 9.6 million people are projected to be lifted out of poverty in 2020 (based on $5.50/day 2011 Purchasing Power Parity (PPP)), compared to the pre-pandemic scenario for 2020 where 25 million were projected to be lifted out of poverty. Reflecting in part positive (albeit lower) growth in agriculture for 2020, gains in poverty reduction are expected to come almost exclusively from rural areas.

Risks and challenges

Risks to China's economic outlook remain high. On the downside, recurrent COVID-19 flareups could disrupt economic activity and dampen business and consumer sentiment to a greater extent than assumed in the baseline. In addition, a more significant increase in bankruptcies and corporate distress as well as persistent weakness in private consumption could also lead to a slower recovery and complete halt in poverty reduction. Externally, a more protracted global recession and escalating bilateral tensions between China and key trading partners could also derail the recovery. On the upside, the slowdown could be less severe if domestic and global consumer and investor confidence, boosted by effective policy measures, recover faster than anticipated, and if bilateral economic tensions ease.

The authorities face the complex challenge of ensuring sustained suppression of COVID-19 while allowing economic activity to recover. Public health and pandemic control measures are crucial to reducing the risk of renewed outbreaks. On the economic front, the situation calls for a macroeconomic policy mix aimed at rebuilding confidence and augmenting domestic demand in the short term while supporting the medium-term rebalancing to a greener and more inclusive economy.

Monetary and financial sector policies will need to remain flexible ensuring that the flow of credit to the real sector is not impeded, while financial and debt risks are managed carefully. Given the risks of a credit-fueled rebound, fiscal policies will need to play the leading role in supporting the recovery. Specifically, policy makers should aim at closing the gaps in China's social protection coverage to help protect workers and households and boost private consumption.

Structural policies should focus on enabling the reallocation of resources and facilitating adjustments to post-pandemic economic realities. If corporate distress reflects deeper underlying solvency issues, bankruptcy proceedings may be the appropriate strategy. Intensifying "hukou" (household residency registration system) reform and enhancing access to and portability of social services would strengthen labor mobility. Further opening up could boost investment and accelerate knowledge and technology diffusion, and also help ease lingering geoeconomic tensions.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	6.8	6.6	6.1	2.0	7.9	5.2
Private Consumption	6.8	9.5	6.8	-1.0	11.0	6.0
Government Consumption	10.0	10.4	8.4	9.7	7.2	8.0
Gross Fixed Capital Investment	4.4	4.8	4.5	1.1	6.5	3.6
Exports, Goods and Services	9.1	4.0	2.5	-0.5	2.5	2.0
Imports, Goods and Services	7.1	7.9	1.0	-3.0	4.0	2.0
Real GDP growth, at constant factor prices	6.8	6.6	6.1	2.0	7.9	5.2
Agriculture	3.9	3.5	3.3	2.6	3.4	3.3
Industry	5.9	5.8	5.5	2.8	6.3	4.7
Services	7.9	7.6	7.0	1.2	9.8	5.9
Inflation (Consumer Price Index)	1.6	2.1	2.9	2.1	2.3	2.3
Current Account Balance (% of GDP)	1.6	0.4	1.1	1.4	1.0	0.9
Net Foreign Direct Investment (% of GDP)	0.2	0.8	0.9	0.5	0.7	0.8
Fiscal Balance (% of GDP)[a]	-3.9	-4.6	-6.4	-11.8	-5.8	-5.4
Debt (% of GDP)	37.2	38.5	41.9	52.4	53.4	55.2
Primary Balance (% of GDP)	-3.2	-3.6	-5.1	-10.7	-4.4	-4.1
International poverty rate ($1.9 in 2011 PPP)[b]	0.4	0.3	0.3	0.3	0.2	0.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b]	4.5	3.7	3.1	2.8	2.2	1.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b]	21.5	19.4	17.5	16.7	14.4	13.0

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

(a) The adjusted fiscal balance adds up the public finance budget, the government fund budget, the state capital management fund budget and the social security fund budget.
(b) Last grouped data available to calculate poverty is for 2016 provided by NBS. Projections based on per capita GDP growth estimates, using a neutral distribution assumption with pass through 0.72 to per capita household consumption.

FIJI

Table 1	2019
Population, million	0.9
GDP, current US$ billion	5.5
GDP per capita, current US$	6023.4
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	7.5
Upper middle-income poverty rate ($5.5)[a]	35.8
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	67.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2013), 2011 PPPs.
(b) WDI for School enrollment (2016); Life expectancy (2018).

The dual shocks of COVID-19 and Tropical Cyclone Harold have decimated the economy. The tourism industry is at a virtual standstill, trade flows are severely disrupted, and business activities are curtailed. The economy is projected to contract by 21.7 percent in 2020, the worst in Fiji's history. To mitigate the impact on households and businesses, the government has increased public spending. Nonetheless, the impact on livelihoods has been devastating, with nearly one third of the labor force out of work and half of the population facing socioeconomic hardship.

Recent developments

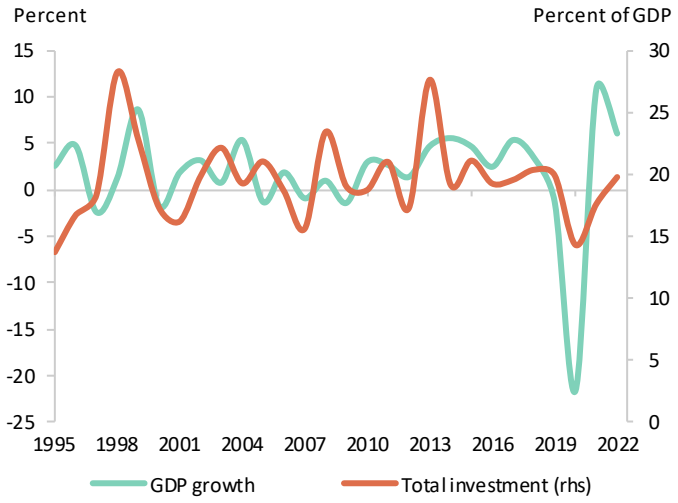
Before the shock, Fiji's economy was characterized by robust tourism, recovery in agricultural production, rising household consumption and extensive reconstruction following Tropical Cyclone (TC) Winston in 2016. However, in 2019, the economy contracted sharply by 1.3 percent owing to the synchronized downswing of the main trading partners, lower government spending, tighter domestic financial conditions and weak investor sentiment.

The Government had committed to fiscal consolidation, stabilizing capital spending at pre-TC Winston levels, tighter control over current spending and charting a downward trajectory for public debt. However, a recalibration is now required, as the spending has increased to mitigate the shock combined with a shortfall in revenue. The FY21 budget sets the net fiscal deficit at 20.2 percent of GDP and the debt-to-GDP ratio has increased to 75.5 percent in July 2020 from 49 percent a year before. The government is prioritizing concessional finance and has a sound plan to refinance the US$200 million global bond maturing in October 2020 with lower cost funds.

Monetary policy remains accommodative. The Reserve Bank of Fiji reduced its overnight policy rate from 0.5 to 0.25 percent in the first quarter of 2020 in response to the shock. Foreign exchange reserves are stable, equivalent to 7.8 months of imports. Inflation has decelerated since mid-2019 to register a historic low of -3.5 percent at end -June 2020 owing to the large negative output gap. Balance of payments vulnerabilities receded in 2019 with the current account deficit falling to from 7.3 percent of GDP in 2018 to 4.9 percent of GDP in 2019 reflecting a sharp contraction in imports and a rising surplus on the service account from higher tourism receipts and continued strength of remittances.

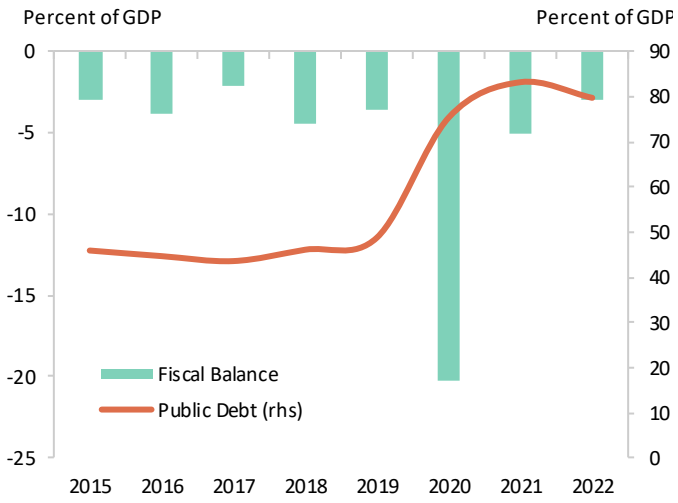
Prior to the onset of COVID-19, Fiji had one of the lowest rates of extreme poverty in the Pacific. In 2013, just 0.5 percent of people in Fiji lived in extreme poverty, or under the US$1.90 per day (2011 PPP) poverty line. Inequality in Fiji is also among the lowest in the East Asia and Pacific region: the Gini Index, a measure of inequality, stood at 36.4 in 2013. When measured against the US$5.50 Upper Middle-Income Class Poverty Line, which reflects living standards across all upper middle-income countries, Fiji's poverty rate of 35.8 percent was higher than the average. Fiji's particular vulnerability to the economic shocks of COVID-19 may result in rising poverty across the country. The impact will be particularly severe for the 20 percent of households with livelihoods directly linked to the tourism and hospitality sectors (2013 data), but other households with indirect links are also at an increased risk for falling into poverty. Government projections indicate a potential rise in unemployment from 7 percent in 2019 to 27 percent in 2020. The government's response to mitigate the loss of livelihoods and purchasing power in the coming months will be crucial. The availability of real-time information to assess the impacts of COVID-19 on households will

FIGURE 1 **Fiji** / Real GDP growth and total investment as a share of GDP



Sources: Ministry of Economy, and IMF and World Bank staff estimates.

FIGURE 2 **Fiji** / Fiscal balance and public debt



Sources: Ministry of Economy, and IMF and World Bank staff estimates.

strengthen the Government's ability to monitor the impact and hence the ability to effectively respond.

Outlook

The economy is projected to contract by 21.7 percent in 2020. Economic performance is projected to return to trend growth from 2021 onwards at around 5 percent in 2021-2025. This assumes that that the COVID-19 crisis is contained, that tourism rebounds, public investment increases and the private sector regains momentum. Medium-term fiscal deficit targets for FY22 and FY23 are currently set at 5 percent and 3 percent of GDP, respectively. The Government has reaffirmed that normalizing the debt-to-GDP ratio, and resetting it on a downward trajectory remain key priorities once the economy rebounds. The current account deficit is projected to widen to 10.7 percent of GDP in 2020 with the contraction in tourism receipts and downturn in remittances far outweighing the reduction in import costs.

Risks and challenges

The economy faces significant short-term risks. Economic recovery is dependent on the length of the COVID-19 crisis and the possibility of Fiji being able to join a regional travel bubble. Over the longer term, downside risks stem from several factors. Slower growth of Fiji's main trading partners could impact tourism, remittances, and export receipts and high level of dependence on imports for food and fuel renders the economy vulnerable to increases in global commodity prices. Natural disasters are a constant threat and delays in structural reforms aimed at mobilizing private investment would also contribute to lower outcomes for growth.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	5.4	3.5	-1.3	-21.7	6.4	4.4
Real GDP growth, at constant factor prices	4.5	2.1	-1.4	-26.4	7.4	4.4
Agriculture	10.8	4.2	3.8	-2.0	6.0	7.0
Industry	4.2	4.4	1.5	-16.0	15.0	8.0
Services	3.8	1.2	-3.0	-33.5	4.6	2.2
Inflation (Consumer Price Index)	3.3	4.8	2.0	-0.8	1.9	1.8
Current Account Balance (% of GDP)	-6.7	-8.5	-5.7	-10.9	-10.3	-6.2
Net Foreign Direct Investment (% of GDP)	7.1	8.7	8.9	12.2	11.1	10.3
Fiscal Balance (% of GDP)[a]	-1.8	-5.5	-4.9	-20.2	-5.0	-3.0

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

INDONESIA

Table 1	2019
Population, million	270.6
GDP, current US$ billion	1119.2
GDP per capita, current US$	4135.6
International poverty rate ($1.9)[a]	3.6
Lower middle-income poverty rate ($3.2)[a]	21.5
Upper middle-income poverty rate ($5.5)[a]	53.2
Gini index[a]	39.0
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.5

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

The COVID-19 pandemic has pushed the Indonesian economy into negative growth for the first time in two decades. Fiscal and monetary authorities responded to provide relief to households and firms and to stabilize the economy. High frequency indicators in Q3 pointed to an incipient but protracted recovery. However, mobility restrictions were reintroduced in Jakarta in mid-September due to rising number of cases. The Government intends to accelerate the implementation of relief measures and deploy substantial resources to support the recovery.

Recent developments

Indonesia's economy contracted by 5.3 percent yoy in Q2 2020 (GDP per capita growth is -6.4 percent in Q2) following a 3.0 percent expansion in Q1, as the COVID-19 shock buffeted the economy. Mobility restrictions, individual precautionary behavior, and labor income losses led to a sharp contraction in private consumption (-5.6 percent yoy). Substantial fiscal relief measures partly cushioned the shock to consumption. Low commodity prices, high uncertainty and weak demand depressed investment (-8.6 percent yoy).

Exports also suffered (-11.7 percent yoy) as global demand plummeted. Nevertheless, with the slump in domestic demand, imports contracted more than exports (-17 percent yoy), leading net exports to contribute positively to growth (+0.7 pp) (Figure 1).

On the supply side, sectors exposed to external shocks and mobility restrictions contracted sharply. These sectors (manufacturing, trade and hospitality) employ a large proportion of Indonesians in the bottom 40 percent. High frequency indicators suggest that the economy was recovering slowly with the gradual lifting of mobility restrictions in mid-June. But these restrictions were reintroduced in the capital city Jakarta due to rising COVID-19 cases, and high hospital bed and ventilator occupancy rates.

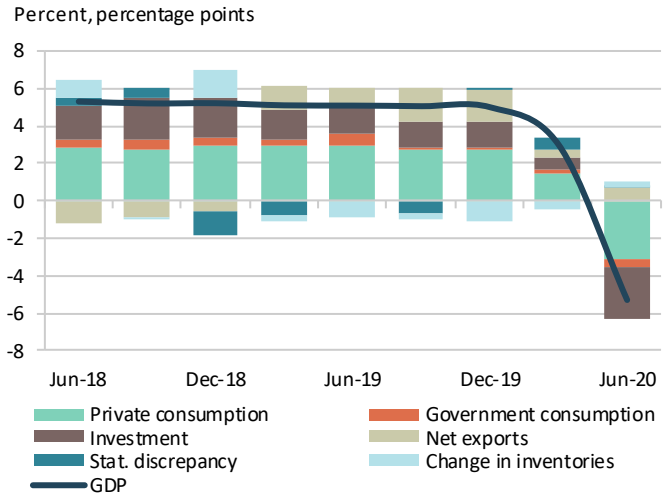
The economic slowdown and muted domestic demand have opened a substantial output gap. With negative output gap, low commodity prices and stable food supplies, inflation fell to 2.4 percent yoy in H1 2020.

With these developments, the goods trade balance remained in surplus. However, the collapse in tourist arrivals widened the service trade deficit. The income account deficit narrowed as dividend payments to foreign investors fell due to the sluggish business activity. Consequently, the current account deficit (CAD) dropped to 1.2 percent of GDP in Q2 (1.4 percent of GDP in Q1).

Capital inflows stabilized in Q2 as global financial volatility eased due to substantial interventions of central banks. These developments, together with low inflation, enabled Bank of Indonesia (BI) to cut its benchmark interest rate four times by 100 basis points to 4.0 percent. Capital inflows were supported by large issuance of global bonds by the Government and corporations. Consequently, international reserves soared, the Rupiah stabilized, and bond yields fell. In the banking sector, loan growth slowed to 1.5 percent yoy in June. NPLs remain low (3 percent of outstanding loans in Q2) but have risen from 2.7 percent in Q1, while the capital adequacy ratio stood at 22.5 percent.

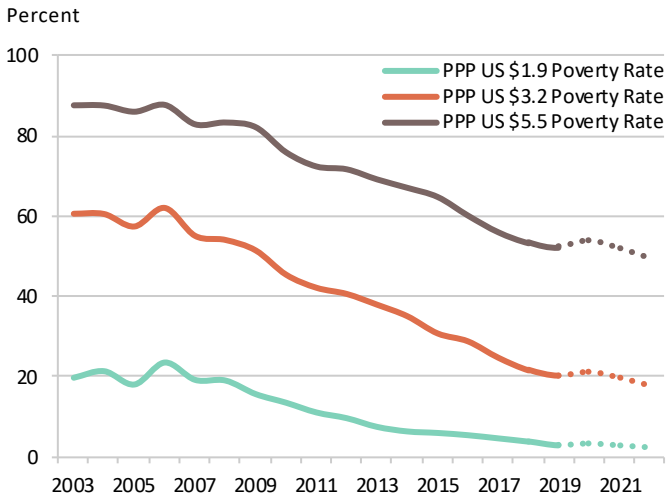
The COVID-19 shock on income and employment could potentially increase poverty. Official statistics show that the poverty incidence increased to 9.8 percent in March (+0.4 pp yoy). A high-frequency representative household survey suggests that nearly a quarter of the population had stopped working by early May. These disruptions are higher in traditional services sector, manufacturing and

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



Sources: National Statistics Agency; World Bank.

