Latin America and the Caribbean

Macro Poverty Outlook

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

Annual Meetings 2020

WORLD BANK GROUP
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Latin America and the Caribbean

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ARGENTINA

Table 1	2019
Population, million	45.1
GDP, current US$ billion	444.5
GDP per capita, current US$	9856.2
International poverty rate ($1.9)[a]	1.3
Lower middle-income poverty rate ($3.2)[a]	3.9
Upper middle-income poverty rate ($5.5)[a]	12.2
Gini index[a]	41.4
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	76.5

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

COVID-19 accelerated a two-year economic contraction, leading to the deepest GDP fall in history and a sharp decline in employment and real wages. An emergency fiscal package has contained the rise of poverty levels but generated a historically large fiscal deficit. Its full monetization is rapidly expanding the monetary base, widening gaps in FX markets and eroding reserves. The uncertain outlook hinges on the pandemic's evolution and the government's ability to stabilize the economy amid an adverse external environment.

Recent developments

The economy was already in a fragile state at the onset of the pandemic, as two consecutive years of economic contraction brought GDP to 8 percent below its previous peak, by end-2017, while macroeconomic imbalances were mounting. The strict lockdown imposed to contain the spread of the pandemic led the sharpest GDP decline ever recorded (in March-April), with a severe negative impact on employment and labor income, particularly for informal workers. More recently, a gradual easing of confinement measures was initiated, allowing economic activity to pick up at a low pace, but also triggering a rapid rise in COVID cases.

The government implemented a fiscal stimulus package equivalent to 3.5 percent of GDP to alleviate the impact of the crisis on households and firms. It includes an emergency cash transfer to more than 8 million people and a support to firms via payroll tax cuts and direct subsidies linked to wages of nearly 2 million formal workers, one third of total private sector employment. Emergency transfers are estimated to have effectively protected around 2.5 million people from falling below the upper middle-income poverty rate, or 60 percent of the total projected increase in the number of new poor estimated for 2020.

The emergency package increased transfers to provinces and the abrupt decline in revenues created a central government deficit of nearly 5 percent of GDP in January-July of 2020, the largest in more than 30 years. Lack of access to financial markets mandated a full monetization of the fiscal deficit. Historically low monetization prior to the outbreak and a transitory higher precautionary demand for pesos has so far prevented the fast-monetary expansion from translating into a spike in already high inflation. Inflation decelerated from 54 (yoy) percent in December 2019 to 42 percent (yoy) in July, owing to the lockdown, tariff freezes, price controls and a stable exchange rate.

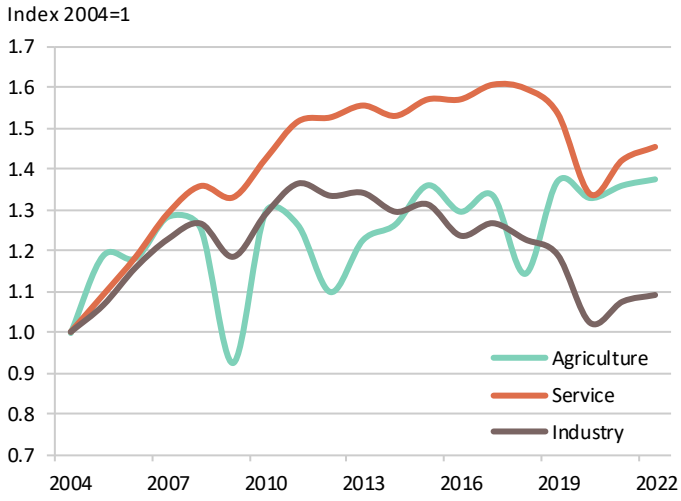
Monetary issuance is increasing the gap between official and parallel FX rates. The Central Bank is rapidly losing reserves as it attempts to maintain the official exchange rate stable, despite the significant trade surplus and tightened currency controls.

In early August, the government concluded an agreement with bondholders to restructure US$66bn in outstanding external bonds - providing a debt relief of about 9 percent of GDP over the next eight years - and formally requested a new IMF program. Domestic debt in dollars has also been restructured.

Outlook

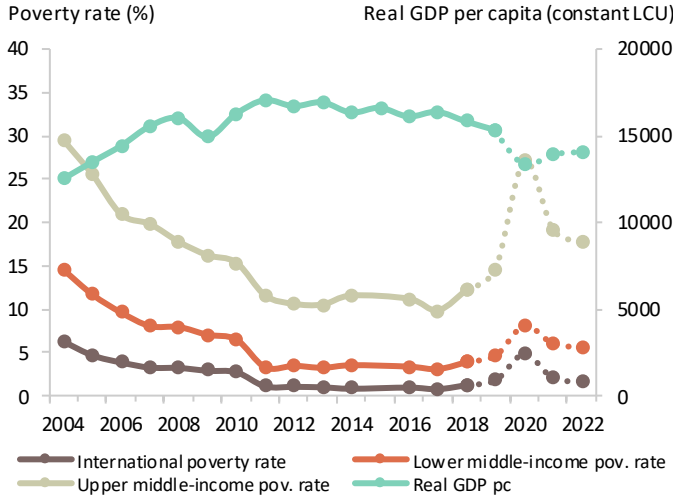
The prolonged quarantine and drop in external demand will cause GDP to contract 12.3 percent in 2020, setting GDP per capita back to 1997 levels. The economic recovery will continue as lockdown measures are progressively lifted, building on the economy's ample idle capacity. However, its pace will be sluggish as high

FIGURE 1 **Argentina** / Real GDP by sector



Source: World Bank based on INDEC.

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



Sources: World Bank. Notes: see table 2.

uncertainty will limit investment growth while the imperative to bring down the large fiscal deficit will strongly curtail demand stimulus. Despite a projected rebound in 2021, the economy will not reach 2019 GDP levels before 2023.

Subdued external demand will continue hampering exports in 2020, particularly in industry, which will be more than offset by the large projected contraction in imports, resulting in a trade and current account surplus. Limited incentives for exporters (capital controls, and FX and export taxes) and a relatively large import elasticity to growth will slowly deteriorate external accounts as the economy begins to reactivate.

Following a historically large fiscal imbalance in 2020, the primary deficit is projected to decline in 2021 to 4.5 percent of GDP as the government gradually unwinds emergency measures and revenues slowly recover. Debt restructuring operations will have virtually no impact on the debt-to-GDP ratio, as the resulting debt service relief is mostly in the form of grace periods, extending maturities and cutting interest payments. Thus, financing needs in the coming years will be driven by the primary deficit and IMF maturities.

Legislation prohibiting dismissals and subsidies to firms will not suffice to contain unemployment growth as more bankruptcies materialize and job creation is limited by weak investment. Consequently, informality, unemployment and poverty rates will remain elevated. The contraction in 2020 will lift poverty rates to levels not seen since the early 2000s, which are expected to decline thereafter along with the recovery. In 2020, it is projected that 27.1 percent of the population will fall under the international poverty line of $5.5 per day. However, when emergency measures are considered, the projected poverty rate declines to around 18 percent.