FIGURE 2 Indonesia / Poverty rates, actual and projected



Sources: National Statistics Agency; World Bank.
Note: Forecast is from 2020 onwards and based on the scenario of absence in mitigation.

other industries. Moreover, 64 percent of those who remained at work reported lower income, particularly in sectors that employ many of the bottom- and middle-40.

Fiscal authorities responded through assistance to households and firms with a package of IDR 695.2 trillion (4.3 percent of GDP). The package includes allocations to the health sector (0.5 percent of GDP), social assistance (0.9 percent of GDP), tax incentives, working capital loans and capital injections for SOEs, credit programs for MSMEs and additional spending. Owing primarily to lower fiscal revenues due to the crisis, the fiscal deficit is projected to widen to 6.3 percent of GDP in 2020. The Government has temporarily lifted the fiscal deficit ceiling of 3 percent of GDP through 2022. Given the large financing needs, BI agreed to buy a large share of Government new bond issuances in 2020.

Outlook

Growth is projected to contract by 1.6 percent in 2020 as mobility restrictions, health risks and weak global economic activity depress private consumption and investment. Lower domestic demand will help keep the CAD at 1.3 percent of GDP despite wider services trade deficit as tourism contracts. With weak demand and a negative output gap, inflation will ease to 2.1 percent.

The forecast in 2021-2022 reflects lower potential growth relative to pre-COVID trend (-0.6pp), due to lower investment and productivity, and slow and protracted recovery. Under these assumptions, growth will reach 4.4. percent in 2021 due to a base effect and to 5.1 percent in 2022. Inflation will increase moderately as domestic demand picks up. The current account deficit will widen slightly as imports recover and the services trade deficit persists due to depressed tourism.

The fiscal deficit is projected to remain above 3 percent through 2022. The Government projects a fiscal deficit of 5.5 percent of GDP in 2021, driven by some recovery in revenues and moderate expenditure growth as exceptional fiscal support measures are extended but scaled down. Accordingly, public debt is projected to increase from 30 percent of GDP in 2019 to 37 percent in 2020 and could stabilize around 42 percent of GDP in 2023-2025, assuming revenue-enhancing reforms are implemented.

Extreme poverty (based on US$1.9 per day poverty line) is projected to increase for the first time since 2006, from 2.7 to 3.0 percent between 2019-20. The Government social assistance package could mitigate the impact on poverty if targeted well and delivered in a timely manner (Figure 2). As of early May, 78 percent of the bottom 40 households reported receiving at least one of the social assistance programs, or loan deferment and electricity subsidy programs. But the implementation of certain programs remains slow and coverage is insufficient to compensate all affected households.

Risks and challenges

Risks to the outlook are unprecedently high and largely tilted to the downside. Mobility restrictions were reintroduced in Jakarta on September 14 and could be expanded to other provinces. In such scenario growth could drop further to -2.0 percent in 2020. Slower global demand, lower commodity prices and renewed waves of capital outflows would further dampen Indonesia's growth prospects.

The economic relief program is comprehensive, but effectiveness will depend on the speed and performance of the targeting and delivery systems. The coverage and length of social assistance package – some of which were phased out in September - would also need to be re-assessed in light of mobility restrictions and the evolution of the crisis.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	5.1	5.2	5.0	-1.6	4.4	5.1
Private Consumption	5.0	5.1	5.2	-1.1	4.0	4.5
Government Consumption	2.1	4.8	3.2	1.0	6.0	4.5
Gross Fixed Capital Investment	6.2	6.6	4.4	-5.0	4.0	5.0
Exports, Goods and Services	8.9	6.5	-0.9	-7.9	1.0	12.0
Imports, Goods and Services	8.1	11.9	-7.7	-12.3	-1.5	10.3
Real GDP growth, at constant factor prices	4.8	5.0	5.0	-1.8	4.4	5.1
Agriculture	3.9	3.9	3.6	2.0	3.6	2.8
Industry	4.1	4.3	3.8	-0.5	4.2	5.1
Services	5.7	5.8	6.4	-3.9	4.8	5.8
Inflation (Consumer Price Index)	3.8	3.3	2.8	2.1	2.6	3.0
Current Account Balance (% of GDP)	-1.6	-2.9	-2.7	-1.3	-1.5	-1.6
Net Foreign Direct Investment (% of GDP)	1.8	1.2	1.8	1.6	1.7	1.8
Fiscal Balance (% of GDP)	-2.5	-1.8	-2.2	-6.3	-5.6	-4.3
Debt (% of GDP)	29.4	30.4	30.0	37.0	40.1	42.0
Primary Balance (% of GDP)	-0.9	-0.1	-0.5	-4.5	-3.7	-2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.5	3.6	2.7	3.0	2.6	2.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	24.7	21.6	20.0	21.2	19.6	17.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	56.0	53.3	52.2	53.7	51.8	49.6

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

(a) Calculations based on EAPPOV harmonization, using 2011-SUSENAS, 2018-SUSENAS, and 2019-SUSENAS data. Actual data: 2019. Forecast is from 2020 to 2022 and based on unmitigated circumstances.

(b) Projection using annualized elasticity (2011-2018) with pass-through = 1based on GDP per capita in constant LCU.

LAO PDR

Table 1	2019
Population, million	7.1
GDP, current US$ billion	18.8
GDP per capita, current US$	2660.3
National Official Poverty Rate[a]	18.3
International poverty rate ($1.9)[b]	21.2
Lower middle-income poverty rate ($3.2)[b]	56.8
Upper middle-income poverty rate ($5.5)[b]	84.4
Gini index[a]	38.8
School enrollment, primary (% gross)[c]	102.4
Life expectancy at birth, years[c]	67.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) National Statistics Office. Most recent value (2018).
(b) Most recent value (2012), 2011 PPPs.
(c) Most recent WDI value (2018).

Lao PDR is undergoing an unprecedented level of macroeconomic stress. The pandemic has exacerbated an already fragile economic landscape. The country is experiencing an erosion of revenue and difficulty in meeting its debt service obligations. Limited fiscal space has constrained the ability of authorities to mitigate the socio-economic impacts of the pandemic. This has adversely affected poverty reduction. Without actions to stabilize the macro economy and accelerate structural reforms, the economy could trip into a period of extreme macroeconomic vulnerabilities.

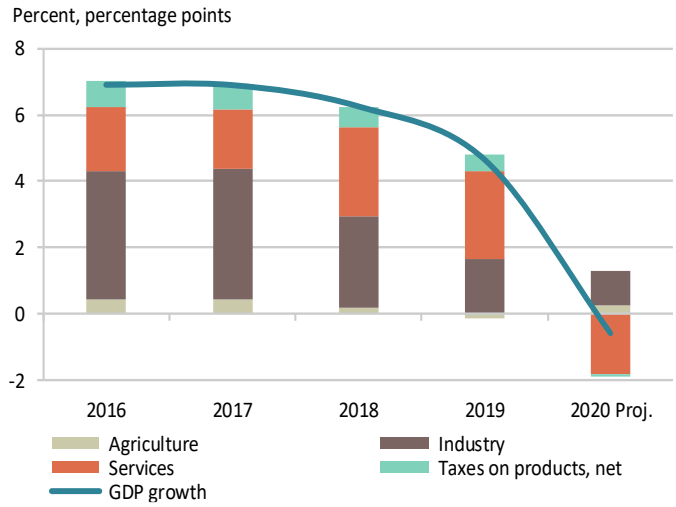
Key conditions and challenges

Laos has been growing fast—GDP growth average of 7 percent annually over the past decade—but rapid growth in Lao PDR has been accompanied by a legacy of weak macroeconomic management. Growth has been driven by the capital-intensive resource sector and supported by debt-driven infrastructure development, with limited spillover to the rest of the economy. Consequently, growth has been accompanied by: (i) macroeconomic instability, sometimes resulting in an economic crisis; (ii) limited non-farm job creation and rising inequality; and (iii) considerable cost to the environment and an adverse effect on the sustainability of growth given the intensive use of natural capital (mines, forestry, hydropower). Exacerbated by the COVID-19 outbreak, structural vulnerabilities in Lao PDR have led to significant deterioration in the macroeconomic situation, including a significant increase in the public debt burden. Public debt is expected to increase to at least 69 percent of GDP in 2020 from 59 percent of GDP in 2019. Rising debt levels have significantly increased debt service payments to USD 1.2 billion for 2020 (equivalent to 55 percent of domestic revenues) resulting in heightened balance of payment pressures. The weak fiscal framework, a low foreign currency reserve buffer and limited financing opportunities with the sovereign rating downgrade by Moody's in August 2020 and by Fitch in September 2020 have led to difficulties in meeting debt service obligations. The limited capacity of the domestic banking system and underdeveloped treasury bills markets indicate that the scale up in domestic financing is not expected to compensate for the shortfall in external financing. The Bank of Lao PDR has also engaged in direct borrowing from commercial banks to help the government meet debt service obligations and provided direct credit to government to help government meet its expenditures. According to a report of a recent cabinet meeting, there has also been a significant buildup of arrears associated with state-funded projects. By the end of 2019, construction costs amounting to approximately US$ 1 billion (6 percent of GDP), linked to 2091 projects, remain unpaid.

Recent developments

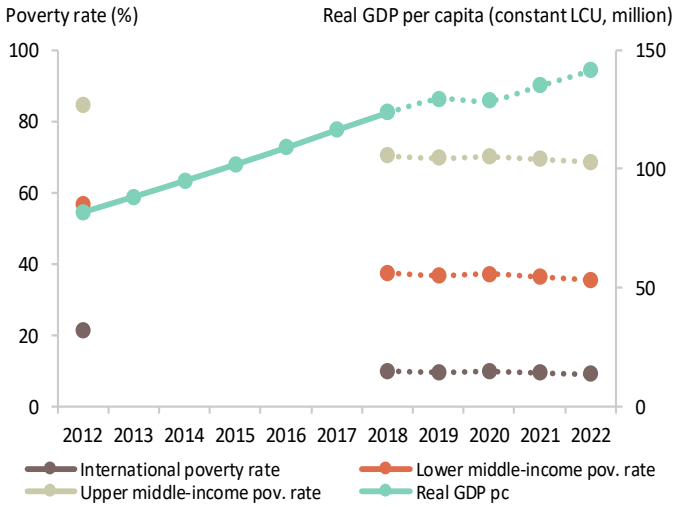
The economy is expected to register the slowest growth rate in three decades, with growth estimated to decline to between -0.6 percent (baseline scenario) and -2.4 percent (downside scenario) in 2020. The service sector has been the hardest hit with the lockdown measures and the decline in travel and tourism. Supply chain disruptions negatively affected the performance of the industry sector while the agriculture sector was adversely affected by adverse climatic conditions and COVID-19 related disruptions. The contraction in GDP growth in 2020 has led to the unemployment rate

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



Sources: Lao Statistics Bureau, World Bank staff estimates.

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



Sources: World Bank staff estimates. Note: See table 2.

reaching 25 percent in May 2020 from 16 percent at the end of 2019.

To mitigate the economic impact of COVID-19, the authorities deferred tax payments and reduced the policy rate, along with other measures, to support households and SMEs. However, with policy space highly constrained, the ability of the authorities to mitigate the impact of COVID-19 is limited. Households are therefore at risk of slipping into poverty. The poverty rate (measured as US$ 3.2 a day, 2011 PPP) is expected to increase by at least 1.7 percentage points in 2020 compared to a no-COVID-19 scenario.

Low domestic revenue mobilization, a structural problem, has been exacerbated by the economic slowdown. Domestic revenue-to-GDP is expected to decline further from 13.5 percent in 2019 to 10.2 percent of GDP in 2020. Consequently, the fiscal deficit is projected to increase to 7.6 percent of GDP, from an estimated 5.1 percent of GDP in 2019, if the expenditure plan is maintained and there is no further buildup in arrears.

The current account deficit is expected to increase in 2020 due to lower trade and tourism activities, higher debt service obligations, and declining remittances. Remittances are projected to decline by about 50 percent in 2020 triggered by the pandemic. Lower imports due to supply disruptions, low oil prices and lower demand for fuel will offset only some of the decline in exports. Consequently, the overall trade balance is likely to worsen.

With the foreign currency gross reserve buffer expected to decline to under one month of import cover by the end of 2020, the country faces heightened balance of payment pressures. The misalignment of the official exchange rate and a shortage of foreign currency in the official foreign exchange market is characterized by the elevated spread between the official and parallel market exchange rates. The Kip depreciation together with rising food price inflation and buoyant growth in money supply has led to significantly higher inflation rate in the first seven months of 2020. Money supply growth was driven by a significant increase in the currency in circulation owing to direct credit to government by the Bank of Lao PDR, rising by an average of 142 percent in the first seven months of 2020 compared to an average of 42 percent over the same period in 2019.

Outlook

In 2021-22, growth is expected to rebound to 4.9 percent, with the poverty rate projected to return to its pre-crisis level around 2022, at the earliest. The fiscal deficit is expected to remain elevated, which will further increase the debt/GDP ratio over the medium term. This is expected to lead to external debt service payments of around US$ 1.1 billion/year for the next 3 years. Coupled with the elevated current account deficit, the foreign currency reserve coverage is expected to remain inadequate.

Over the medium term, unless significant structural reforms are undertaken, macroeconomic vulnerabilities are expected to persist. Reforms to strengthen revenue mobilization and improve the competitiveness in the private sector to support economic diversification are key.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	6.9	6.3	4.7	-0.6	4.9	4.8
Real GDP growth, at constant factor prices	6.9	6.3	4.7	-0.6	4.9	4.8
Agriculture	2.9	1.3	-0.9	2.0	2.9	3.1
Industry	11.6	7.8	4.7	2.9	5.7	4.9
Services	4.5	6.8	6.7	-4.6	4.9	5.3
Inflation (Consumer Price Index)	0.8	2.0	3.3	6.5	4.9	5.0
Current Account Balance (% of GDP)	-12.1	-11.5	-8.0	-11.3	-9.5	-8.8
Fiscal Balance (% of GDP)	-5.5	-4.7	-5.1	-7.6	-6.8	-6.3
Debt (% of GDP)	55.8	57.2	58.9	69.1	73.4	77.3
Primary Balance (% of GDP)	-4.1	-3.0	-3.1	-5.4	-4.7	-4.4
International poverty rate ($1.9 in 2011 PPP)[a,b]		10.0	9.7	9.9	9.5	9.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		37.4	36.7	37.1	36.3	35.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		70.4	69.7	70.2	69.4	68.6

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

(a) Calculations using 2018-LECS based on the revised poverty methodology. Nowcast: 2018. Forecast are from 2019 to 2022.

(b) Projection using annualized elasticity (2012-2018) with pass-through = 1based on GDP per capita in constant US$2015.

MALAYSIA

Table 1	2019
Population, million	32.5
GDP, current US$ billion	364.2
GDP per capita, current US$	11221.9
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.2
Upper middle-income poverty rate ($5.5)[a]	2.7
Gini index[a]	41.0
School enrollment, primary (% gross)[b]	105.3
Life expectancy at birth, years[b]	76.0

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

The economy contracted in the first half of 2020 by 8.2 percent. The implementation of movement restrictions led to the contraction in output. The 2020 growth projection is revised further down to a contraction of 4.9 percent (from 3.1 percent in the previous forecast). This reflects the severity of the output decline in Q2 2020 and the slow pace in global economic recovery. Informal workers and the self-employed appear to have been hit hardest by reduced employment and incomes.

Key conditions and challenges

The Malaysian economy is expected to contract in 2020, with risks to the outlook firmly tilted to the downside. The possibility of a more protracted than expected global recovery could continue to hamper investment decisions and further suppress external demand. There is a risk of stricter containment measures nationwide, as illustrated by recent resumption of movement control order (MCO) in some states. Prolonged restrictions on international travel would weigh on the tourism sector. Lingering political uncertainty, including the possibility of a near term general election, will continue to weigh on private investment sentiment and could stall the progress of the recovery effort.

Malaysia entered the outbreak with limited fiscal space due to a persistent decline in government revenue since 2012 and increased expenditure rigidity. This constrained the magnitude and quality of the fiscal response to the outbreak. Instead, the Government relied more on monetary and financial sector forbearance.

The number of vulnerable households is likely to increase owing to higher unemployment and uncertainty over the outcome of the pandemic. These households will require continued financial support during the recovery. An enhanced social protection system is needed to provide more robust and sustainable protection beyond one-off crisis relief measures. Reliance on deferment or early withdrawal of retirement savings is especially limited given most vulnerable Malaysians' underfunding of retirement.

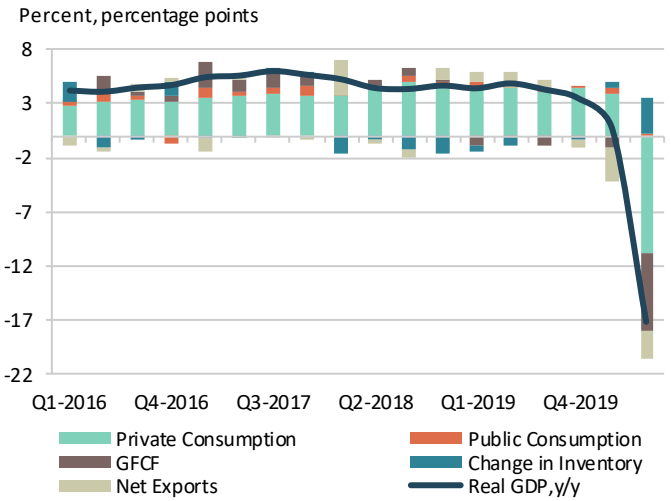
Recent developments

The economy is severely affected by the pandemic, leading to a double-digit contraction (17.1 percent) in the second quarter of 2020. The contraction was driven primarily by a decline in domestic demand due to the imposition of the MCO to stem the spread of COVID-19, as well as weak external conditions. Private consumption declined sharply due to lower household income, movement restrictions and subdued consumer and business sentiment. Heightened uncertainty affected business sentiment and resulted in a large decline in private investment.