Risks and challenges

Risks are substantially on the downside. An adverse evolution of the pandemic could lead to the extension and tightening of lockdown measures, curtailing consumption and disrupting supply chains, negatively impacting exports. A slower economic recovery of Brazil would dent export potential, particularly in industry and tourism. If these risks materialize, inactivity and poverty rates will remain high, making it more difficult to scale-back the increased spending owing to COVID.

Risks also stem from the difficult policy trade-offs to stabilize the economy. A rapid fiscal adjustment would lower monetary expansion, reduce inflationary pressures and the widening gap between official and parallel FX rates. However, this could hurt the incipient recovery. Postponing fiscal consolidation would do the opposite, depleting reserves and possibly leading to both a disorderly correction of the FX and an inflationary spike in the medium term. Tightening FX and import controls further to reduce pressures on inflation and reserve loss would also hurt the recovery. Instead, orderly realigning the FX market through a combination of higher-paced depreciation and setting a positive real interest rate to increase peso savings would increase inflation and slow the recovery in the short run.

Under any scenario, the implementation of a clear economic reform program with credible policy choices towards macroeconomic stabilization and recovery could facilitate a return to market access, lowering inflationary risks. Such a program would reduce uncertainty, restore confidence and incentivize investment, setting in motion a more virtuous cycle of productivity growth and poverty alleviation via robust job creation.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.7	-2.5	-2.2	-12.3	5.5	1.9
Private Consumption	4.0	-2.4	-6.4	-12.8	6.3	2.1
Government Consumption	2.7	-3.3	-1.6	4.1	-2.3	-0.2
Gross Fixed Capital Investment	12.2	-5.7	-15.9	-27.0	15.6	6.5
Exports, Goods and Services	1.7	-0.7	9.4	-7.8	5.1	2.9
Imports, Goods and Services	15.4	-4.7	-18.7	-14.2	8.9	5.5
Real GDP growth, at constant factor prices	2.4	-2.6	-1.8	-12.3	5.5	1.9
Agriculture	3.0	-14.3	19.7	-3.0	2.3	1.1
Industry	2.5	-3.1	-3.1	-14.0	5.1	1.5
Services	2.3	-0.6	-3.8	-12.9	6.3	2.2
Current Account Balance (% of GDP)	-4.9	-5.3	-0.5	0.6	-0.5	-1.2
Net Foreign Direct Investment (% of GDP)	1.6	1.9	1.1	0.3	1.1	1.7
Fiscal Balance (% of GDP)	-6.7	-5.2	-4.4	-10.1	-6.1	-5.1
Debt (% of GDP)	57.1	94.8	100.1	100.8		
Primary Balance (% of GDP)	-4.2	-2.2	-0.6	-7.3	-3.7	-2.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.8	1.3	1.8	4.8	2.0	1.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	3.1	3.9	4.6	8.1	6.0	5.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	9.8	12.2	14.6	27.1	19.1	17.8

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

(a) Calculations based on SEDLAC harmonization, using 2016-EPHC-S2 and 2018-EPHC-S2. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2016-2018) with pass-through = 0.9 based on GDP per capita in constant LCU.

THE BAHAMAS

Table 1	2019
Population, million	0.4
GDP, current US$ billion	13.4
GDP per capita, current US$	34500.3
School enrollment, primary (% gross)[a]	81.4
Life expectancy at birth, years[a]	73.8

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

The COVID-19 pandemic comes on the heels of the devastation caused by Hurricane Dorian in 2019. The COVID-19 shock led to an unprecedented sudden stop in tourism and a deep contraction in economic activity. While The Bahamas made notable progress in pursuing fiscal consolidation, Hurricane Dorian required that fiscal resources be directed towards recovery and reconstruction. Now the focus has shifted to measures for public health, and a stimulus package to protect jobs and the most vulnerable segments of the population.

Recent developments

The Bahamas' growth slowed to 1.2 percent in 2019, from 3.0 percent in 2018, as it was struck with the strongest storm in its recent history. This led to crop losses in the agricultural sector and a large decline in private consumption compounded by tax increases. The government advanced with the reconstruction of the tourism infrastructure to revive the economy. Following the hurricane, tourism reached the highest number of arrivals by air and sea recorded in the country's history and boosted external demand. Average annual inflation rose to 2.5 percent in 2019 following an increase in the value added tax rate from 7.5 percent to 12 percent in 2018. The unemployment rate increased as a result of Hurricane Dorian, from 10.4 percent in 2018 to 13.5 percent in 2019.

In 2019, the current account recorded a surplus of 0.7 percent of GDP from a deficit of 12.1 percent of GDP in 2018. This was backed by strong tourism receipts and lower import demand from the completion of construction-related imports, fiscal consolidation and lower oil prices. Foreign exchange reserves stabilized at 2.9 months of imports.

The primary balance turned to a surplus of 0.7 percent of GDP in 2019 from a 0.8 percent of GDP deficit in 2018. An increase in the value added tax (VAT) led to an increase of 2.6 percentage points in total revenues while total expenditures were mostly contained following a 0.9 percentage point increase. This reduced the public debt by 0.8 percentage points and closed at 61.8 percent of GDP.

The Bahamas Central Bank continues to support the currency peg to the US dollar by maintaining enough foreign-exchange reserves to back up its money supply. Since 2016, the discount rate has been maintained at 4 percent to support economic activity.

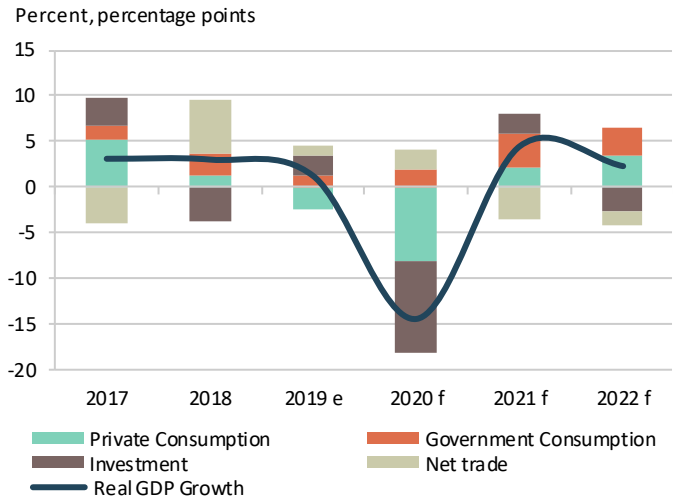
Commercial banks remain liquid and well capitalized. As at the end of 2019, the average capital adequacy ratio was 28.1 percent, well above the regulatory requirement of 17 percent and liquid assets accounted for 29.6 percent of total assets and more than double the statutory minimum. The stock of non-performing loans (NPLs) declined to 7.2 percent of total loans, from 8.3 percent at the end of 2017.

Based on the last Household Expenditure Survey, the national poverty rate in 2013 was 12.5 percent (national poverty line), with most of the poor concentrated in New Providence, where most of the population resided. Inequality was relatively high, with a Gini index of 41.4 in 2013. The bottom 40 percent of the distribution accounted for 16 percent of total consumption, while the top 10 percent accounted for 31 percent.