Following the economy-wide temporary closures and reduced business operations, the labor market was also significantly impacted, with unemployment rising to 5.1 percent in the second quarter of 2020, its highest rate in thirty years. Labor force participation declined from 68.8 percent in Q1 to 68.1 percent in Q2 and many workers faced reduced hours and pay. Unofficial government statistics indicate that nearly half of the self-employed were put out of work. Inflation has been negative since March, consistent with the contraction in output.

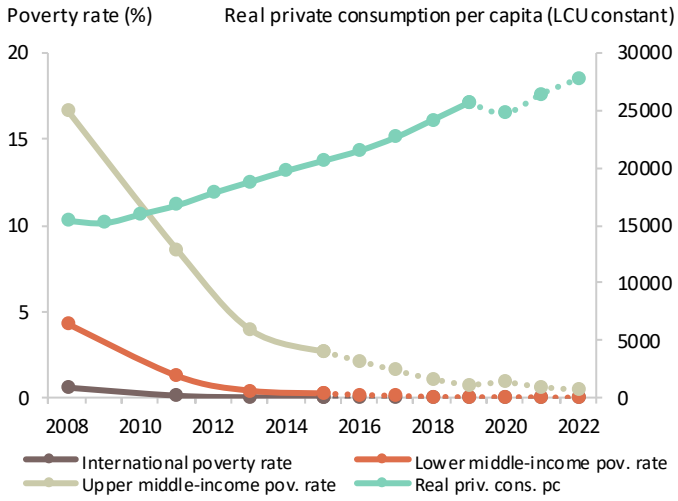
The current account surplus narrowed, compared to a year ago, from 3.9 in Q2 2019 to 2.5 percent of GDP in Q2 2020.

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



Sources: Department of Statistics Malaysia and World Bank staff calculations.

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



Sources: World Bank. Notes: see Table 2.

This was due to a smaller goods balance and a larger services deficit following the disruption in international travel activities. Gross exports declined, weighed by declines in manufacturing and commodity exports while imports contracted due to lower intermediate and consumption imports. At the onset of the pandemic, the rise in investors' demand for safe assets led to portfolio outflows, causing the ringgit to depreciate against the US dollar.

To limit the economic impact of the MCO and to support the recovery process, the government rolled out the Prihatin package and the Penjana economic recovery plan. These include disbursements of cash transfers, a wage subsidy program and the reduction of the workers' minimum contribution to the Employees Provident Fund. To also support economic activity, Bank Negara lowered the OPR by 125 basis point in total since January and reduced the Statutory Reserve Requirement from 3 to 2 percent. The response has also included significant regulatory forbearance as well as a large-scale loan repayment moratorium.

The government has revised its 2020 fiscal deficit projection from 3.5 percent of GDP to 5.8-6.0 percent. This will likely push public debt over the statutory limit of 55 percent of GDP. Parliament recently approved an emergency COVID-19 bill to address the economic impact of the pandemic, which will allow for the temporary suspension of several statutory limits on debt and spending until 2023. This would allow the government to temporarily raise the limit on federal government debt.

In July, the real value of the national poverty line was increased for the first time in more than 40 years. At the new line, poverty declined from 7.6 percent in 2016 to 5.6 percent in 2019, based on a 2019 national survey. The survey reported an increase in income inequality since 2016, with the Gini index increasing from 39.9 to 40.7 and the income share of the bottom 40 percent declining from 16.4 percent to 16.0 percent. Most households have extremely low financial reserves to buffer the shock. A majority of households only have enough savings to live on for 1–2 months according to a special COVID-19 impact survey conducted in March 2020, with the self-employed being most vulnerable.

Outlook

Following a sharper than expected contraction in Q2 2020, the 2020 growth forecast has been lowered to a real GDP contraction of 4.9 percent (down from -3.1 percent). This change in the forecast reflects the heightened uncertainty surrounding the start and speed of the global recovery, which would weigh on investment decisions and external demand. In addition, the elevated unemployment rate and other weaknesses in the labor market would continue to weigh on private consumption. Reflecting these developments, most demand components (net exports, private consumption and private investment) are expected to contract in 2020. Government expenditure is expected to increase mainly due to stimulus spending.

Poverty at the USD 5.50/day (2011 PPP) upper middle income poverty line is projected to increase slightly from 0.8 percent to 0.9 percent in 2020 because of higher unemployment, reduced work hours and slower business for SMEs, although these contractionary effects are offset to some degree by government relief and recovery measures that cushion the impacts on private consumption. The USD 5.50/day 2011 PPP poverty rate is projected to decline to 0.6 percent in 2021 and 0.5 percent in 2022.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	5.7	4.7	4.3	-4.9	6.3	4.4
Private Consumption	6.9	8.0	7.6	-2.3	8.0	6.1
Government Consumption	5.5	3.3	2.0	1.7	-2.8	-0.5
Gross Fixed Capital Investment	6.1	1.4	-2.1	-5.3	-1.4	6.1
Exports, Goods and Services	8.7	2.2	-1.1	-12.1	6.1	2.6
Imports, Goods and Services	10.2	1.3	-2.3	-9.2	4.6	3.0
Real GDP growth, at constant factor prices	5.6	5.0	4.4	-4.9	6.4	4.0
Agriculture	5.8	0.1	1.8	1.5	2.5	2.7
Industry	4.7	3.2	2.4	-5.0	5.0	3.6
Services	6.4	6.9	6.1	-5.6	7.9	4.4
Inflation (Consumer Price Index)	3.8	1.0	0.7	-1.2	0.7	1.0
Current Account Balance (% of GDP)	2.8	2.1	3.3	2.6	3.2	3.3
Net Foreign Direct Investment (% of GDP)	1.2	0.8	0.6	0.2	0.6	0.7
Fiscal Balance (% of GDP)	-2.9	-3.7	-3.4	-5.9	-4.4	-3.8
Debt (% of GDP)	50.1	51.1	52.4	58.2	59.7	61.1
Primary Balance (% of GDP)	-0.9	-1.6	-1.3	-3.8	-2.5	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.1	0.1	0.0	0.0	0.0	0.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.6	1.1	0.8	0.9	0.6	0.5

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

(a) Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS.Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

(b) Projection using annualized elasticity (2011-2015) with pass-through = 1based on private consumption per capita in constant LCU.

MONGOLIA

Table 1	2019
Population, million	3.2
GDP, current US$ billion	14.0
GDP per capita, current US$	4434.2
National Official Poverty Rate[a]	28.4
Gini index[a]	32.7
School enrollment, primary (% gross)[b]	104.0
Life expectancy at birth, years[b]	69.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) National Statistics Office. Most recent value (2018).
(b) Most recent WDI value (2018).

Mongolia's economy contracted significantly in H1 2020 as the COVID-19 pandemic adversely affected exports, FDI, private investment, and domestic activities. Despite a few signs of recovery since late May, the economy will experience a recession in 2020. Growth will rebound in 2021-22, supported by private consumption, and investment in mining and manufacturing. Key risks to the outlook include low commodity prices for key exporting goods (mainly coal and copper), limited commitment to fiscal discipline, weather related shocks, and stalled banking sector reforms.

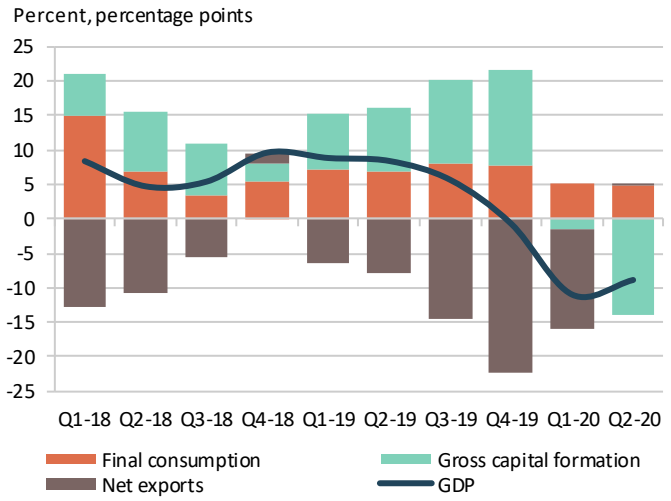
Recent developments

Real GDP contracted by 9.7 percent in H1 2020, mainly driven by mining sector (-29.4 percent, y/y) amid collapse in external demand and strict lockdown measures. Non-mining sector output also contracted by 4.4 percent, largely driven by manufacturing, trade and transportation sectors. Meanwhile, private investment plummeted, driven by slowdown in FDI inflows and negative growth of private sector credit. The government, however, accelerated the execution of its investment budget. Although, private consumption was a key growth engine in H1 2020, its growth declined to 5.7 percent (from 12.1 percent, y/y in 2018-19) amid decelerating household income. A recent household phone survey reported 70-90 percent of herder and self-employed households experienced income losses since end January 2020. While food price spiked in Q1 2020, raising food security concerns among the poor, inflation decelerated to 3.4 percent in July 2020 on back of weak domestic demand. With moderate inflation, the BoM has been gradually easing its monetary stance to support growth. Fiscal performance deteriorated substantially in H1 2020, driven by weak revenue performance and increased spending, reflecting fiscal relief measures and increased capital spending. After posting a surplus, averaging 2 percent of GDP in 2018-19, fiscal balance turned into a deficit of 5.4 percent in H1 2020. Despite import compression, external sector pressures remained high, largely dominated by weaker exports and sizable deceleration of FDI inflows, buoyed by large private sector external repayments. The current account balance remained at 5.3 percent of GDP in H1 2020 same as a year ago. Lower FDI inflows and private sector external bond repayments (US$500 million) resulted in a balance of payments deficit of 5 percent of GDP in H1 2020 in contrast to surplus of 3.3 percent in H1 2019. Gross international reserves declined to US$3.5 billion (equivalent to five months of imports) in H1 2020 from US$4.3 billion in 2019, as BoM's gross foreign exchange interventions (excluding direct FX purchases from large mining companies) reached US$1.6 billion in the same period (US$1.1 billion in H1 2019). Extensive foreign exchange interventions have led to a moderate depreciation of the tugrug against US dollar and Chinese renminbi (year-to-date by 4.3 percent and 5.1 percent, respectively).

Outlook

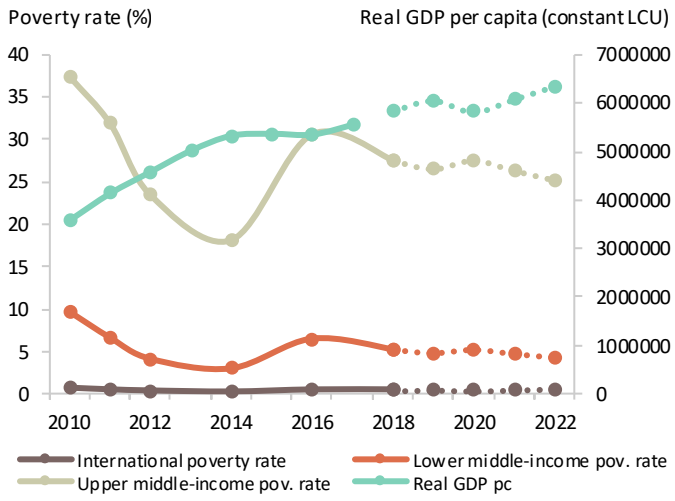
Economic output is projected to contract by 2.4 percent in 2020, with the country experiencing its first recession since 2009. Mining and services sectors are expected to be severely hit by weak external demand and COVID-19 containment measures. However, growth is expected to accelerate to over 5 percent in 2021-22, supported by a stronger impetus on investment in the mining sector (compounded by a higher-grade ore and increased production of gold) despite delay in the production schedule of Oyu Tolgoi's underground development.

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



Sources: National Statistics Office.

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



Sources: World Bank. Notes: see Table 2.

In fact, private investment backed by FDI and domestic credit (mainly corporate loans) will remain a key contributor to growth in 2021-22, especially in mining, manufacturing, and transport services. Private consumption will also support growth in the medium-term. Inflation is likely to remain moderate in 2020 driven by weak domestic demand, lower imports, and negative credit growth. It will pick up gradually in 2021-22, while remaining near the BoM medium term target as economic activities recover. The base case assumes a gradual tightening of monetary policy to contain inflation in the medium term.

Agriculture sector is projected to be the largest contributor to growth in 2020 amid favorable weather conditions. Its growth is expected to average above 5 percent in the medium-term. Industry would grow at 6.6 percent in 2021-22, following recovery in mining sector and potential implementation of mega mining projects. Strong linkages with mining activities would continue to support the services sector growth. The base case assumes that fiscal stance will deteriorate in 2020, due to significant revenue shortfall and spending expansion. Public debt is expected to increase in 2020 but would decline as fiscal stance improves in 2021-22. Heightened current account deficit in 2020 would gradually decline in the medium term as mineral exports growth recovers. Moreover, foreign exchange pressure would intensify in 2020 despite imports compression but would ease in 2021-22 with the recovery of export growth and further inflows of FDI. The base case also assumes improvement of the reserves position in 2021-22, as BoM allows greater flexibility of the exchange rate and undertakes limited interventions.

Despite the Government's social assistance measures, the projected economic contraction is likely to increase poverty for the first time since 2016. Poverty at the lower middle-income countries' poverty line (US$3.20PPP per day) is projected to rise by 0.4 percentage points to 5.2 percent in 2020 and then return to the 2019 level by 2021 as the economy rebounds in 2021-22.

Risks and challenges

The risks to the growth outlook include potential lingering impact of COVID-19 global pandemic on commodity prices (especially coal and copper), a relaxation of the government's commitment to reforms after the COVID-19, weather related shocks (drought/flooding, harsh winter), and limited progress on banking sector reforms. A downside scenario of the outlook could materialize if the impact of Covid-19 persists in the advanced economies exacerbated by trade uncertainty between USA and China. These events could severely cripple the global demand, the price of key exporting commodities (particularly copper) and financial markets. A relaxation of the government's commitment to economic reforms, as already evidenced by an expansionary 2020 budget amendment, could also affect market sentiments and FDI flows. However, the authorities are likely to restore fiscal discipline in the 2021 budget, which is under preparation.

Weather related shocks could affect non-mining exports (e.g., meat and cashmere) and thus adversely impact the income of poor and vulnerable herders. Inability to recapitalize the banking sector adequately could create instability and affect planned official sector support.

On a positive note, Mongolia has made significant progress towards overcoming deficiencies on anti-money laundering (AML) issues as reported by the Financial Action Task Force (FATF). This would positively affect FDI inflows and boost the credibility of the financial sector.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	5.4	7.0	5.0	-2.4	5.6	5.4
Private Consumption	5.4	12.4	9.9	3.0	5.0	6.0
Government Consumption	-1.8	-0.8	11.5	16.1	-3.5	-0.5
Gross Fixed Capital Investment	35.6	21.3	23.5	-2.2	11.3	12.5
Exports, Goods and Services	14.8	24.0	9.1	-15.8	22.0	14.0
Imports, Goods and Services	24.8	30.9	22.3	-8.5	18.0	13.6
Real GDP growth, at constant factor prices	5.3	7.2	5.2	-2.4	5.6	5.4
Agriculture	1.8	4.5	8.4	10.3	6.0	5.0
Industry	0.7	7.9	3.1	-7.7	7.0	6.2
Services	10.8	7.5	5.9	-2.2	4.4	5.0
Inflation (Consumer Price Index)	6.4	8.1	5.2	4.5	5.7	7.0
Current Account Balance (% of GDP)	-10.2	-16.8	-15.4	-15.2	-10.4	-8.5
Net Foreign Direct Investment (% of GDP)	12.7	16.3	16.5	11.5	12.3	11.9
Fiscal Balance (% of GDP)	-3.8	2.6	1.4	-11.4	-4.1	-3.6
Debt (% of GDP)	84.6	72.7	69.2	83.0	82.0	77.9
Primary Balance (% of GDP)	0.3	5.8	3.6	-8.9	-2.0	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]		0.5	0.5	0.5	0.5	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		5.2	4.8	5.2	4.7	4.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		27.6	26.5	27.6	26.3	25.1

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

(a) Calculations based on EAPPOV harmonization, using 2016-HSES and 2018-HSES.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using annualized elasticity (2016-2018) with pass-through = 1based on GDP per capita in constant LCU.

MYANMAR

Table 1	2019
Population, million	53.9
GDP, current US$ billion	67.9
GDP per capita, current US$	1260.1
Lower middle-income poverty rate ($3.2)[a]	14.9
Upper middle-income poverty rate ($5.5)[a]	54.3
School enrollment, primary (% gross)[b]	112.3
Life expectancy at birth, years[b]	66.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2018).