Outlook

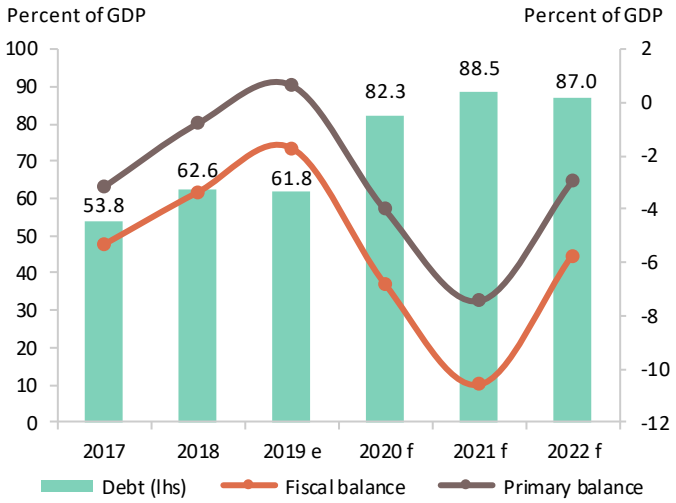
It is expected that the pandemic will lead to a GDP contraction of 14.5 percent. The most significant impact will be felt on the tourism sector. External demand will fall. Private consumption will fall as a result of

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



Sources: Government of The Bahamas; IMF and World Bank staff estimates.

FIGURE 2 The Bahamas / Downward debt trajectory after initial COVID-19 shock



Sources: Government of The Bahamas; IMF and World Bank staff estimates.

the lockdown measures aimed at reducing the virus spread and the increase in unemployment. With the removal of domestic containment measures and the resumption of travel, real GDP is expected to grow at 3.4 percent in 2021-22. The post-hurricane reconstruction activity is expected to regain momentum and boost growth over the medium-term. Consumer price inflation is projected to decelerate to 2.3 percent in 2020 following a sharp decline in commodity prices and remain unchanged over the medium-term.

In 2020, the current account balance is projected to deteriorate to a deficit of 17.9 percent of GDP and narrow to 11.4 percent of GDP over the medium- term. Although the trade balance will be helped by lower international oil prices and reduced imports, these effects are more than offset by the sudden stop in tourist arrivals. Foreign direct investment inflows are expected to halve. The result is a need for external financing of around US$ 1 billion. Reserves are expected to decline to approximately US$ 1.3 billion in 2020 and later remain at similar levels.

The primary balance is expected to deteriorate to a deficit of 7.4 percent of GDP in FY2021 due to government spending helping to contain the impact of coronavirus combined with post-Hurricane Dorian reconstruction efforts. The government has announced a tax deferral and tax credit assistance programs as part of its fiscal response to the COVID-19 crisis. Coupled with a decline in economic activity, such measures will result in lower revenue. Owing to higher spending on healthcare, food distribution programs and income support for self-employed persons, total spending will increase. Public debt is expected to rise to 88.5 percent of GDP in FY2021 before resuming its downward trajectory.

The Central Bank of the Bahamas has arranged for domestic banks and credit unions to provide a 3-month deferral against credit facility repayments for businesses and households affected by the pandemic that have maintained their accounts in good standing before the onset of the crisis. Although banks remain well capitalized, with high liquidity ratios, the recession will increase non-performing loans.

Unemployment claims have risen to unprecedented levels. The cessation of activity in key economic sectors due to COVID-19 has resulted in a dramatic increase in unemployment. Initial estimates show that the incidence of job losses has been more prevalent among low-income households. As such, poverty is estimated to increase in 2020 with people temporarily falling into poverty due to the COVID-19 crisis. Poverty rates are then expected to gradually decline in line with recovering economic activity over the medium term.

Risks and challenges

The Bahamas' main risks stem from a more severe and lasting COVID-19 pandemic and vulnerability to future hurricanes. The pandemic's impact depends on its spread and duration, on the success of global and local containment measures, and on the effectiveness of policy responses. Disruption of international supply chains, tourism, and travel (including within the archipelago) could have more profound effects than expected today. Also, given the limited capacity of the health care system, the human and economic costs of the local outbreak could be substantial. Hurricane vulnerability persists, especially given the use of fiscal and financial buffers to respond to Hurricane Dorian and the COVID-19 pandemic.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.1	3.0	1.2	-14.5	4.5	2.3
Private Consumption	7.9	1.9	-3.6	-12.5	3.2	5.2
Government Consumption	13.9	17.7	8.9	12.5	17.6	13.4
Gross Fixed Capital Investment	10.9	-13.2	8.8	-38.2	11.5	-12.9
Exports, Goods and Services	1.7	10.4	3.5	-47.3	22.5	8.9
Imports, Goods and Services	9.2	-3.9	1.0	-44.4	29.1	11.0
Real GDP growth, at constant factor prices	4.0	3.1	1.2	-14.5	4.5	2.3
Agriculture	-5.3	-10.6	-11.9	-6.9	1.7	1.3
Industry	-0.7	-8.5	4.6	-4.7	8.7	2.6
Services	5.0	5.3	0.8	-16.1	3.8	2.3
Inflation (Consumer Price Index)	1.5	2.3	2.5	2.3	2.3	2.3
Current Account Balance (% of GDP)	-12.4	-12.1	0.7	-17.9	-14.5	-8.2
Net Foreign Direct Investment (% of GDP)	-1.7	5.7	-1.7	1.4	1.7	3.2
Fiscal Balance (% of GDP)[a]	-5.3	-3.4	-1.7	-6.8	-10.6	-5.7
Debt (% of GDP)[a]	53.8	62.6	61.8	82.3	88.5	87.0
Primary Balance (% of GDP)[a]	-3.2	-0.8	0.7	-4.0	-7.4	-2.9

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

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

BARBADOS

Table 1	2019
Population, million	0.3
GDP, current US$ billion	5.2
GDP per capita, current US$	17962.1
School enrollment, primary (% gross)[a]	99.4
Life expectancy at birth, years[a]	79.1

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

A steep decline in growth is projected for 2020 due to the coronavirus (COVID-19) pandemic. The fallout in the tourism sector and disruptions to local production are expected to depress growth, resulting in a third consecutive year of recession. The fiscal and external accounts are expected to deteriorate substantially. High levels of public debt limit space for counter-cyclical fiscal policy to lift growth and reduce poverty. Downside risks are very high considering the country's heavy tourism dependency and vulnerability to shocks from economic and natural disasters.

Recent developments

Barbados had endured two consecutive years of contraction prior to the COVID-19 pandemic. GDP declined by 0.1 percent in 2019. With increasing long stay arrivals and arrivals from the US, the tourism sector grew by around 3 percent. The tourism sector directly accounts for about 17 percent of GDP, but its indirect share of GDP is much higher, with other sectors relying heavily on tourism activities. In the first three quarters of 2019, construction, manufacturing and agriculture contributed negatively to growth. Inflation edged up to 4.0 percent in 2019, attributable to an acceleration in the prices of domestically produced food products following insufficient rainfall, and higher transportation and utility costs. The unemployment rate was unchanged at 10.1 percent in 2019, relative to 2018.