The Covid-19 pandemic has caused a steep decline in economic growth to 0.5 percent (FY2019/20) in Myanmar. This is likely to erode recent gains in poverty reduction. In the medium term, growth is expected to pick up, supported by a gradual resurgence in manufacturing activities and accelerated investment in power, energy and digital technology. Risks remain high from new waves of local transmission and a deeper and prolonged global slowdown, compounding domestic uncertainties around the financial sector, ongoing conflicts and national elections in November 2020.

Recent developments

The global Covid-19 shock has taken a big toll on Myanmar's economy, lowering the GDP growth rate estimate from 6.8 percent last year to 0.5 percent in FY2019/20. Supply chain disruptions in the garment sector, a decline in tourism revenue and operational losses for retail and hospitality firms, led to a sharp decline in economic activity in the second and third quarters of FY2019/20. In Q2, the Myanmar Covid-19 monitoring firm survey revealed that 83 percent of firms experienced a reduction in sales, 51 percent of firms experienced cash flow shortages and 29 percent of firms experienced a reduction in access to credit. However, industrial production has shown signs of recovery with the Purchasing Manager's Index recovering to expansionary territory and a 15-month high in August. The recovery in transport and hospitality sectors continue to lag as demand for domestic travel and haulage remains low, and international travel restrictions are in place. The economic slowdown has had a large negative impact on employment and incomes, especially in the informal sector. Recent household survey data indicate that by May 2020, 54 percent of households' main earners had lost their jobs; of those still working, 55 percent had experienced reduced incomes.

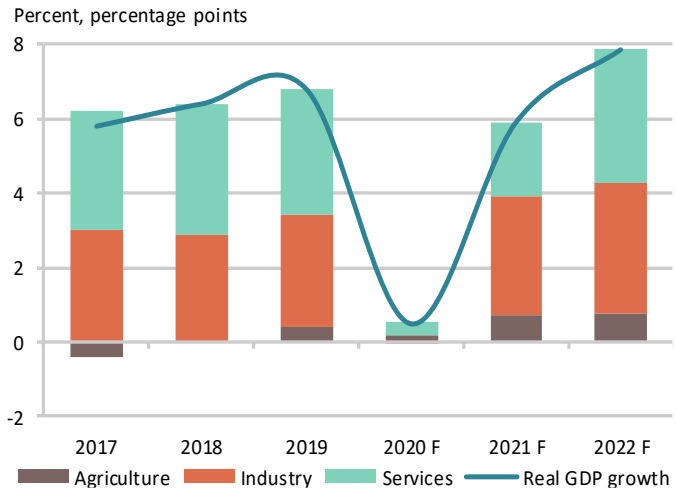
To mitigate the Covid-19 shock, the Central Bank intervened by cutting the interest rate by three percentage points; halting deposit auctions to maintain an adequate level of liquidity in the interbank market; and extending deadlines to comply with prudential regulations. On the fiscal front, the Covid Economic Relief Plan (CERP) was launched with fiscal support measures amounting to 3 percent of GDP. The plan includes tax breaks and deferrals. Government has redirected Kyat 1.3 trillion (USD 0.8 billion) toward health services, and a fund totaling Kyat 200 billion (USD 133 million) has been established to provide soft loans to affected business at reduced interest rates. The Government also reduced household electricity charges; provided food assistance and a new cash for work program.

Headline inflation subsided to 4.2 percent (y/y) in May 2020 after peaking at 9.5 percent in December 2019. Fuel prices fell and food inflation dropped to 2.6 percent, as poultry, eggs and vegetables prices decreased.. The Kyat remained strong, appreciating against regional currencies between April and August despite a widening trade deficit. The FY2018/19 current account deficit of 2 percent of GDP is expected to widen to 4.5 percent of GDP in FY2019/20 due to lower tourism exports and commodity prices, widening the trade deficit to USD 1.8 billion in July, which is USD 0.8 billion or 78 percent higher than the same period last year.

Outlook

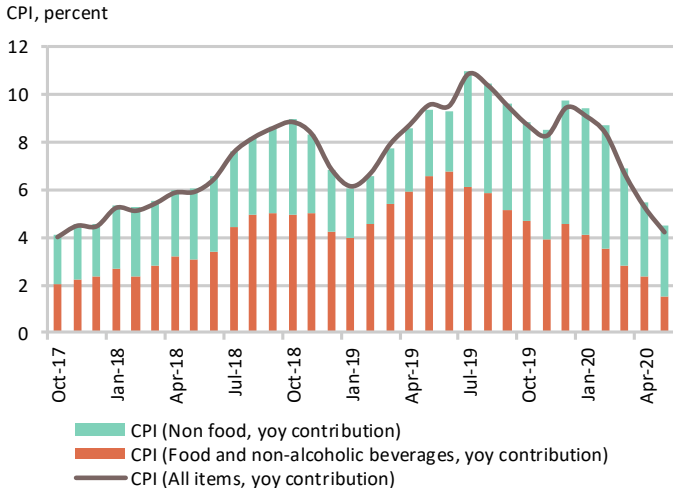
Growth is forecast to rebound from 0.5 percent in FY2019/20 to 5.9 percent in FY2020/21 and to roughly 7 percent in the medium term. These projections are in

FIGURE 1 Myanmar / Real GDP growth and contributions to real growth by sector



Sources: Ministry of Planning and Finance and World Bank staffs estimate.

FIGURE 2 Myanmar / CPI Inflation (yoy change)



Sources: Central Statistical Organization and Wakhema exchange rate.

line with the global recovery and supported by new investment operations in power and energy, a gradual resurgence in manufacturing activities and Covid-19 related investment in digital technology, which could boost productivity. The current account deficit is expected to remain at roughly 4 percent of GDP in the medium term driven by a prolonged export slowdown and large imports of supply materials for mega infrastructure projects. The slow economic growth threatens to reverse Myanmar's recent progress in poverty reduction while deepening deprivation for households that are already poor. Under the current GDP growth scenario for FY2019/20, poverty might slightly increase in the short term, before declining again shortly afterward. Food insecurity should be monitored as agriculture, the main sector of employment of poorer households, grew half as much in FY2019/20 as the previous year, with prospects for improvements next year at risk.

Risks and challenges

The risks to the forecast are high. The new waves of coronavirus outbreak is resulting in more severe and possibly prolonged restrictions on overall economic activity, posing a further impediment to growth in FY2020/21. Despite government interventions to mitigate Covid-19 related impacts, the household, banking, and corporate sector balance sheets could sustain severe damage. Given the regulatory forbearance measures announced by the Government in the spring, the CBM will need to shore up bank supervision to mitigate the risk of a considerable deterioration in asset quality and financial stability. Another risk is the sharp deterioration in the micro-lenders'asset quality due to the Covid-19 pandemic. While the share of non-performing loans on micro lenders' balance sheets has been stable below 1 percent for several years, it jumped to around 9.2 percent in recent months, partly due to the restrictions on travel that impacted MFI's ability to collect repayments.

Slow recovery in the labor market and productivity risks could affect medium-term growth. Impacts on agricultural production and exports require close monitoring as harvest season approaches. There are early indications of disruptions in the rice planting season due to lower access to credit and inputs and, since March this year, an inability for half of farming households to perform their regular activities. Under the downside scenario, the growth rate is estimated to slow further to -0.9 percent in FY2019/20 and the recovery in FY2020/21 will be slower than in the baseline case.

These domestic risks are compounded by global uncertainties not limited to the possibility of reduced external demand for a prolonged period. Travel restrictions will continue affecting the tourism and transportation industry. Protracted economic disruptions and income losses may give rise to food security concerns. Uncertainties around schools reopening and their affordability for many families, raise concerns around Myanmar's growth potential and widening inequalities.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	5.8	6.4	6.8	0.5	5.9	7.9
Real GDP growth, at constant factor prices	5.8	6.4	6.8	0.5	5.9	7.9
Agriculture	-1.5	0.1	1.6	0.7	1.6	4.0
Industry	8.7	8.3	8.4	-0.2	6.5	7.9
Services	8.3	8.7	8.4	1.0	7.7	9.9
Inflation (Consumer Price Index)	4.7	5.9	8.5	7.5	7.0	7.0
Current Account Balance (% of GDP)	-6.5	-4.2	-2.6	-4.5	-4.5	-4.0
Fiscal Balance (% of GDP)[a]	-2.6	-2.9	-3.8	-7.1	-7.8	-6.5
Public Sector Debt (% of GDP)[a]	38.4	40.3	38.8	43.8	45.9	46.3
Primary Balance (% of GDP)[a]	-1.3	-1.4	-2.3	-4.8	-6.0	-5.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	15.0	13.1	11.4	11.4	10.0	8.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	54.3	51.1	47.7	48.0	45.2	41.2

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

(a) Fiscal balances are reported in fiscal years (October 1st -September 30th).

(b) Calculations based on EAPPOV harmonization, using 2017-MLCS.Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.

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

NORTH PACIFIC ISLANDS

Table 1	2019
Population, million	
Federated States of Micronesia	0.11
Republic of the Marshall Island	0.06
Palau	0.02
GDP, US$, billion	
Federated States of Micronesia	0.41
Republic of the Marshall Island	0.23
Palau	0.27
GDP per capita, current US$	
Federated States of Micronesia	3658
Republic of the Marshall Island	3920
Palau	14989

Sources: WDI, World Bank staff estimates.

The economic impact of COVID-19 is expected to have pushed the Federated States of Micronesia, the Marshall Islands and Palau into recession in FY20. With borders expected to remain closed until at least mid -2021, all three economies are projected to contract further in FY21. While large parts of government revenues are relatively protected from the economic downturn, substantial fiscal risks remain, including due to the scheduled expiry of Compact-related fiscal transfers in 2023-2024.

Recent developments

The Federated States of Micronesia (FSM) is estimated to have grown by 1.4 percent in FY19 (October 2018 to September 2019). This marked a fifth consecutive year of positive growth, and the longest period of sustained economic expansion since 2003. However, the economic impact of the pandemic is expected to have driven the economy into recession in FY20 with the economy contracting by 4.5 percent, as strict border closures and related trade disruptions have curtailed construction activity and domestic consumption.

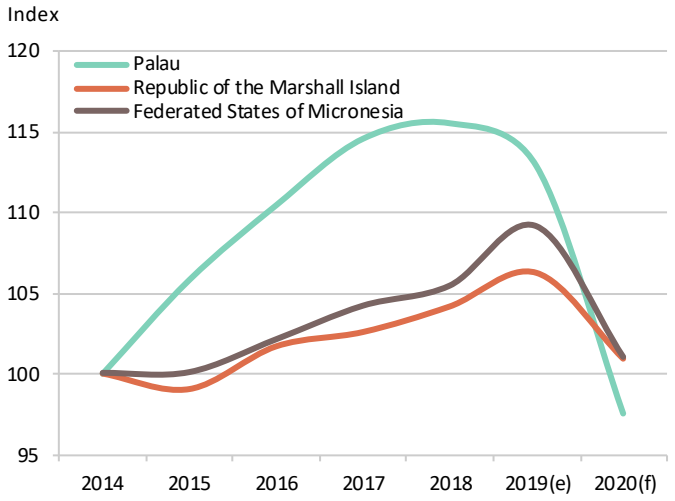
The latest estimates indicate that 41.2 percent of the population were unable to afford the cost of basic needs in 2013/14. Positive growth prior to COVID-19 supported formal sector employment, which increased by 1 percent per year from FY14 to FY19. This is likely to have reduced poverty in basic needs, because consumption tends to be higher for those who are engaged in formal sector activities. Nevertheless, the sharp downturn in economic activity and job losses in FY20 are likely to have reversed some of these gains.

Inflation is expected to have turned negative in FY20, consistent with the economy operating at below its potential output. The current account is estimated to have registered its fifth consecutive surplus in FY19, reflecting strong fishing revenues and grant inflows related to the Compact with the U.S. The surplus is expected to narrow in FY20 as tourism receipts and remittances have fallen.

A fiscal deficit of 1.4 percent of GDP is projected in FY20 following several years of large surpluses. Substantial fishing revenues (18 percent of GDP), combined with a series of one-off tax payments by captive insurance companies, resulted in average annual fiscal surpluses of 15 percent of GDP during FY14-FY19. This allowed the government to build fiscal buffers to 227 percent of GDP in FY19. Despite the sharp downturn in economic activity in FY20, large parts of government revenues have been relatively protected – particularly development partner grants and fishing revenues. GoFSM's substantial fiscal buffers, combined with additional grants from the ADB and the U.S. (along with other partners, including the World Bank) have provided the fiscal space for a 9 percent of GDP COVID-19 fiscal response package, while limiting the FY20 budget deficit.

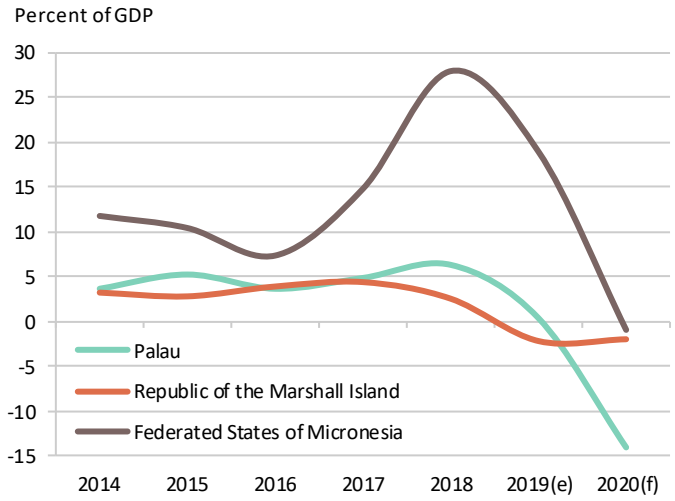
The **Republic of Marshall Islands (RMI)** also experienced a fifth consecutive year of economic expansion, with estimated growth of 2.4 percent in FY19. The economy has been hit hard by the economic impacts of COVID-19, with a projected contraction of 5.0 percent in FY20, driven by declines in construction and transport. The current account is estimated to have reached 3.7 percent of GDP in FY19. Foreign grants and higher fishing revenues more than offset an increase in service imports. A deficit of 0.9 percent of GDP is projected for FY20 due to lower remittances and increased imports. Consumer prices are projected to have declined by 2 percent in FY20, largely reflecting lower prices for imported goods in the context of a substantial positive output gap.

FIGURE 1 North Pacific Islands / Formal sector employment (Index, 2014=100)



Sources: National sources via EconMap.

FIGURE 2 North Pacific Islands / Overall fiscal balance (share of GDP)



Sources: National sources via EconMap and World Bank projections.

Poverty is expected to have fallen in recent years due to solid economic growth, public infrastructure investment, and low inflation. However, the exact extent of this trend is unknown due to lack of data on household incomes and expenditures.

The fiscal deficit is projected to narrow to 2.0 percent in FY20 from 2.2 percent in FY19. Large increases in fishing revenues in recent years (to 13 percent of GDP in FY19) have created substantial fiscal space. While some of these windfall revenues have been saved to build long-term fiscal buffers, the majority have been spent to increase current expenditure for public service delivery (via SOEs), transfers to households for copra production, and to address some of the social security system's large unfunded liabilities. Large parts of fiscal revenues are relatively protected from the downturn in domestic activity – particularly donor grants and fishing revenues, which have remained relatively strong in FY20. Grants from the ADB and the U.S. (along with other partners, including the World Bank) have provided the fiscal space for a $24 million (11 percent of GDP) COVID-19 fiscal response package, while limiting the projected FY20 budget deficit.

In **Palau**, the pandemic represents an economic shock of unprecedented scale. Although the nation remains virus free, the tourism industry (40 percent of GDP) is at virtual standstill, trade flows are severely disrupted, and business activities have been curtailed. The economy entered the COVID-19 crisis on a weak footing, having contracted by over 4 percent in FY19 due to a fall in tourist arrivals. The government continued to implement its structural reform of the tourism sector away from a high-volume model and towards a high-quality model of sustainable ecotourism development. The collapse in tourist arrivals since February 2020 is expected to result in a further 12 percent GDP contraction in FY20. The current account deficit reached 28 percent of GDP in FY19, owing to lower tourism receipts and higher imports. The deficit is expected to have expanded further in FY20 reflecting the drop in tourism activity, although this will be offset somewhat by lower imports demand and prices. It is financed through an increase in government external debt.

Poverty is expected to have increased. Lower economic activity in FY19 resulted in a fall of over 2 percent in formal sector employment, with substantial further job losses occurring in FY20. Consumer prices rose by 0.6 percent in FY19 but are expected to decline in FY20 reflecting lower imported fuel and food prices in the context of a substantial positive output gap. The severe impacts on economic activity and jobs is expected to have led to increased vulnerability for many Palauan households – particularly for the substantial non-resident population that predominantly work in the tourism sector.

Fiscal policy has generally been prudent in recent years, but a deficit of 14 percent of GDP is expected in FY20. Despite the economic contraction in FY19, a small fiscal surplus (including grants) was recorded. This was the ninth consecutive annual surplus, underpinned by continued strong fishing revenues and Compact grants. However, the collapse in domestic revenues, combined with necessary additional spending for the health sector and to support businesses and households, has led to a large deficit in FY20. This has been financed by external borrowing, which is estimated to have raised public external debt to GDP to around 50 percent.