In 2019, the current account deficit fell to 3.1 percent of GDP. Lower international oil and food prices, combined with lower demand due to fiscal consolidation, resulted in lower imports as compared with 2018 while balance of services improved. Net official inflows financed the deficit as FDI remains subdued with large construction projects in the pipeline that have yet to materialize. Gross international reserves grew from 12 weeks in 2018 to around 14 weeks of imports in 2019.

The primary surplus target for 2019 was 6.3 percent of GDP, well above the 3.5 percent outturn recorded in 2018. The primary surplus was met by adjusting expenditure in line with revenue, with lower than budgeted expenditures on goods and services, capital projects and wages. The overall fiscal balance shifted from a 0.3 percent deficit in 2018 to a 3.8 percent surplus in 2019. As a result, the debt-to-GDP ratio declined by 3.4 percentage points in 2019 to 122.2 percent of GDP. This substantial reduction was assisted by the full restructuring of domestic debt in 2018 and the completion of an external debt exchange in December 2019, and implementation of the IMF program.

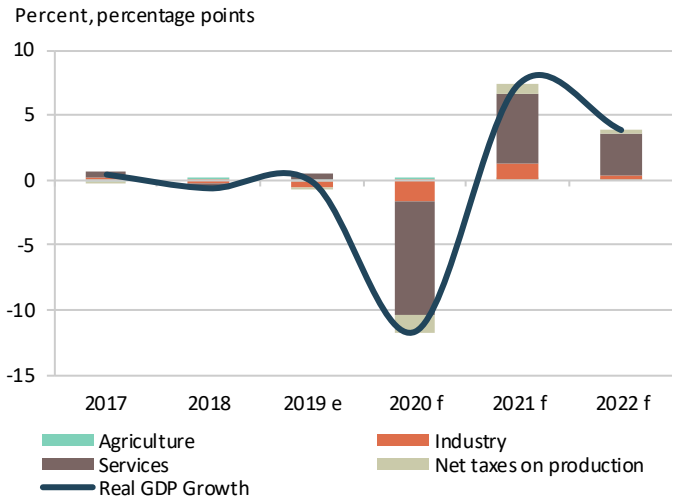
Conditions in the financial sector were generally stable in 2019. Private sector credit remained unchanged. Inefficiencies in financial intermediation are evident from the 6 percent spread of the rate between bank loans and deposits. In addition, the non-performing loan ratio had a small uptick of 30 bps to 6.9 percent. Liquidity in the banking system was supported by a modest increase in deposits.

According to the latest Barbados Survey of Living Conditions fielded in 2016-2017, 17.2 percent of Barbadians were living below the national poverty line and 3.4 percent were extremely poor. As the economy has contracted over the last two years and poverty has likely risen in line with the contraction, the government has placed emphasis on social safety net measures to protect vulnerable groups and help displaced workers find new employment.

Outlook

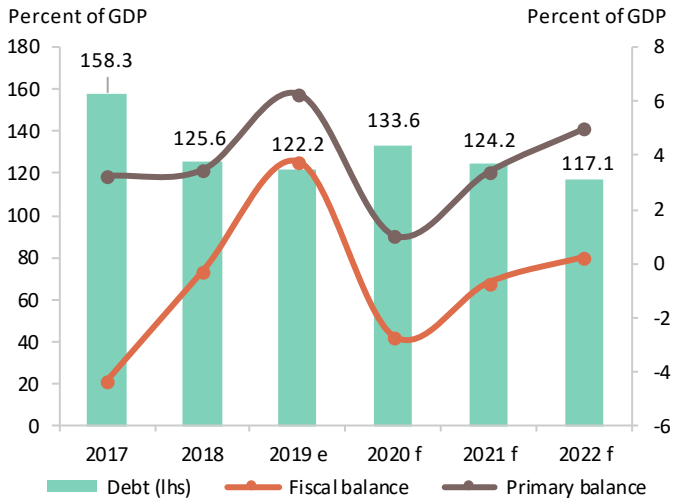
COVID-19 's negative shock to external demand is causing a deep recession. With

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



Sources: Central Bank of Barbados; IMF and World Bank staff estimates.

FIGURE 2 Barbados / Downward debt trajectory after initial COVID-19 shock



Sources: Central Bank of Barbados; IMF and World Bank staff estimates.

the near full travel closure and quarantine measures, the economy is projected to contract by 11.6 percent in 2020. Owing to growing unemployment and falling wages, private consumption will contract, and fixed investment will decline. It is anticipated that government consumption will increase to counter the economic downturn. Growth is projected to reach an average of 5.7 percent over the medium term with the resumption of travel. Lagging construction activity and renewed fiscal consolidation efforts are expected to moderate growth prospects. The inflation rate of Barbados is projected to fall to 2.9 percent in 2020 and to average around 2.0 percent in the medium-term.

The current account deficit is expected to increase drastically to 10.2 percent of GDP in 2020, driven by a large decline in travel-related exports. The deficit is expected to be financed through increased official net inflows. The current account deficit is expected to decline to 3.8 percent of GDP in the medium term.

In response to COVID-19, authorities have lowered their primary surplus target to 1.0 percent in 2020 (up from 6 percent before the pandemic). Government revenues are expected to drop sharply in 2020, while expenditures are projected to remain elevated during the recovery. With counter-cyclical fiscal measures, public debt is expected to rise to 133.6 percent of GDP in 2020. A primary fiscal balance of 4.2 percent of GDP is projected in 2021-22 as revenues recover while the government curbs spending and continues to implement fiscal measures and structural reforms. The debt anchor of 60 percent of GDP by FY2033/34 can be reached with primary surpluses of 5.0 percent of GDP, to be achieved by the IMF's Extended Fund Facility supported program.

Authorities announced a series of measures to help commercial banks and other deposit-taking institutions to withstand the COVID-19 shock. This includes the reduction of the banks' discount rate from 7 percent to 2 percent and securities ratio from 17.5 percent to 5 percent, as well as the elimination of the 1.5 percent securities ratio for non-bank deposit holders. Commercial banks have also announced a six-month moratorium on loan repayments for individuals and firms affected by the pandemic. It is expected that the financial system will remain liquid.

The decline in GDP growth in 2020 is expected to reduce employment and increase poverty. Middle-income households (who earn between 1 and 4 times the minimum wage) are so far the most affected by the economic shock as half of them reported job losses and one-third reported business closures. Unemployment claims so far in 2020 reached roughly one-third of the workforce. Poverty can be expected to decrease over the medium term depending on whether the recovery is sustained and associated with the creation of new job opportunities.

Risks and challenges

A further deepening and prolongation of the COVID-19 crisis is the main risk. Economic activity will be reduced by lower than projected external demand associated with the COVID-19 pandemic. Depending on the ultimate severity of the crisis, spending can face overruns, revenue collection could underperform current expectations, and the debt trajectory could become unsustainable. Impacts of potential extreme weather events during the 2020 hurricane season could exacerbate the projected contraction in real GDP and lead to higher levels of public debt and poverty.