Outlook

The economic impact of COVID-19 is projected to lead to further contractions in economic activity in all three countries in FY21. The economies of the **FSM** and **RMI** are projected to contract by a further 1.5 percent, owing to very restrictive border and customs policies that are expected to be maintained at least until mid-2021. This will further depress tourism receipts and restrict the entry of foreign workers and merchandise imports – curtailing construction activity. The **Palauan** economy is expected to contract by a further 6 percent in FY21, as the nation's strict arrivals policies are extended into 2021, with tourism arrivals unlikely to recovery until FY22.

Poverty is expected to increase in the North Pacific. Economic contraction is expected to lead to additional formal-sector job losses and lower demand for goods in the informal economy across the three countries. The RMI and FSM receive annual remittance inflows of around 14 percent and 6 percent of GDP, respectively. These flows are projected to decline due to deteriorating labor market conditions in the US. An economic rebound is projected in FY22 for all three nations – conditional on a recovery in the global economy and the easing of restrictive domestic arrivals policies.

Risks and challenges

Over the medium term, the outlook for the North Pacific countries is subject to substantial risks due to their reliance on grants, tourism, and commodity imports. A more protracted global downturn, prolonged domestic travel restrictions, a domestic outbreak of the virus, or additional supply-chain disruptions would have further negative impacts on economic activity. These countries will have to rely on fiscal and structural policies should the above-mentioned risks materialize, given the lack of monetary policy levers. The scheduled expiry of Compact-related grants and programs in 2023-2024 poses a key structural risk to the long-term fiscal sustainability of all three nations, considering the limited space for additional debt. This risk is exacerbated by the recent global financial market declines that have reduced the balances on the nations' various trust funds – which are supposed to replace the expiring Compact-related fiscal transfers. Finally, the lack of recent household data in all three countries poses a risk to policy making and makes it challenging to monitor development progress and impacts of shocks on the poor.

TABLE 2 North Pacific Islands / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019e	2020f	2021f	2022f	2023f
Real GDP growth, at constant market prices						
Republic of the Marshall Islands	3.6	2.4	-5.0	-1.5	4.0	1.5
Federated States of Micronesia	0.2	1.4	-4.5	-1.5	4.5	1.5
Palau	4.1	-4.2	-12.0	-6.0	15.0	6.0

Sources: EconMAP, IMF, and World Bank MTI Global Practice.
e = estimate; f = forecast.

PAPUA NEW GUINEA

Table 1	2019
Population, million	8.8
GDP, current US$ billion	25.0
GDP per capita, current US$	2849
Poverty rate ($1.90/day 2011 PPP terms)[a]	38.0
National poverty rate[a]	39.9
Gini index[a]	41.9
Life expectancy at birth, years[b]	64.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2009/10).
(b) Most recent WDI value (2018).

The economy has been hit hard by COVID-19 due to weaker aggregate demand and less favorable terms of trade. In response, the government has mobilized domestic resources and is engaging development partners and the private sector to finance additional public spending to support the affected economy and the population. While the focus of the authorities is currently on crisis mitigation, it also is important to prepare the economy for a more robust and resilient recovery over the medium term.

Recent developments

Our updated projections for 2020 suggest that the economy will contract 3.3 percent in 2020 (5.2 percent per capita). Pandemic-related international and domestic movement restrictions have weakened external and domestic demand and suppressed commodity prices, except for gold. Disputes with international investors over the ongoing and new resource projects are also contributing to lower growth in 2020.

The current account surplus is expected to decrease from 22.5 percent of GDP in 2019 to about 16 percent in 2020. Gold prices are at near-record highs, fuel import costs are falling, and Papua New Guinea is not highly dependent on foreign tourist income or remittances from abroad. Australia, a significant trading partner, has also successfully contained the virus so far, providing hope that regional economic disruption will be lower than in Europe or the Americas.

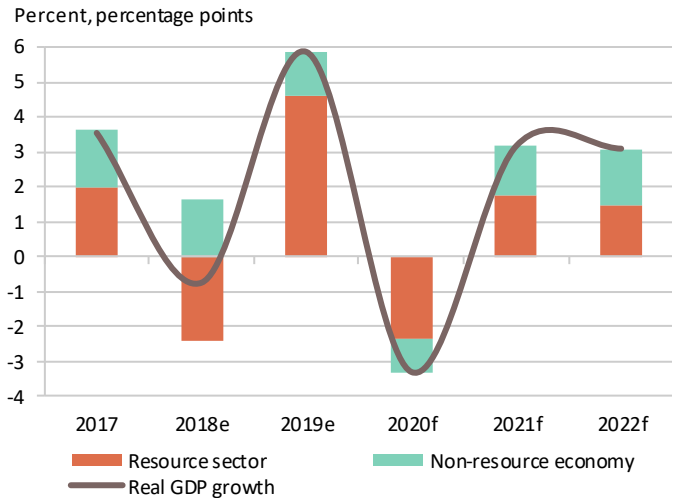
The fiscal deficit will increase from 4.9 percent of GDP in 2019 to 8.1 percent estimated for 2020. A revenue shortfall due to COVID-19 is estimated to contribute 1.2 percentage points to the deficit, while a limited adjustment to the expenditure side will add extra 1.9 percentage points. This additional financing need is expected to be covered by the central bank (via a quantitative easing program and a temporary advance facility) and external concessional financing from multilateral and bilateral partners.

The authorities reacted swiftly by approving a package of emergency health and economic relief measures of about 2.2 percent of GDP. However, its implementation has been slow. In early April 2020, the government mobilized its resources and appealed to development partners and the private sector for additional support to protect the economy and livelihoods of vulnerable households and businesses.

The tax authority provided deferrals for tax filing and payment for two months and prioritized processing of goods and services tax refunds for medical supplies. The central bank injected additional liquidity into the system and provided foreign currency for COVID-19-related purchases of medicine and medical equipment.

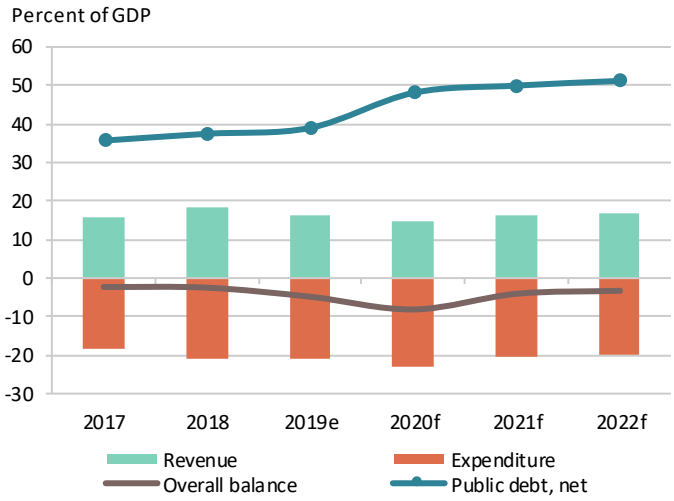
The prevalence of extreme poverty in PNG is very high, with about 38 percent of the population in 2010 (the latest household budget survey available) living under the international poverty line of US$1.90 per day (2011 PPP terms). A mobile phone survey was recently conducted to capture the impacts of the pandemic at the household level, particularly the poor. In the agricultural sector, where most of the poor work, nearly half of households reported expecting a decline in agricultural income for the current growing season. In terms of employment, approximately 25 percent of those working at the pre-crisis baseline were no longer working during the week prior to data collection. According to a wealth index in the survey, the middle quintile of households (who represent the vulnerable and near poor households), were most impacted by job losses.

FIGURE 1 Papua New Guinea / Real GDP growth and contributions to real GDP growth



Sources: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Sources: World Bank staff estimates and forecast.

Outlook

Growth is expected to rebound to more than 3 percent in 2021–22. Economic growth in the medium term will be supported by foreign investment in new resource projects, including the Papua LNG project, the Wafi-Golpu gold and copper mine, the P'nyang gas field, and the Pasca A gas condensate field. The upcoming investment boom will boost demand for services (especially for accommodation, catering, and security) in the capital and provinces that will be hosting these projects. Potential growth will be increasing, in line with substantial foreign direct investment to start flowing into the economy.

Inflation is expected to stay muted in 2020 due to COVID-19 and start picking up over the medium term. The benign inflationary outlook for this year is underpinned by weak domestic demand, the overvalued local currency, and subdued energy prices. The end of the current crisis and relaxation of COVID-19 mitigation measures are likely to reinvigorate domestic demand, putting upward pressure on prices in 2021–22.

The Balance of Payments is projected to be in balance, owning to external budget-support funding available to fill the emerged financing gap. The current account is expected to remain in surplus in 2020–22, but the surplus will be smaller. Prices of major exports—including precious metals, energy, and agricultural commodities—are expected to average lower in 2020; gold being an exception. Although external budget financing will provide immediate relief to the foreign exchange market, falling exports and disruptions to mining projects are likely to offset these positive developments in the short term.

The COVID-19 crisis has impacted the already-complicated fiscal picture and will lead to a higher debt-to-GDP ratio. Before COVID-19, the government was planning the fiscal deficit at 5 percent of GDP in 2020, which was higher than in the previous years due to substantial budget arrears accumulated by the government. The COVID-19 impacts will lead to a higher fiscal deficit, estimated at 8.1 percent of revised GDP, and a higher debt -to-GDP ratio, estimated to exceed 48 percent of revised GDP in 2020. To contain public debt from growing further, the government will need to resume its fiscal consolidation efforts in the post-COVID-19 period, by focusing more on mobilizing domestic revenue and improving efficiency of public spending.

Reflecting economic uncertainties, the central bank is expected to continue its accommodative monetary policy over the near term with potential normalization to follow subject to inflationary pressure and economic growth. However, the central bank should address structural deficiencies within the financial sector to ensure these policies have the desired impacts. Policies such as reducing excess liquidity, enabling healthy competition, enhancing the effectiveness of money markets, and improving the investment climate in the financial sector should complement the monetary stimulus package.

Risks and challenges

The balance of risks to the outlook is firmly tilted to the downside. The main risks include the possibility that the COVID-19 pandemic lingers and has a lasting economic impact on the economy. In addition, ongoing disputes around the Porgera mine may affect investor confidence and, therefore, should be treated carefully.

Considering that the economy entered the COVID-19 crisis with a poor record of resilience to external shocks, it will be vital to set the stage for more sustainable and inclusive development by strengthening macroeconomic management and accelerating structural reforms while protecting the vulnerable. With no government safety nets programs in place, households in the recent mobile phone survey were relying mainly on informal channels for assistance, including friends, family, and religious organizations. Many also reported decreasing food consumption, selling productive assets, and taking on more debt as coping strategies, all of which have negative implications for their ability to recover in the post-crisis period.

For more inclusive and sustainable development over the medium term, the authorities will need to ensure that frontline health services continue to deliver during the crisis, introduce safety nets for the poor and vulnerable, support firms and jobs in the informal sector, and strengthen the macroeconomic policy framework.

TABLE 2 Papua New Guinea / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018e	2019e	2020f	2021f	2022f
Real GDP growth, at constant market prices	3.5	-0.8	5.9	-3.3	3.2	3.1
Resource sector[a]	4.4	-5.1	9.7	-4.8	3.7	3.1
Non-resource economy	1.6	3.1	1.9	-0.5	1.2	2.9
Inflation (Consumer Price Index), period average	5.4	4.7	3.6	3.2	3.5	4.0
Current Account Balance (% of GDP)	23.7	24.2	22.5	16.1	12.7	7.8
Resource sector[a]	26.3	26.7	27.9	22.9	23.3	22.1
Non-resource economy	-2.5	-2.5	-5.4	-6.8	-10.6	-14.3
Overall Fiscal Balance (% of GDP)	-2.5	-2.7	-4.9	-8.1	-4.2	-3.4
Non-resource primary balance (% of non-extractive GDP)	-1.6	-2.7	-5.3	-8.2	-4.0	-3.1
Public Debt, net (% of GDP)	35.9	37.7	39.2	48.3	50.2	51.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast; (a) The resource sector comprises agriculture, forestry, fishing, mining, quarrying, petroleum and gas production and related construction.

PHILIPPINES

Table 1	2019
Population, million	108.1
GDP, current US$ billion	375.8
GDP per capita, current US$	3475.9
International poverty rate ($1.9)[a]	6.0
Lower middle-income poverty rate ($3.2)[a]	25.8
Upper middle-income poverty rate ($5.5)[a]	54.9
Gini index[a]	44.4
School enrollment, primary (% gross)[b]	107.5
Life expectancy at birth, years[b]	71.1

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

The economy slipped into a recession following two consecutive quarters of negative growth in the first half of 2020. The contraction was mainly driven by the strict containment measures implemented to address the COVID-19 pandemic which significantly curtailed domestic demand. The growth outlook is worse than initially projected, with an estimated 6.9 percent contraction in 2020 before recovering in 2021-2022. Recent gains in poverty have been reversed as poverty is estimated to increase by 1.9 percentage points in 2020.

Recent developments

The economy contracted by 9.0 percent year-on-year in the first half of 2020 from 5.6 percent growth in the first half of 2019. The contraction, the largest since 1985, was driven by the implementation of strict containment measures to address the COVID-19 crisis, and the combined supply and demand shocks that shattered the global economy. Private consumption contracted as a result of record-high unemployment, contraction in foreign remittance inflows, and depressed consumer confidence. Private investment declined sharply amid weak business confidence and income losses. Public investments fell as resources were shifted to COVID-19 support measures making public consumption as the main growth engine. Meanwhile, exports and imports faced significant contractions as global trade activity slumped given disruptions in global value chains, sharp contractions in manufacturing, and a weak external demand.

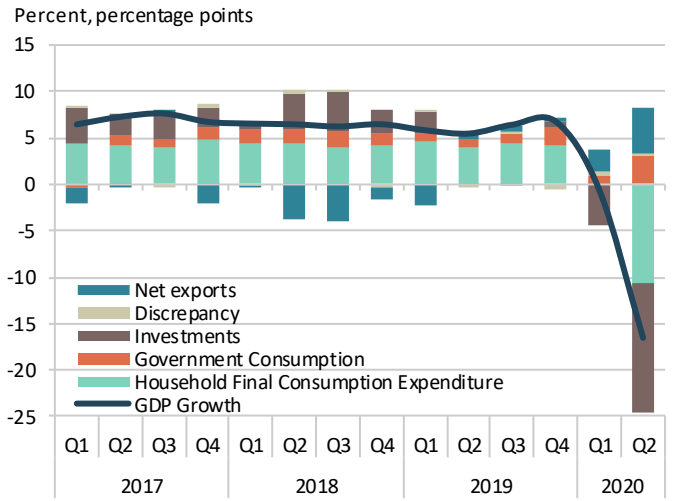
The Philippines registered a BOP surplus of 2.4 percent of GDP in the first half of 2020, slightly less than the 2.7 percent surplus recorded over the same period last year. The positive BOP position was driven by a substantially lower merchandise trade deficit, coupled with an increase in foreign borrowings by the national government. Remittances (9.1 percent of GDP) decreased by 4.2 percent year-on-year amid the global impact of COVID-19. The US dollar inflows, coupled with softer dollar demand on account of weaker imports, contributed to a 3.1 percent year-on-year appreciation of the peso in the first half of the year. As a result, gross international reserves reached an all-time high of US$93.5 billion, with an import coverage of 8.4 months in end-June 2020.

The fiscal deficit widened significantly to 6.5 percent of GDP in the first half of 2020 compared to a deficit of 0.5 percent of GDP a year ago. The COVID-19 pandemic has put increased pressure on the country's fiscal balance, as the tax revenue base has eroded significantly. Moreover, public spending growth accelerated in the first half of the year to mitigate the impacts of the crisis, increasing to 23.4 percent of GDP from 17.1 percent a year ago. As a result, public debt has increased to 48.1 percent of GDP as of end-June 2020, from 39.6 percent in end-2019.

Inflation declined to 2.5 percent in the first seven months of 2020, compared to 3.3 percent over the same period a year ago, giving space for more accommodative monetary policy. The central bank reduced the key policy rate by a cumulative 175 bps to 2.25 percent, and the reserve requirement ratio by 200 bps to 12.0 percent in the first half of 2020. It also adopted other regulatory measures to facilitate online transactions and took preemptive actions to minimize the economic fallout of the COVID-19 pandemic such as the relaxation of know-your-customer requirements to facilitate the delivery of social protection programs.

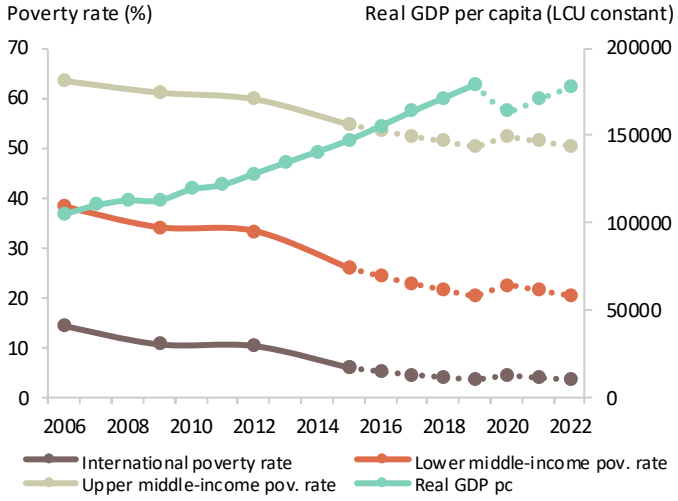
The national poverty rate declined from 23.5 percent in 2015 to 16.7 percent in 2018 driven by robust growth in household

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



Sources: Philippine Statistics Authority.

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



Sources: World Bank. Notes: see table 2.

incomes, essentially wage incomes. However, the recession, fall of remittance inflows, and surge of unemployment, which more than tripled in April 2020 compared to January 2020, may have reversed these gains.

Outlook

The economy is projected to contract by 6.9 percent in 2020 owing in part to a reversal to tougher COVID-19 quarantine measures in August. Private consumption is expected to shrink in the second half of 2020 due to income losses, poor consumer confidence, and slow recovery in economic activities. Capital formation is also anticipated to dip as private investment remains dampened by uncertainty, while public investment projects face operational delays due to lockdowns and supply disruptions. Weak global trading will soften exports, while travel restrictions dim the prospects for tourism in the second half of the year. The economy is expected to rebound to 5.3 percent and 5.6 percent growth in 2021 and 2022, respectively. This projection assumes that the infection curve will be flattened in early 2021. In this scenario businesses and households regain confidence, and the government continues to roll out its infrastructure program. Base effect will prop up growth in 2021 while the national election will boost activities in the latter half of 2021 through 2022.

Despite the government's efforts to mitigate the negative effects of the pandemic on poor and vulnerable households, the poverty incidence is estimated to increase by around 1.9 percentage points between 2019 and 2020 (based on the lower middle -income poverty line of 3.2 dollars a day, 2011 PPP). If wage and nonfarm employment increase with GDP growth and inflation is stable, the poverty rate will likely decline back to its 2018 level by 2021 and maintain a downward trend through 2022. Measured by the lower middle-income class poverty line (3.20 dollars a day, 2011 PPP), the poverty headcount is projected to decline from 22.4 percent in 2020 to 20.4 percent in 2022.

Risks and challenges

The key domestic risk remains the uncontrolled COVID-19 transmission which could lead to a reversion to strict quarantine measures and further dampen domestic activities. The ensuing economic disruption could exacerbate business closures and unemployment which would deepen the recession, unless compensated by social measures. Financial risks could increase as borrowers in the most affected sectors face debt obligations challenges, which would worsen the asset quality and loan portfolio of the banking system. On the external front, a deep global recession and heightened global protectionism would weaken external demand for goods and services export.

The government needs to enhance its public health management measures including strengthening testing, tracing, isolating, and treatment capacity to effectively flatten the infection curve. Providing support to affected households and businesses, especially poor and vulnerable families, and micro, small and medium enterprises will lessen the negative impacts of the pandemic-induced shock. In the medium term, sustaining the public infrastructure spending agenda will be crucial to support economic recovery while addressing long-standing infrastructure gap in the country. Moreover, the authorities need to accelerate structural reforms to improve the business environment, foster competition, and boost productivity growth in the country.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	6.9	6.3	6.0	-6.9	5.3	5.6
Private Consumption	6.0	5.8	5.9	-7.7	5.7	5.2
Government Consumption	6.5	13.4	9.6	15.4	0.2	8.2
Gross Fixed Capital Investment	10.6	12.9	3.9	-23.2	11.4	9.9
Exports, Goods and Services	17.4	11.8	2.4	-16.7	9.3	5.0
Imports, Goods and Services	15.1	14.6	1.8	-19.1	10.6	8.2
Real GDP growth, at constant factor prices	6.9	6.3	6.0	-6.9	5.3	5.6
Agriculture	4.2	1.1	1.2	1.3	1.3	1.6
Industry	7.0	7.3	4.7	-9.7	5.5	5.7
Services	7.4	6.7	7.5	-6.7	5.9	6.2
Inflation (Consumer Price Index)	2.9	5.2	2.5	2.5	2.8	3.0
Current Account Balance (% of GDP)	-0.7	-2.3	-0.1	-0.5	-2.0	-1.8
Net Foreign Direct Investment (% of GDP)	3.1	2.9	2.0	0.9	1.4	1.2
Fiscal Balance (% of GDP)	-2.1	-3.1	-3.4	-8.7	-7.2	-6.6
General Government Debt (% of GDP)	34.9	34.4	34.1	44.8	48.8	51.6
Primary Balance (% of GDP)	-0.2	-1.1	-1.6	-6.4	-4.5	-3.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.6	4.0	3.6	4.3	3.9	3.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	22.8	21.6	20.5	22.4	21.4	20.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	52.4	51.4	50.4	52.1	51.3	50.4

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

(a) Calculations based on EAPPOV harmonization, using 2006-FIES and 2015-FIES.Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection using annualized elasticity (2006-2015) with pass-through = 1based on GDP per capita in constant LCU.

SOLOMON ISLANDS

Table 1	2019
Population, million	0.6
GDP, current US$ billion	1.5
GDP per capita, current US$	2317
National basic needs poverty rate (%)[a]	12.7
School enrollment, primary (% gross)[b]	112.6
Life expectancy at birth, years[a]	72.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a)Solomon Islands National Statistics Office. Most recent value (2013).
(b) Most recent WDI value (2017).

The economy is expected to contract by 5 percent in 2020 due to the negative effects of COVID-19 on export demand, tourism and donor infrastructure projects. With a constrained revenue outlook and new spending needs for the health sector, economic relief and social protection, the Government will need to tightly manage the efficiency of spending to make the best use of limited resources.

Recent developments

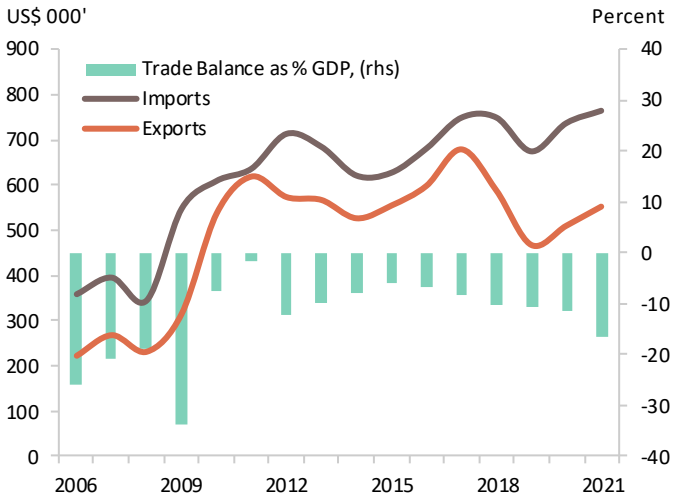
Staff project a GDP contraction of 5 percent in 2020 due to the impacts of COVID-19. Border disruptions and weak global demand contributed to a 17 percent drop in production for the primary sector in the first half of 2020, with tuna exports to Europe being particularly badly affected. Tropical log harvesting, the largest export earner, exceeded expectations in the first two quarters but preliminary data point to a sharp 40 percent slowdown in production in July. The lack of international visitor arrivals has also impacted severely on demand in the hotel and restaurant sector. On the supply side, disruptions to development partner infrastructure activity and a lockdown period in April-May are expected to have weighed heavily on the economy. Preliminary analysis from a mobile phone survey estimates that 6 percent of the work force active in January were no longer working in June due to COVID-19 restrictions.

The current account deficit is expected to widen to 14 percent of GDP in 2020. However, Solomon Islands entered the crisis with a comfortable external reserves cushion of 10 months of imports. This, combined with an US$28.5m IMF credit in May 2020, has helped support the external position despite the decline in exports.

A fiscal deficit of about 6 percent of GDP is expected in 2020. This is likely to require a further drawdown on Solomon Islands Government's (SIG's) already thin cash buffers, in addition to the financing already secured through donor budget support and a domestic bond issuance. Cash reserves amounted to just 1.3 months of total spending by the start of 2020. When revenue collection fell sharply in March 2020, the government was forced to introduce liquidity rationing measures, including placing public servants on half pay, and to make wide-ranging cuts to ministry budgets in order to reprioritize funds towards COVID-19 preparedness and response efforts. In May 2020, SIG launched an economic stimulus package with measures totaling about 2.7 percent of GDP (or 8 percent of government spending), after accumulating additional fiscal space through reprioritization, budget support contributions and a domestic bond. The package includes new agricultural subsidies and grants, provincial transport infrastructure projects, lending facilities for small businesses, and new equity injections and loans for affected state-owned enterprises. SIG has also authorized withdrawals from the National Provident Fund for members who have lost work due to COVID-19.

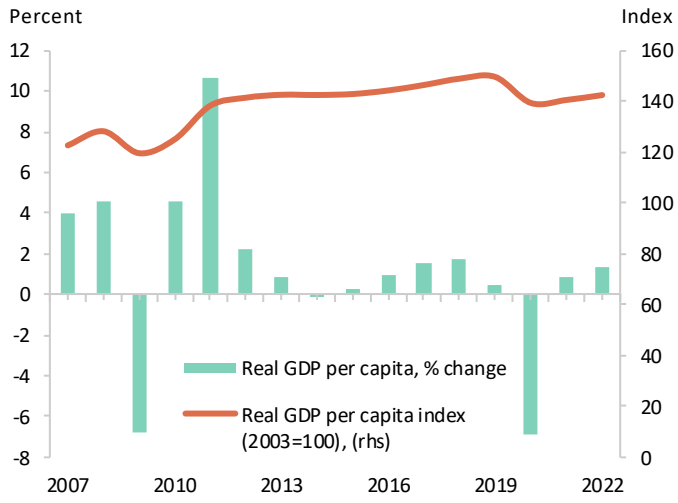
The impacts of the current economic turbulence on the poor and vulnerable are likely to be substantial. Informal workers have, by definition, not been able to benefit from the Provident Fund withdrawal scheme, although planned agricultural subsidies could benefit poorer households. The expected decline in logging activity in 2020 and in the medium term could have widely felt impacts amongst poorer groups, given that logging companies are a large employer of informal labor in rural areas. On the other hand,

FIGURE 1 Solomon Islands / Trade balance



Sources: World Bank staff estimates.

FIGURE 2 Solomon Islands / Real GDP per capita



Sources: World Bank staff estimates.

results from a recent mobile phone survey suggest that households in the upper income quintiles were more impacted by job losses. To continue monitoring the impacts of the COVID-19 crisis on the poor, accurate and timely data are therefore indispensable.

Outlook

A relatively robust recovery is anticipated for 2021, with 3 percent growth supported by an improvement in the fisheries sector and the expected easing of border restrictions in the latter part of the year, which will allow for increased activity in the hotel/restaurants and construction sectors. The current account deficit is expected to remain elevated over the medium term, as the eventual recovery in primary exports is offset by higher imports for donor infrastructure projects once border restrictions are lifted. The current account deficit will be financed through current and capital transfers, foreign direct investment flows and highly concessional project loans. As a result, the international investment position is expected to remain sustainable over the medium term.

The fiscal outlook is challenging. A modest recovery in tax revenues and export duties in 2021 is expected to narrow the deficit somewhat to around 4 percent of GDP in 2021 and 2.5 percent in 2022. However, logging revenues are expected to be on a downward trajectory over the medium and longer term and are a source of significant downside risk, given that harvesting has been occurring at highly unsustainable rates for many years. In this environment, it will be critical for SIG to maintain expenditure constraint and maximize donor support, including for the preparation costs for its upcoming hosting of the 2023 Pacific Games.

Risks and challenges

The key risk facing Solomon Islands is the prospect of a local COVID-19 outbreak, which could have devastating economic and social impacts. Even if Solomon Islands succeeds in remaining COVID-free, delays in effectively distributing a vaccine would imply longer border closures and a slower economic recovery, with corresponding consequences for the fiscal position and poverty alleviation. Planned stimulus measures can help to mitigate the economic and poverty impacts in the country, although it will be important to tightly manage the quality of spending in order to make the best use of limited resources. Medium term fiscal pressures were already expected to be challenging prior to COVID-19, due to declining logging revenue and the need to finance construction for the 2023 Pacific Games. COVID-19 has accelerated the squeeze on government revenues, while adding new costs for health sector preparedness and economic relief. The pandemic has also heightened fiscal risks stemming from SOEs and public financial institutions, and these will need to be closely monitored. Continued budget support contributions from development partners will be critical to assist SIG to manage these pressures and rebuild some fiscal space to respond to future shocks, which is especially important given Solomon Islands' vulnerability to natural disasters and exposure to commodity price fluctuations. To accelerate growth and poverty reduction in the longer term, Solomon Islands will need to find ways to reduce economic reliance on the logging sector and find more sustainable sources of growth, including through tourism development, strong governance of mineral resources, and further development of the fisheries value chain.

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

	2017	2018	2019e	2020f	2021f	2022f
Real GDP growth, at constant market prices	5.3	3.9	1.2	-4.8	3.2	3.5
Inflation (Consumer Price Index end of period)	2.1	3.9	2.8	3.0	4.1	3.4
Balance of Payments						
Current account balance (% of GDP)	-4.3	-3.0	-8.9	-14.3	-13.6	-12.2
Fiscal Balance (% of GDP)	-4.6	0.7	-1.7	-6.2	-3.7	-2.5
External Debt (% of GDP)	7.6	7.1	7.6	10.1	13.2	15.9

Source: World Bank and International Monetary Fund staff estimates.
Notes: e = estimate, f = forecast.

SOUTH PACIFIC ISLANDS

Table 1	2019
Population, million	
Samoa	0.20
Tonga	0.10
Vanuatu	0.30
GDP, US$, billion	
Samoa	0.85
Tonga	0.48
Vanuatu	0.92
GDP per capita, current US$	
Samoa	4316
Tonga	4621
Vanuatu	3052

Sources: WDI, World Bank staff estimates.

The economies of Samoa, Tonga, and Vanuatu have been impacted by a range of natural disasters and adverse shocks over the past year. Tropical Cyclone Harold struck Tonga and Vanuatu in April 2020, while measles plagued Samoa in late 2019. COVID-19 has had severe effects on tourism-related activity and employment. Governments need to maintain macroeconomic sustainability while supporting households and businesses and prioritizing reconstruction activities.

Recent developments

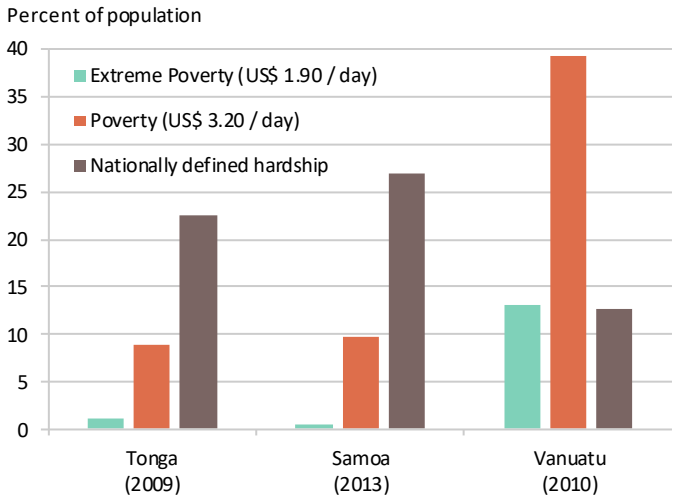
Samoa's economy contracted by 3.5 percent in FY20. Tourism-related activity declined sharply due to international travel restrictions imposed in response to COVID-19, and a measles outbreak in late 2019. Construction activity has been disrupted, and domestic restrictions on movement and business operations have also constrained activity. As sectors like tourism and construction tend to employ low-skilled workers, the associated job losses have increased the incidence of poverty: these workers are less likely to find jobs in other sectors and less likely to have savings or other personal safety nets. A current account deficit of around 6 percent of GDP is projected in FY20, with falling tourism receipts only partially offset by declines in the value of imports and increases in foreign aid.

A fiscal surplus of about 6.2 percent of GDP was recorded in FY20. Tax revenues held up better than expected, remaining broadly unchanged from FY19 as a proportion of GDP. There was a sharp increase in grants from development partners, some of which were received in the June quarter of FY20 but budgeted for FY21. Recurrent spending rose, in part due to the first phase of the government's economic stimulus package totaling around 3 percent of GDP, but capital spending was much weaker than expected.

While suffering the severe consequences of the COVID-19 crisis, **Tonga** was also hit by a severe cyclone in April 2020, leading to significant damages and losses. The twin shocks are estimated to have caused output to contract by 3.5 percent in FY2020, due primarily to the sharp slowdown in the tourism, hospitality, retail, and construction sectors. These twin shocks increased the risk of falling into poverty for many households, from a combination of increased unemployment and loss or damage of assets. Inflation is expected to have eased in FY2020 (to 2 percent from over 3 percent in FY2019), despite some upward pressure on core food prices late in the year due to the impacts of Cyclone Harold on crop production in the context of an a positive output gap. The current account deficit is estimated to have narrowed slightly to around 5 percent of GDP in FY2020 (from 5.4 percent in FY2019) as substantial additional development partners grants to support crisis recovery more than offset the decline in tourism receipts.