TABLE 2 Barbados / 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	0.5	-0.6	-0.1	-11.6	7.4	3.9
Real GDP growth, at constant factor prices	0.6	-0.4	-0.1	-11.8	7.7	4.0
Agriculture	-3.3	14.8	-6.3	9.7	1.2	1.0
Industry	1.8	-2.3	-3.4	-12.6	9.4	3.1
Services	0.5	-0.3	0.6	-12.1	7.5	4.2
Inflation (Consumer Price Index)	4.4	3.7	4.1	2.9	1.6	2.3
Current Account Balance (% of GDP)	-3.8	-5.0	-3.1	-10.2	-6.0	-3.8
Fiscal Balance (% of GDP)	-4.3	-0.3	3.8	-2.7	-0.7	0.2
Debt (% of GDP)	158.3	125.6	122.2	133.6	124.2	117.1
Primary Balance (% of GDP)	3.3	3.5	6.3	1.1	3.4	5.0

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

BELIZE

Table 1	2019
Population, million	0.4
GDP, current US$ billion	1.9
GDP per capita, current US$	4927.4
School enrollment, primary (% gross)[a]	111.7
Life expectancy at birth, years[a]	74.5

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

Economic growth slowed in 2019 and a sharp contraction is projected for 2020 amidst the downturn in global economic activity triggered by the Coronavirus (COVID-19) pandemic. The fiscal and external accounts are expected to deteriorate. High public debt levels limit headroom for counter-cyclical fiscal policy to boost growth and support poverty reduction. Downside risks are very high given the country's high dependence on tourism and susceptibility to economic and natural disaster shocks.

Recent developments

Real GDP contracted by 2.0 percent in 2019, from a growth of 2.1 percent in 2018, reflecting both severe drought and implementation of fiscal consolidation aimed to address macroeconomic vulnerabilities that existed prior to the COVID-19 crisis. The contraction was driven primarily by investment and government consumption. The tourism sector, which is one of the main growth engines, slowed due to the normalization of cruise arrivals to other Caribbean destinations that were affected by major hurricanes in 2018. Output was also stymied by drought in the second half of the year. Inflation remained subdued at 0.2 percent in 2019.

The current account deficit widened in 2019 to 9.6 percent of GDP from 8.1 percent of GDP in 2018. This was led by a sharp increase in fuel imports to compensate for the falloff in hydroelectric generation. The deficit was financed mainly with private and official inflows and a drawdown in reserves. The country ended 2019 with a reserve covering 2.8 months of imports compared to 3.6 months at end 2018.

The fiscal deficit widened to 4.9 percent of GDP in 2019, from 1.0 percent of GDP in 2018. This was despite a 1.3 percentage point revenue increase to 33 percent of GDP. The widening was caused by higher spending on capital projects which pushed total expenditure by 5.1 percentage points to 37.9 percent of GDP. Primary deficit stood at 1.3 percent of GDP, falling short of the annual primary surplus target of 2.0 percent which was a condition for the debt restructuring in 2017. At 100 percent of GDP, public debt remains high.

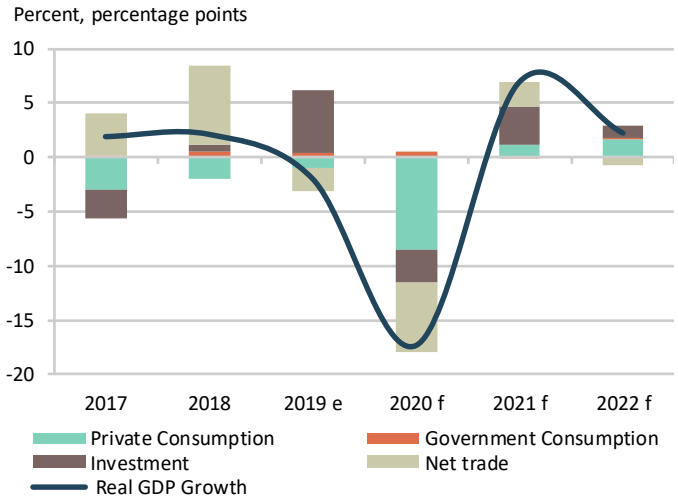
Private-sector lending by domestic banks increased by 5.3 percent in 2019, driven by personal loans. Non-performing loans from domestic banks (net of specific provisions) to total gross loans decreased from 2.7 percent to 2.4 percent in 2019. Banks remain well capitalized with a regulatory capital to a risk-weighted asset ratio of 22.8 percent with an equity return (net income to average capital) of 13.3 percent in 2019.

The growth slowdown translated into a weaker labor market. The national unemployment rate rose to 10.4 percent in September 2019 after a record low of 7.7 percent in April 2019. Unemployment levels among youth continued to be high (21.4 percent). According to official statistics, the number of underemployed persons almost doubled, leading to a large reduction in the average monthly labor income. Even though there is no poverty data available after 2009, poverty is estimated to have increased in 2019 due to the trends described above.

Outlook

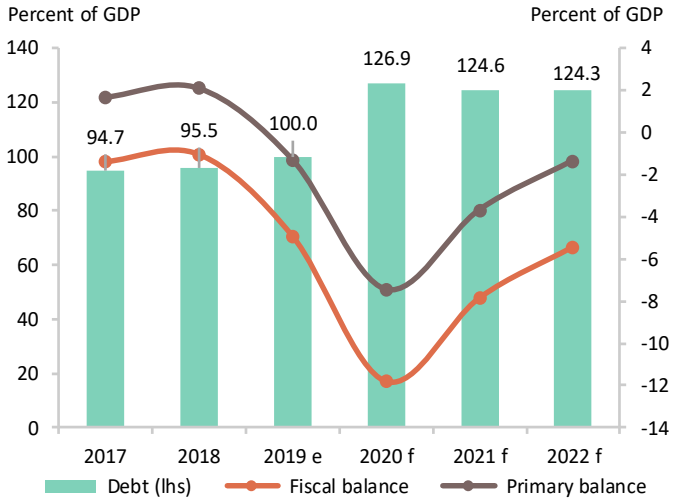
Real GDP is projected to contract by 17.3 percent in 2020 due to the pandemic and average 4.5 percent in 2021 and 2022. The sharp contraction in 2020 is projected to be driven primarily by net external demand and private consumption given the near closure of global travel and slowdown in

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



Sources: Statistical Institute of Belize and World Bank staff calculations.

FIGURE 2 Belize / High public debt



Sources: Ministry of Finance and World Bank staff calculations.

demand. A rebound in net external demand, private consumption, and investment is expected to support growth in the medium term. Inflation is expected to gradually rise towards 1.4 percent and remain contained as the prices of many imported commodities remain low.

The CAD is predicted to widen to 17.2 percent of GDP in 2020 and decrease to an average 10.8 percent of GDP between 2021 and 2022. Weakening tourism demand in the near term tied to the COVID-19 pandemic and lower global economic growth will lead to a worsening in the goods and services balance. Private and official inflows are expected to finance the CAD, supplemented by further drawdown in reserves. In this context, the level of international reserves could fall below 2.8 months of imports.