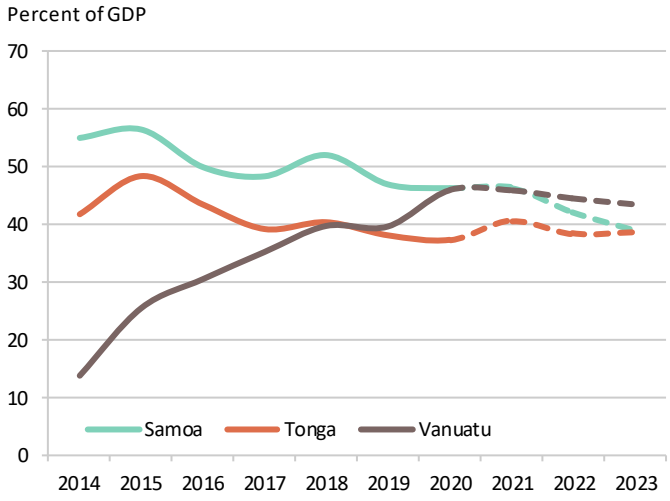
The fiscal deficit reached 1.7 percent in FY2020 on account of a substantial revenue short fall and higher recurrent spending. The authorities have maintained a generally prudent fiscal stance in recent years, underpinned by careful expenditure management and ongoing efforts to improve revenue mobilization. Fiscal buffers combined with substantial additional development partner support, provided the fiscal space for a sizeable fiscal response package (US$25.4 million, 5.4 percent of FY2019 GDP). The deficit was financed by a modest domestic bond issuance and limited use of the government's cash buffers (a reduction of 0.4 percent of GDP).

FIGURE 1 South Pacific Islands / Incidence of poverty at international poverty lines and national hardship thresholds



Sources: World Bank (2016), Systematic Country Diagnostic for the eight small Pacific Island Countries.

FIGURE 2 South Pacific Islands / Public and publicly guaranteed external debt



Sources: Latest available joint World Bank and IMF Debt Sustainability Analyses, and World Bank staff estimates.

Vanuatu was also hit by TC Harold while being severely affected by the economic impacts of COVID-19. As a result of these twin shocks, GDP is forecast to fall by around 10 percent in 2020. TC Harold caused significant damages to homes, schools, medical facilities, and other infrastructure. Crops and livestock were destroyed, putting livelihoods and food security at risk across the northern islands. Over 18,000 people were displaced and around 130,000 people were negatively impacted. While there has not been a confirmed case of COVID-19 in Vanuatu, the pandemic has had a substantial negative effect on industry and tourism-related sectors.

A current account deficit of 7 percent of GDP is expected in 2020, with lower remittances and tourism inflows expected to be partially offset by increased aid flows. Nevertheless, the external position is buffered by healthy international reserves, which stood at over 12 months of imports in 2019. A decline in domestic revenues and increased spending is expected to result in a budget deficit of around 8 percent of GDP. A fiscal stimulus package was deployed amounting to around 4.2 percent of GDP, over half of which was allocated to a wage subsidy scheme. Other measures included agricultural subsidies and school fee exemptions. To cover these additional financing needs, the government is expected to draw on its substantial cash reserves (built up from citizenship-for-sale schemes) which stand at around 9 percent of GDP, and borrow from the domestic market or on concessional terms from development partners.

Outlook

In **Samoa**, GDP is projected to contract by 7.7 percent in FY21, before rebounding in FY22 and FY23 by 5.6 and 4.9 percent as tourism recovers. The near-term outlook is dependent on the duration of COVID-19 related travel restrictions, and on whether Samoa continues to remain free of the virus. Over the longer term, the economy should be supported by construction of public infrastructure projects, and improvements to the business environment resulting from recent investments to improve internet connectivity and reduce the cost of electricity. Activity in the tourism-related sectors is projected to take several years to return to pre-COVID levels, as hesitation around international travel is expected to persist, and recent business closures and job losses will lead to a medium-term reduction in capacity. Remittance inflows have held up in the three months to June, but are projected to decline by about 2 percentage points of GDP in FY21.

In **Tonga** there is considerable uncertainty regarding the economic outlook. Assuming that travel restrictions begin to ease in early 2021 and tourism begins to recover, GDP is expected to contract by a further 6 percent in FY21. Growth is projected to recover in FY22 and FY23 (to average 3.5 percent over the period) due to the gradual increase in tourist arrivals, combined with a recovery in agriculture production and construction activity. Further falls in domestic revenues and increases in spending for health sector preparedness, cyclone recovery and ongoing economic and social stimulus measures are projected to lead to a fiscal deficit of almost 6 percent of GDP in FY2021. Nonetheless, the fiscal accounts are projected to return to surplus over the projection period as domestic revenues recover and the stimulus spending is unwound. If the easing of travel restrictions is delayed, or the recovery in international arrivals is more muted than projected, then the economy would contract by over 9 percent in FY2021, followed by a more sluggish recovery.

While the outlook for **Vanuatu** remains highly uncertain, GDP is projected to increase by 6 percent in 2021 and 4 percent in 2022, driven by a recovery in tourism and agriculture, and reconstruction from TC Harold. These forecasts assume that international borders reopen in the first half of 2021, and that the government efficiently executes its recovery plans, with the support of development partners. Government spending is projected to remain relatively high over the next few years, but the fiscal deficit is expected to narrow in 2021 and 2022 as domestic revenue recovers.

Risks and challenges

For each of these small South Pacific nations, natural disasters and external shocks pose a constant threat to livelihoods, economic growth, and fiscal sustainability. There are significant downside risks to the economic outlook to the extent that the recovery from COVID-19 and TC Harold is slower than expected. A domestic outbreak of COVID-19 would have severe ramifications, but economic activity will be constrained for as long as international travel restrictions remain in place.

The main short-term challenges are to continue to enhance health sector preparedness and remain free of COVID-19, while also mitigating the severe negative impacts on households and businesses. Over the medium-term, the key challenge will be to catalyze a sustainable and inclusive economic recovery, and at the same time maintain macroeconomic sustainability in the face of several competing pressures. Given the strategic importance of the tourism sector, additional targeted support to avoid hysteresis effects may be needed. In Tonga and Vanuatu, governments should carefully prioritize cyclone reconstruction and development spending, mindful of budget and local capacity constraints.

TABLE 2 South Pacific Islands / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020e	2021f	2022f	2023f
Real GDP growth, at constant market prices							
Samoa	1.0	-2.2	3.5	-3.5	-7.7	5.6	4.9
Tonga	5.4	0.2	0.7	-3.5	-6.1	3.7	3.3
Vanuatu	4.4	2.8	3.0	-10.0	6.0	4.0	3.0

Note : Financial years for Samoa and Tonga are Jul - Jun, for Vanuatu is Jan - Dec. e= estimate, f=forecast
Source: World Bank and IMF.

THAILAND

Table 1	2019
Population, million	69.3
GDP, current US$ billion	562.7
GDP per capita, current US$	8119.1
Upper middle-income poverty rate ($5.5)[a]	8.4
Gini index[a]	36.4
School enrollment, primary (% gross)[b]	99.8
Life expectancy at birth, years[b]	76.9

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

The Thai economy saw its worst contraction since the Asian Financial Crisis amid the COVID-19 outbreak and ongoing drought. The recovery is expected to be drawn out, taking more than two years to return to pre-COVID-19 GDP levels. While Thailand encountered relative success in containing the outbreak, the negative economic impact on the poor, informal workers and the middle class has proven to be substantial due to Thailand's openness to trade and tourism. Hard-won gains in poverty reduction are under threat, while some political tensions linger.

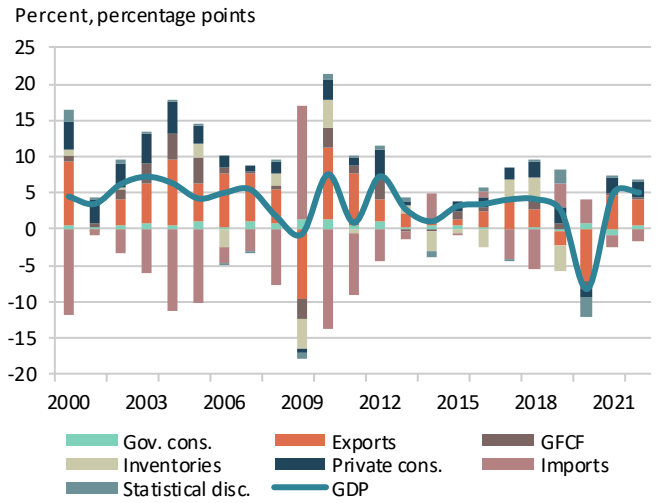
Recent developments

COVID-19 has severely impacted the economy due to Thailand's openness to trade and tourism, adding to pre-existing weaknesses. The economy contracted severely by 12.2 percent year-on-year in 2020 Q2 (-2.0 percent in 2020 Q1), the worst quarterly performance since the 1997-98 Asian Financial Crisis, as the economy was also hit by a major drought affecting agricultural production. Weaker global demand has led to a contraction in global trade, which, in turn, has disrupted global value chains, such as automobiles and electronics, in which Thailand is an active exporter. The tourism sector (18.6 percent of GDP) has been severely impacted with a near cessation of international tourist arrivals since March 2020. Finally, the mobility restrictions imposed in response to the outbreak, while critical to flattening the infection curve, have severely dented private consumption. This is reflected also in the sales of durables which plummeted by 30.2 percent in y-o-y terms in 2020 Q2.

Building on ample fiscal and monetary buffers, the authorities have approved monetary measures of 7.0 percent of GDP and fiscal response packages of 5.9 percent of GDP, totaling 12.9 percent of GDP. The government response was announced in three phases: (i) Phase 1 issued on March 10th was focused on providing financial assistance to SMEs; (ii) Phase 2 issued on March 24th included cash transfers to selected households and tax filing deferrals; (iii) Phase 3 announced on April 7th covered the most comprehensive fiscal measures and included the expansion of coverage of the one-time 5,000-baht (US$167) cash transfers to households and farmers impacted by the outbreak and funding for medium to long term economic and social rehabilitation projects. The fiscal deficit edged lower to -2.2 percent of GDP as of 2020 Q2, almost wholly funded by domestic borrowing given adequate fiscal space with public debt expected to reach 49.4 percent of GDP by the end of the year. The previously large current account turned negative at -0.8 percent of GDP (6.7 percent of GDP 2020 Q1). The Bank of Thailand lowered the policy rate from 1.25 percent to 0.5 percent since end-2019 and set up the Corporate Bond Stabilization Fund as a liquidity backstop to support the corporate bond market. Foreign currency reserves remain high at US$ 238.1 billion end-July 2020 (15.4 months of import value).

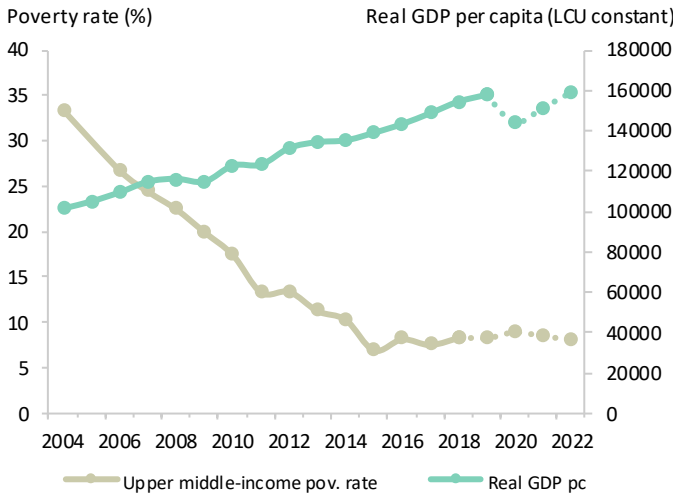
The impact on jobs and household welfare has proven to be severe. Services jobs, particularly in tourism, are at particular risk from the containment measures introduced by government. Around 8.4 million manufacturing and services jobs are estimated to be at risk from COVID-19 in 2020 Q2 and Q3. A third of all households rely on income from impacted sectors. In addition, 6 million farmers are at risk from drought. While the initial 3-month 5000-baht cash transfer programs was already disbursed to 15.1 million informal workers and 7.5 million farmers was generous and reached many in need, the program has since expired mid-2020.

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



Sources: World Bank staff calculations and NESDC.

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



Sources: World Bank. Notes: see Table 2.

While the Thai financial sector exhibits some vulnerability, it remains largely stable and appears to have sufficient buffers to support maintaining financial stability going forward. Following the outbreak and global financial turbulence, the economy experienced record outflows. The Stock Index plunged by 35 percent between early January and mid-March 2020, before recovering about 25 percent by mid-August. The Thai baht depreciated by 7.2 percent against US dollar (7.1 percent in REER terms) since end-2019. As capital inflows returned in Q2, the baht appreciated by 3.4 percent against US dollar (3.2 percent in REER terms) from end-April to end-August 2020. Financial sector vulnerabilities, particularly from household debt (80 percent of GDP) and NPLs for SMEs are likely to worsen. At the same time, Thailand's financial system buffers remain adequate to support financial stability.

Outlook

The economy is projected to contract sharply in 2020, driven by a sharp deterioration in global and domestic demand. The economy is projected to contract by 8.3 percent in 2020, which is well below potential growth of 2.5-3.0 percent and among the sharpest projected declines in the East Asia region. While mobility restrictions and mandated business closures began to ease end of the second quarter, the economy will continue to face a sharp decline in net exports, particularly from tourism receipts and weakening global trade, and a slowdown in domestic demand reflecting weak consumer and investor sentiment. The decline in trade, particularly tourism, will also significantly reduce the previously large current account surplus to 0.6 percent of GDP in 2020 (5.0 percent of GDP in 2019). Inflation will turn negative at -0.9 percent due to lower energy and public utility prices. Severe drought and flood will hurt the agricultural sector, the main livelihood of most of the poor. The fiscal deficit is projected to rise to -5.0 percent of GDP due to the stimulus.

Poverty projections show that poverty rates will remain elevated over the near term due to not only the protracted recovery, but also deep-rooted challenges pre-COVID-19. Poverty reduction has made little progress since 2015 and poverty rates are projected to remain higher in 2020 and 2021 than in 2015. The profile of the poor may also change and include more households from services and tourism sectors falling into poverty.

Risks and challenges

There remains considerable downside risk to the outlook from both external and internal factors in the absence of a vaccine or treatment for COVID-19. A resurgence of COVID-19 in Thailand and globally is a key downside risk, which can adversely impact demand for Thailand's exports and impact domestic economic activity. Given its strong linkages to the global economy, Thailand is vulnerable to further global capital flow volatility and disruptions to global value chains. Flooding may further impact already impoverished agricultural households. Political tensions are also lingering with the resignation of key members of the economic team and ongoing anti-government protests that may lead to greater political uncertainty and diminished investor sentiment.

Responding to further weakening of economic activity may further strain monetary and fiscal policy space. The monetary policy rate is now close to the zero lower-bound while public debt is projected to rise further, closer to 50 percent of GDP in 2021. Implementation of the large fiscal stimulus (5.9 percent of GDP) to support employment-generating projects will prove challenging given historically low levels of disbursement rates.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.0	4.1	2.4	-8.3	4.9	5.0
Private Consumption	3.1	4.6	4.5	-2.0	4.0	4.1
Government Consumption	0.1	1.8	-1.7	5.3	-5.3	3.8
Gross Fixed Capital Investment	1.6	5.4	3.3	-4.6	0.5	1.1
Exports, Goods and Services	5.2	3.3	-2.6	-10.0	6.8	4.8
Imports, Goods and Services	6.2	8.3	-4.4	-5.0	2.3	2.4
Real GDP growth, at constant factor prices	4.2	4.2	2.4	-8.2	5.0	5.0
Agriculture	3.7	5.0	2.0	-2.1	1.2	1.2
Industry	1.8	2.7	2.6	-7.2	4.2	3.9
Services	5.8	5.0	2.3	-9.4	6.0	6.1
Inflation (Consumer Price Index)	0.7	1.1	1.1	-0.9	1.0	1.0
Current Account Balance (% of GDP)	9.8	6.5	5.0	0.6	3.6	5.6
Net Foreign Direct Investment (% of GDP)	-2.4	-0.2	0.1	0.2	0.5	0.5
Fiscal Balance (% of GDP)	-1.6	-0.7	-1.1	-5.0	-3.4	-3.3
Debt (% of GDP)	41.7	42.2	42.5	49.4	49.4	49.0
Primary Balance (% of GDP)	-0.6	0.3	-0.1	-3.9	-2.4	-2.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	7.6	8.4	8.2	8.9	8.5	8.1

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

(a) Calculations based on EAPPOV harmonization, using 2014-SES and 2018-SES.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

TIMOR-LESTE

Table 1	2019
Population, million	1.3
GDP, current US$ billion	1.7
GDP per capita, current US$	1297.3
School enrollment, primary (% gross)[a]	115.3
Life expectancy at birth, years[a]	69.3

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

The COVID-19 pandemic and renewed political uncertainty have taken a heavy toll on the economy. The lack of an approved 2020 budget has constrained public spending, while public health measures aimed at containing COVID-19 have unintentionally weakened private sector activity. An economic policy package – financed through a special fund – provided some relief to households and businesses. Although this will not avert the deepest recession since independence, the recent political transition presents an opportunity to pursue much-needed structural reforms.

Recent developments

Economic activity fell considerably in the first half of 2020, owing to a political stand-off and the global COVID-19 outbreak. Public expenditure, which accounts for about 75 percent of GDP, was constrained by the failure to approve a state budget for 2020. Private consumption was affected by changes in consumer behavior and confidence, while firms delayed investment decisions due to high economic uncertainty. Imports decreased significantly because of lower domestic demand and supply disruptions, while international travel restrictions caused a sharp drop in travel service exports. On the supply side, construction and tourism-related sectors were particularly hard-hit by the deteriorating domestic and external environment, as public investment stalled and air passenger arrivals plummeted.