The fiscal deficit is expected to average 8.4 percent of GDP over the 2020-22 period, 3.5 percentage points above 2019 levels. The deterioration will be driven by substantially lower revenues, especially in 2020. With public debt remaining well above 100 percent of GDP up to 2022, Belize will remain one of the most indebted countries in the Caribbean. Near closure of tourism and related activities will likely directly affect about 20 percent of the labor force. However, the impact on employment may be mitigated by the tax relief and financial support being extended by the government to affected sectors, including a new unemployment relief program to provide temporary benefits to the unemployed and persons who lost their jobs as a result of the crisis. Poverty impacts can be mitigated through the conditional cash transfers programs and national school meal programs.

Poverty is projected to increase further in 2020, given the sharp output contraction and rising vulnerabilities associated with the pandemic and a weakened tourism sector. Poor households are expected to be disproportionately affected by the pandemic. The poor have higher unmet health needs, which makes them more vulnerable to health shocks, and are more likely to live in overcrowded households. Sizable labor market losses in unskilled labor-intensive sectors (i.e. tourism) in which the poor are concentrated can also lead to large labor income losses. Additionally, they are more likely to be hurt by income losses as a result of quarantines and disruption of economic activity. The high prevalence of informality in the country also implies higher vulnerability to the economic effects of the crisis.

Risks and challenges

A deeper and protracted slowdown in the global economy would further undermine growth and poverty reduction. External sector vulnerabilities, which were already high, given the low reserves level, could be compounded by a protracted fallout from the COVID-19 pandemic, unfavorable global financial conditions, and natural disaster shocks. Accelerating efforts to build resilience to disaster shocks would reduce economic volatility and enhance growth. Total public debt remains high, and the debt outlook remains vulnerable to a prolonged economic slowdown and the realization of contingent liabilities. The high debt also limits headroom for fiscal policy to address the COVID-19 pandemic and cushion the impact on the poor. Finally, financial sector oversight gaps remain. Provisioning controls should be tightened and consistent with the Basel system in order to prevent a deterioration in credit portfolio efficiency for banks. Given that Belize is vulnerable to a reduction in financial services by Correspondent Bank Representatives, the country needs to improve its compliance to standards for anti-money laundering and counter terrorism financing by controlling and supervising the offshore market. Effective fiscal policy support measures are important to prevent further poverty increases.

TABLE 2 **Belize** / 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	1.9	2.1	-2.0	-17.3	6.9	2.2
Private Consumption	-4.3	-3.0	-1.6	-13.4	1.7	2.7
Government Consumption	1.0	3.5	2.5	3.5	-0.3	0.5
Gross Fixed Capital Investment	-12.5	3.7	32.7	-12.1	13.8	4.3
Exports, Goods and Services	6.1	7.5	-1.3	-43.3	17.5	9.5
Imports, Goods and Services	-0.6	-4.3	2.2	-32.2	10.1	9.7
Real GDP growth, at constant factor prices	4.0	2.1	-2.0	-17.3	6.9	2.2
Agriculture	9.8	-3.9	-0.7	-9.6	-2.3	1.7
Industry	1.4	-1.3	-11.3	-15.6	16.4	2.2
Services	3.7	3.9	0.0	-18.9	6.5	2.3
Inflation (Consumer Price Index)	1.2	0.2	0.2	0.2	0.8	1.4
Current Account Balance (% of GDP)	-7.8	-8.1	-9.6	-17.2	-11.7	-9.9
Net Foreign Direct Investment (% of GDP)	1.3	6.5	5.5	3.9	6.2	7.0
Fiscal Balance (% of GDP)[a]	-1.4	-1.0	-4.9	-11.8	-7.9	-5.4
Debt (% of GDP)[a]	94.7	95.5	100.0	126.9	124.6	124.3
Primary Balance (% of GDP)[a]	1.7	2.1	-1.3	-7.5	-3.7	-1.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).

BOLIVIA

Table 1	2019
Population, million	11.5
GDP, current US$ billion	40.9
GDP per capita, current US$	3552.1
International poverty rate ($1.9)[a]	4.5
Lower middle-income poverty rate ($3.2)[a]	10.5
Upper middle-income poverty rate ($5.5)[a]	22.8
Gini index[a]	42.2
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	71.2

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

GDP is expected to contract by 7.3 percent in 2020 due to COVID-19, limited macroeconomic buffers, and political tensions. Despite mitigating measures, poverty and inequality are expected to increase, given severe labor market shocks. Growth is projected to resume in 2021, although the need to reduce the fiscal deficit and strengthen the financial sector could limit the recovery. Addressing macroeconomic imbalances, boosting labor demand, and protecting the vulnerable is critical to preserve stability and promote inclusive growth.

Recent developments

Economic activity decreased by 7.9 percent y-o-y in the first seven months of 2020, mostly due to social distancing measures to contain the COVID-19 outbreak and a decline in external demand. While agriculture, public administration, and communication kept growing, most economic sectors plunged, weakening labor demand. Between December 2019 and July 2020, urban unemployment increased from 4.8 to a peak of 11.6 percent, underemployment rose from 4.3 to 17.4 percent, and labor participation decreased from 69 to 62 percent.

Current account balances turned from a US$939 million (2.3 percent of GDP) deficit in the first half of 2019 to a US$35 million surplus in the same period of 2020, as the collapse of imports and factor payment abroad more than offset the contraction of gas and mining exports. In conjunction with high gold prices, the current account surplus kept international reserves around US$6.4 billion (16 percent of GDP), despite low foreign investment and external financing to the public sector. Additionally, the crisis resulted in an increase in demand for local currency and a reduction in demand for dollars, easing pressure on international reserves.

Annual inflation averaged 1.4 percent in the first eight months of 2020 due to the recession. The increase in demand for local currency offset the effect of large Central Bank financing to the public and financial sectors and the reduction in mandatory liquidity requirements. Although the liquidity of the financial sector remains stable, the deferment of loans payments until December 2020 has stressed banks, which saw their return on equity to decrease from 13 percent in December 2019 to 6.4 percent in August 2020.

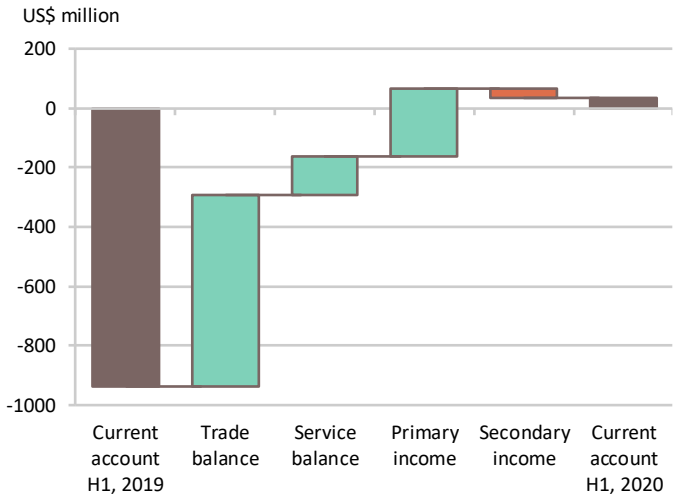
The 12-month rolling fiscal deficit increased from 7.2 percent of GDP in December 2019 to 10.6 percent in June 2020 despite the fall in public investment and fuel subsidies. Fiscal revenues plummeted due to low gas exports, economic contraction, and tax deferment, while current expenditure increased as a result of higher health and social protection expenditure. As emergency loans from international financial institutions have not become effective, the fiscal deficit was financed mostly by the Central Bank.