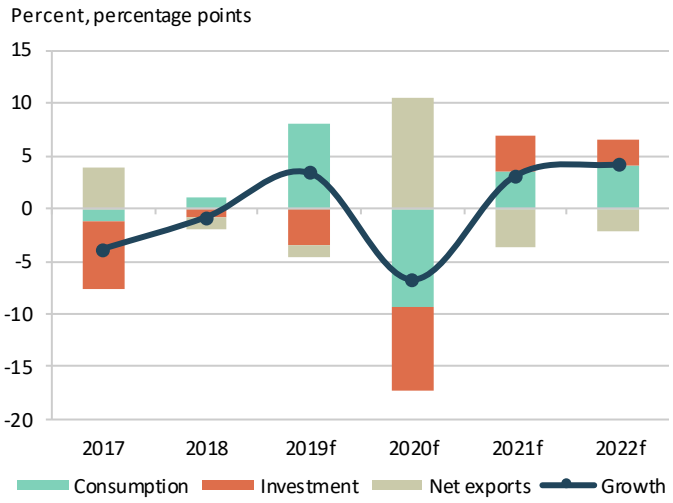
The current account weakened, predominantly due to lower primary income. Lower petroleum production and prices reduced income receipts from the Bayu-Undan field – which are recorded as primary income in the balance of payments. Imports declined by 20 percent, with services being particularly affected by lower domestic demand. Exports of travel services – the main export earner – declined by 95 percent in the second quarter of the year, as a direct result of international travel restrictions. Nonetheless, the trade deficit eased due to the very large weight of imports in total trade.

Total public expenditure was 7 percent lower in the first half of 2020, when compared to the same period in 2019. Spending on capital projects and goods & services were 56 and 16 percent lower, respectively, but public transfers were 15 percent higher – mostly owing to an ad-hoc cash transfer to households. Public expenditure includes expenses executed through an autonomous fund created to facilitate the health and economic response to COVID-19. Without these, spending would have declined by 27 percent. Domestic revenues declined by 10 percent owing to lower economic activity and the implementation of temporary relief measures. The fiscal deficit is predominantly financed by withdrawals from the Petroleum Fund.

Consumer price growth decelerated, but the real exchange rate appreciated. Inflation slowed to 0.4 percent in the second quarter of 2020 (year-on-year), while the real effective exchange rate appreciated by 4 percent due to the strengthening of the US dollar – the legal tender in Timor-Leste. Commercial credit to the private sector grew by 3 percent in June 2020 (year-on-year), as lending to individuals continued to expand. The proportion of non-performing loans has not increased, suggesting that the economic difficulties caused by the COVID-19 pandemic did not have an immediate repercussion on the financial sector.

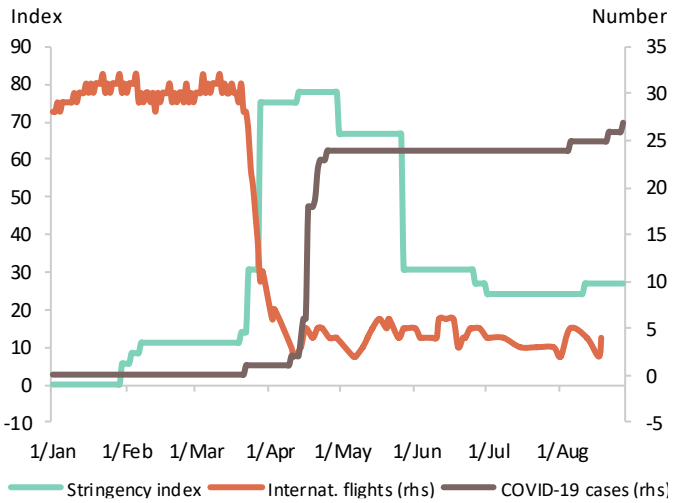
Public health measures helped prevent the spread of COVID-19, but they have had a damaging impact on private sector activity. Cognizant of this, the Government approved a policy package to support

FIGURE 1 Timor-Leste / Real GDP growth and contributions to real GDP growth



Sources: Ministry of Finance & World Bank staff estimates.

FIGURE 2 Timor-Leste / COVID-19 cases, stringency index, and flights



Sources: Oxford University & World Bank.
Note: Data on international flights represents 7-day moving sums.

households and businesses. The package comprised a one-off US$200 cash transfer to most households and a 60 percent wage subsidy for eligible (formal) firms. However, the absence of high-frequency surveys makes it difficult to assess the impact of the COVID-19 shock and policy response on households and enterprises.

Outlook

GDP growth is projected to decline by 6.8 percent in 2020, but there is still considerable uncertainty about the outlook. Public expenditure is expected to partly recover if the 2020 budget is promulgated by October, although capital spending will remain subdued. Domestic revenues will fall for a fourth consecutive year. The fiscal deficit is expected to remain at about 30 percent of GDP. Private consumption will decline by about 4 percent in 2020, despite a sizeable cash transfer to households. Imports will endure a considerable fall because of lower domestic demand, but may be supported by stronger public (recurrent) spending in the last quarter of the year. Total exports will halve in 2020, albeit from an already low base. The current account will return to a large deficit (about 14 percent of GDP), mostly because of lower petroleum -related incomes. Inflation will remain low, while the US dollar is expected to hold value against the currencies of Timor-Leste's main trading partners.

The economic recovery will be gradual, with GDP forecast to grow by 3.1 percent in 2021. Final consumption expenditure will grow at a moderate pace (around 3 percent in 2021), while investment and exports are anticipated to bounce back faster. External and domestic shocks have produced three contractions in four years – 2017, 2018 and 2020 – which will leave permanent scars on the economy. Reduced global demand, falling commodity prices, and a tighter financial environment have had a limited impact on domestic economic activity. However, continued restrictions on international travel, the approval of the 2020 and 2021 budgets, and a possible reinstatement of public health measures will likely shape the medium-term outlook.

Risks and challenges

Downside risks to the outlook include the return of stricter public health measures and ongoing political uncertainty. A potential second wave of COVID-19 cases remains a key concern from both health and economic perspectives. While an economic recovery plan for 2021-2023 was recently approved, a surge in cases could lead to the adoption of stricter containment measures – which would further inhibit economic activity. The new government coalition has a majority in Parliament, but political tensions remain high. Upholding political stability and creating a broad-based political consensus will be key for the continuation of the VIII Constitutional Government (2018-2023) and for supporting a smooth economic recovery.

Medium-term fiscal sustainability remains a key challenge to be addressed. It is crucial to ensure that (short-term) recovery measures are time-bound and do not crystallise as recurring public liabilities. A comprehensive fiscal reform to mobilise domestic revenues is needed, while a rationalisation of unnecessary expenses would help bring public spending to more sustainable levels. Meanwhile, the global economic recession and lower demand for transport services are contributing to a weak energy market outlook. This raises additional concerns over the proposed development of the Greater Sunrise petroleum fields – which in the absence of private investors would require very large public investments that could drain the Petroleum Fund.

TABLE 2 Timor-Leste / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices	-3.8	-0.8	3.4	-6.8	3.1	4.2
Private Consumption	3.6	2.6	3.2	-4.3	2.9	3.5
Government Consumption	-5.8	-1.0	10.9	-11.0	2.9	3.0
Gross Fixed Capital Investment	-16.7	-1.8	-10.1	-27.1	14.4	9.4
Exports, Goods and Services	-39.1	8.4	1.5	-51.8	47.6	8.0
Imports, Goods and Services	-8.7	2.3	2.2	-20.3	8.7	4.5
Real GDP growth, at constant factor prices	-3.6	-0.2	3.0	-6.8	3.1	4.2
Agriculture	-3.3	4.4	2.4	1.2	2.6	2.9
Industry	-26.5	5.3	3.2	-9.3	1.1	2.4
Services	3.1	-2.4	3.2	-8.2	3.8	5.0
Inflation (Consumer Price Index)	0.6	2.2	0.9	1.1	1.6	1.9
Current Account Balance (% of GDP)	-17.6	-12.2	3.5	-13.5	-22.1	-29.1
Fiscal Balance (% of GDP)[a]	-33.4	-27.5	-30.8	-30.4	-33.7	-37.1

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

(a) The ESI is part of total revenue, while excess withdrawals from the PF is a financing item.

VIETNAM

Table 1	2019
Population, million	97.4
GDP, current US$ billion	265.8
GDP per capita, current US$	2728.5
International poverty rate ($1.9)[a]	1.9
Lower middle-income poverty rate ($3.2)[a]	6.8
Upper middle-income poverty rate ($5.5)[a]	23.1
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	110.6
Life expectancy at birth, years[b]	75.3

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

Vietnam's economy has shown remarkable resilience to external shocks in the first eight months of 2020. While medium-term outlook is broadly favorable, the economy faces significant downside risks due to adverse impacts of further coronavirus outbreaks, further weakening of external demand, and incomplete structural reforms. Upcoming political transition may affect the pace of reforms. On the positive side, Vietnam is well positioned to benefit from recent free trade agreements over the forecast period.

Recent developments

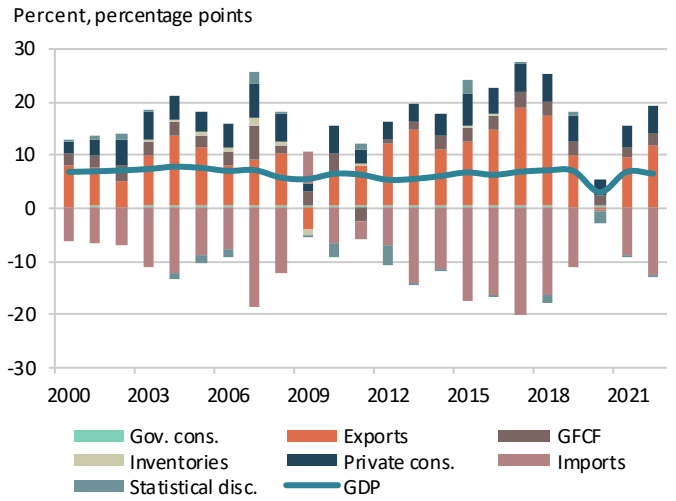
Vietnam's economy continues to show resilience in dealing with the effects of the Covid-19 pandemic. The growth rate is estimated to be 1.8 percent in the first six months of the year. The crisis has had significant negative impact on service activities (mostly during the 3-week lockdown in April and by the ban on foreign visitors since early March) and manufacturing exports (due to lower demand). In contrast, the agricultural sector has continued to perform at its pre-crisis level, boosted by high rice prices—the country's main crop—on both the domestic and international markets.

Vietnam's resilience is grounded in its strong economic fundamentals. It is partly explained by the country's dual engine of growth: domestic demand and exports, which have performed relatively well in the past few months. It has also been supported by the government's early and swift health responses to the virus. External demand sustained exports growth in the first eight months of 2020 (up by 1.6 percent y/y). Because goods imports declined by 2.2 percent over the first 8 months of the year, Vietnam's trade surplus reached an estimated US$11.9 billion. FDI commitments have continued, reaching almost US$20 billion between January and July 2020, slightly lower than the same period in 2019. On the domestic front, industrial production and retail sales rebounded after the end of the nationwide lockdown, and remained in positive territory despite the July outbreak in Danang. Inflation has remained subdued at about 3.2 percent y/y in August 2020 due to low food prices and weak demand. The exchange rate has been relatively stable over the period.

The economy's resilience has been bolstered by the accommodative fiscal and monetary stance to help mitigate the impact of the crisis. Monetary policy authorities lowered the reference rate and encouraged commercial credit. The Government launched a fiscal package in early April, estimated at about 1 percent of GDP, that includes an expansion of social protection and tax deferments for businesses and individuals, targeting about 26 million people. The government has also accelerated the execution of the investment program (up by 30.4 percent during the first eight months compared to the same period in 2019) to stimulate the recovery though an expansion of domestic demand. Because the fiscal response is relatively modest and has been unevenly implemented, a second support package is being considered by the authorities.

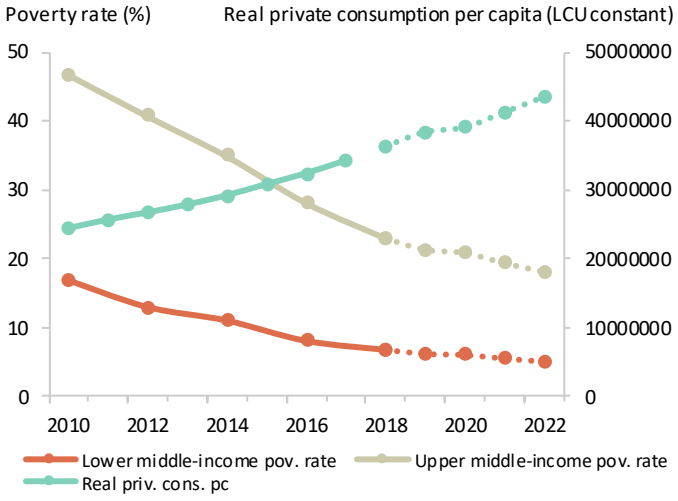
So far, the impact of COVID-19 on most households has been notable but temporary. Many people faced disruptions to daily routines and income reduction during the April lockdown, with women and urban dwellers more likely to report such reduction in a recent nationwide household survey. By June, most workers were able to return to normal activities: 95 percent of family businesses were open, and 90 percent of

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



Sources: World Bank.

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



Sources: World Bank. Notes: see Table 2.

family farms were operating normally. While overall poverty is not expected to increase significantly in Vietnam as the result of the COVID-19 crisis, the impacts are being unevenly felt. Workers in industries such as tourism, transport, and export manufacturing are particularly impacted. Because of differences in the sectors and locations where Ethnic minorities work, they are less likely to report an income reduction compared to the Kinh majority.

Outlook

Short to medium-term growth prospects remain positive. The GDP is estimated to grow by 2.8 percent in 2020 and projected to grow at 6.7 percent in 2021 in the baseline scenario, which assumes a gradual control of the pandemic both domestically and internationally. We project the GDP to expand by 3.5 percent in the second semester of 2020 on the back of renewed domestic demand propped up by counter cyclical fiscal and monetary policies. Both capital and current accounts will deteriorate in 2020 but are expected to return to pre-COVID paths in the medium term, though the pace of recovery of the tourism sector and remittances will affect the external balance. Inflation will remain subdued at around 4 percent per annum in the medium term, given the slack in the economy and absent new external or natural shocks.

The fiscal deficit will worsen in 2020 given the countercyclical fiscal policy and the expected decline in revenue due to slower economic growth and international transactions. The authorities are expected to resume fiscal consolidation in 2021-22 as the economy returns to its pre-crisis level. Debt to GDP ratio will increase by about two percentage points in the short term, as the result of higher borrowing on the domestic and international markets; and will mirror the path of the fiscal deficit in the medium term.

Poverty is not projected to increase significantly in the current baseline scenario, as rural areas and agriculture sector have been less impacted by the pandemic. Yet, the increase in urban unemployment and under-employment could become a concern. Furthermore, household coping strategies of relying on savings, assistance from friends and family, or reducing costs (consumption) may not be adequate if the pandemic lingers.

Risks and challenges

Continued uncertainty about Covid-19 constitutes the most immediate risk to economic recovery, as external demand weaknesses and potential need for further lockdowns could lead to a GDP growth rate of only 1.5 percent in 2020 and 4.5 percent in 2021 (low case scenario).

While accommodative monetary and fiscal policies have been justified to absorb the COVID-19 shock in the short term, prolonged measures could increase the risk of fiscal and financial distress as the level of public debt will increase and commercial banks may be affected by higher delinquent loans and lower profits. Increasing global and bilateral political and/or trade tensions may create uncertainty in the global and regional trade and investment systems. Agility of Vietnamese producers in adjusting to market demands, including by diversifying products and markets and integrating into GVCs, would tip the balance to success. The upcoming Party Congress in January 2021 and a government change in May-June 2021, may contribute to policy uncertainty and slowdown the pace of reforms.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	6.8	7.1	7.0	2.8	6.8	6.5
Private Consumption	7.4	7.3	7.4	4.4	5.8	7.3
Government Consumption	7.3	6.3	4.2	9.8	4.3	4.8
Gross Fixed Capital Investment	10.2	8.2	7.9	5.5	6.3	7.0
Exports, Goods and Services	16.7	14.3	7.6	-0.2	7.3	9.0
Imports, Goods and Services	17.5	12.8	8.3	0.2	6.5	9.4
Real GDP growth, at constant factor prices	6.9	7.2	7.0	2.8	6.8	6.5
Agriculture	2.9	3.8	2.0	0.6	2.0	1.9
Industry	8.0	8.9	8.9	4.5	8.4	8.1
Services	7.4	7.0	7.2	2.0	6.9	6.3
Inflation (Consumer Price Index)	3.5	3.5	2.8	3.7	3.6	3.6
Current Account Balance (% of GDP)	-0.7	2.3	5.0	0.0	1.0	1.2
Fiscal Balance (% of GDP)	-4.7	-4.4	-4.0	-6.0	-4.8	-4.0
Debt (% of GDP)	58.3	55.7	54.1	56.1	55.4	54.1
Primary Balance (% of GDP)	-2.7	-2.4	-1.9	-4.0	-2.9	-2.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		6.8	6.2	6.1	5.6	5.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		23.1	21.4	20.9	19.4	18.1

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

(a) Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using annualized elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

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