By May 2020, around 70 percent of households had reported a decline in their incomes since the quarantine began, and almost half reported further declines in July. The government has deployed several mitigation measures that, while having nearly universal coverage, have not fully mitigated the shock to households' income. Other dimensions of wellbeing are also being affected, with potential long-term impacts, including food security and access to healthcare and education.

Outlook

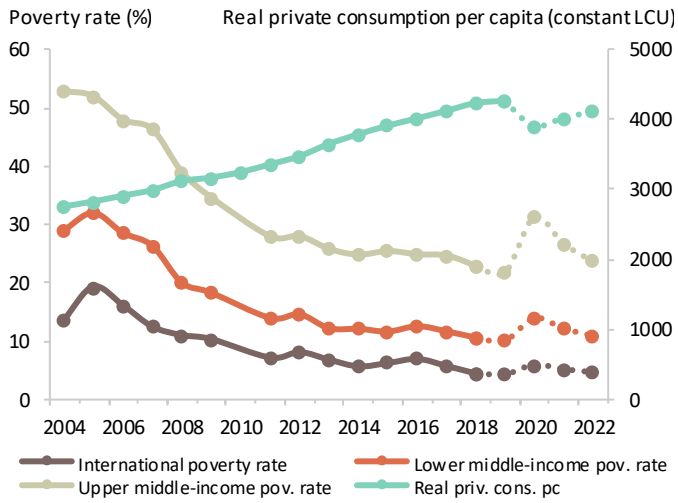
GDP is expected to drop by 7.3 percent in 2020, a worse outcome than the 3.4 percent contraction projected in April, as

FIGURE 1 **Bolivia** / Change in the current account balance



Source: Central Bank of Bolivia.

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



Sources: World Bank. Notes: see table 2.

COVID-19 containment measures have lasted longer than initially expected. Additionally, increasing political polarization ahead of the October 2020 general elections has triggered sporadic social unrest and delayed the National Assembly's approval of external financing to the public sector. As most sectors will contract, the share of the population in poverty is expected to rise from 22 percent in 2019 to 31 percent in 2020 (using the daily $5.5 poverty line), with 1.1 million people falling into poverty. Inequality is expected to increase, as gender gaps and inequalities between high and low skilled workers, and wage and non-wage earners widen.

Growth is expected to resume in 2021 with the easing of containment measures and a global rebound. However, with limited macroeconomic buffers, this recovery will be constrained by the fiscal consolidation and monetary tightening required to preserve macroeconomic stability and keep the exchange rate fixed. As a modest recovery in unskilled non-tradable sectors, such as retail and construction, will limit the recovery of labor income at the bottom of the distribution, poverty may not return to pre-pandemic levels until 2022.

The current account deficit is projected to decrease from 3.3 percent of GDP in 2019 to 0.5 percent in 2020 with the collapse of imports. After that, the current account deficit should converge to around 1.2 percent as a partial domestic demand recovery would limit imports, and improved external conditions should underpin a modest recovery of exports despite stagnated gas export volumes. With modest foreign direct investment, the current account deficit and sizable capital outflows are expected to be financed by external borrowing and, to a lesser extent, by international reserves.

Even with a reduction in public investment, the fiscal deficit is projected to increase from 7.2 percent of GDP in 2019 to 10.9 percent in 2020 due to emergency expenditure and low hydrocarbon and tax revenues. However, the deficit should decrease to 4.5 percent by 2022 as the country emerges from the pandemic, and the government starts fiscal consolidation. This new policy stance should stabilize public debt around 74 percent while reducing pressures for Central Bank financing.

Risks and challenges

Due to the reduction in its macroeconomic buffers over the last five years, Bolivia is highly vulnerable to a longer health emergency, lower commodity prices, and lower gas demand from Brazil and Argentina. Additionally, possible social unrest around the elections could further depress the economy. Further, addressing macroeconomic imbalances required to cement macroeconomic stability may prove politically challenging for the incoming government. Yet, not doing so could lead to a disorderly adjustment process with devastating and longer-term effects on growth and poverty reduction.

With a rigid exchange rate, limited macroeconomic buffers, and growing public debt, Bolivia urgently needs to address macroeconomic imbalances. To this end, it is critical to improve the efficiency of public expenditure, strengthen the financial sector, and introduce institutional anchors to secure macroeconomic stability. Bolivia also needs a more conducive business environment not only to promote investment in gas exploration but also to foster economic recovery, job creation, and export diversification. Beyond the immediate measures to tackle the effects of the pandemic, particularly on the most affected households, reforms need to be informed by equity considerations to protect vulnerable households, close gaps in access to services, and improve the progressivity of fiscal policy.

TABLE 2 Bolivia / 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	4.2	4.2	2.2	-7.3	4.4	3.8
Private Consumption	4.7	4.3	3.7	-7.8	4.2	3.8
Government Consumption	4.9	5.1	3.8	0.1	-1.5	-2.3
Gross Fixed Capital Investment	11.8	3.2	-3.5	-36.5	19.2	8.1
Exports, Goods and Services	-5.0	5.2	-1.8	-4.3	3.4	3.4
Imports, Goods and Services	5.6	1.9	1.5	-22.9	8.2	3.2
Real GDP growth, at constant factor prices	4.2	4.3	2.4	-7.3	4.4	3.8
Agriculture	7.6	6.9	5.3	3.4	4.2	4.2
Industry	2.2	2.3	0.1	-9.6	4.4	3.6
Services	4.8	5.2	3.4	-8.9	4.3	3.7
Inflation (Consumer Price Index)	2.8	2.3	1.8	1.8	2.5	3.0
Current Account Balance (% of GDP)	-5.1	-4.5	-3.3	-0.5	-1.1	-1.2
Net Foreign Direct Investment (% of GDP)	1.7	1.0	-0.7	0.0	1.2	1.7
Fiscal Balance (% of GDP)	-7.8	-8.1	-7.2	-10.9	-6.5	-4.5
Debt (% of GDP)	51.3	53.3	58.8	72.9	73.9	73.9
Primary Balance (% of GDP)	-6.7	-7.0	-5.8	-9.2	-4.7	-2.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	5.8	4.5	4.3	5.9	5.2	4.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.6	10.5	10.2	14.1	12.2	11.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	24.6	22.8	22.0	31.2	26.7	23.8

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

(a) Calculations based on SEDLAC harmonization, using 2008-EH, 2011-EH, and 2018-EH.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using average elasticity (2008-2011) with pass-through = 1based on GDP per capita in constant LCU.

BRAZIL

Table 1	2019
Population, million	214.4
GDP, current US$ billion	1839.8
GDP per capita, current US$	8582.9
International poverty rate ($1.9)[a]	4.4
Lower middle-income poverty rate ($3.2)[a]	9.1
Upper middle-income poverty rate ($5.5)[a]	19.8
Gini index[a]	53.9
School enrollment, primary (% gross)[b]	115.4
Life expectancy at birth, years[b]	75.7

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

Covid-19 took a hefty human toll in Brazil—among the highest globally—and caused the sharpest drop in GDP on record in Q2 2020. The economy is expected to contract by 5.4 percent in 2020, before rebounding in 2021. Poverty was attenuated by a temporary income support program but is expected to rise in 2021 as the support is withdrawn and employment only retraces its losses slowly. The recovery depends on an improving labor market, debt stabilization, and the implementation of structural reforms.

Recent developments

Global impacts of the pandemic combined with local mitigation measures caused the Brazilian economy to contract by a historic 9.7 percent in Q2 2020, led by sharp falls in industry and services. Agriculture expanded on the heels of a fast-depreciating exchange rate. Decisive monetary and fiscal policy action prevented a deeper contraction, including the inclusion of 1.2 million new families to the Bolsa Familia cash transfer program and a new income support emergency program, the Auxilio Emergencial (AE), covering 66 million Brazilians. The social protection response buffered consumption and prevented a rise in poverty despite rising unemployment rate, which climbed by 2.1 p.p. to 13.3 percent between January and June. Informal workers were hit particularly hard and labor force participation declined. High frequency indicators suggest that the economic activity is recovering in Q3 2020, with the Central Bank Economic Activity Index getting back in July to 93.5 percent of the pre-COVID level.

Although FDI remained stable, portfolio outflows triggered by risk-off sentiment toward emerging markets accelerated the dive of the Real which lost over a fifth of its value since February, despite FX intervention by the Central Bank. FX reserves fell but remained large at US$356 billion (or 22 months of imports) in August 2020.

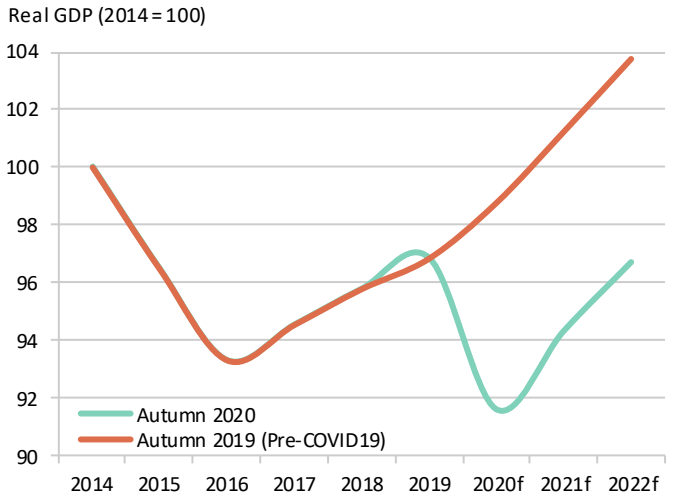
The current account deficit declined to 2.0 percent in July 2020 (from 2.7 percent in 2019), mainly due to imports plummeting with contracting local demand and depreciation of the Real. The increase in agricultural exports could not compensate for otherwise flagging global demand.

A widening output gap translated into inflation declining to 2.4 percent in August. Yet food inflation increased by 8.8 percent, driven by heated domestic demand for food, rising agricultural commodity exports and the exchange rate pass-through. The expansion of social protection interventions, including the AE, helped buffer this impact on the poor: with simulations suggesting that incomes in the poorest quintile raising more than 20 percent and those in the second quintile by about 10 percent.

Low inflation (and inflation expectations) allowed the central bank to reduce the policy rate to a record low of 2.0 percent in August. It also promoted a broad liquidity program to support financial markets and firms. The credit market remains sound, with healthy credit growth alongside low, non-performing loans and solid capital buffers.

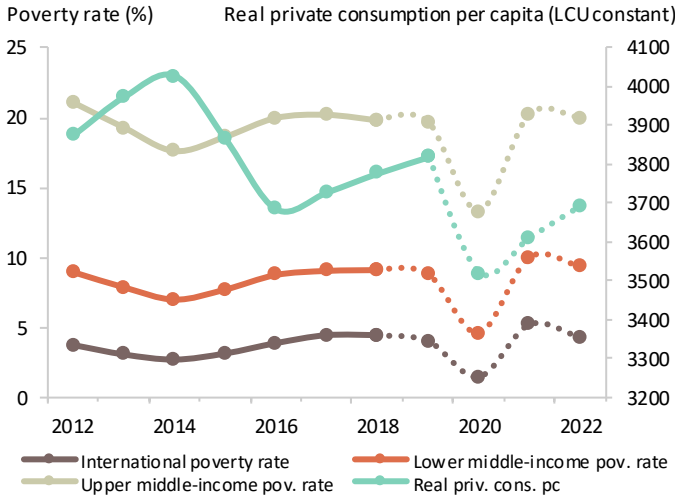
The fiscal position deteriorated markedly in light of significant spending on health, social protection, other economic support and transfers to subnational governments, as the government's expenditure ceiling used emergency rules. The federal fiscal package amounted to 11.1 percent of GDP. Gross debt of the general government increased from 75.8 percent in 2019 to 85.5 percent in June 2020.

FIGURE 1 **Brazil** / Current forecast vs pre-covid forecast



Sources: IGBE and World Bank staff.

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



Sources: World Bank. Notes: see Table 2.

Outlook

GDP is projected to contract by 5.4 percent in 2020, revised upward from 8.0 percent expected earlier this year. The main reasons for the revision include an extension of the large AE program and less severe mitigation measures against COVID-19. The recovery is further supported by other fiscal measures and historically low interest rates. Recent high frequency data support a more benign economic scenario than previously expected. Mining and agriculture are expected to continue to grow, supported by an improving external scenario coupled with a weakened exchange rate. Industry is rebounding with rising domestic demand. The service sector rebound, however, is expected to be heterogenous, as activities dependent on face-to-face interactions, such as tourism and restaurants, as well as air travel, remain limited. The economic recovery underway is expected to continue into 2021 (+3.0 percent), before the economy converges to a more longer-term scenario supporting 2.5 percent of growth in 2022.

Lower remittances and imports and slightly higher commodities exports contribute to reduce the current account deficit in 2020. The deficit will remain covered by FDI inflows. Inflation will continue to be below the target until 2022, as the output gap is expected to widen to 4.0 percent in 2020 and close in the medium term.

The government is expected to post a 11.6 percent primary deficit in 2020 due to its emergency response, coupled with lower tax revenues from a weakened economy. Despite historically low interest rates, the pandemic aggravated the challenges to stabilize public debt, projected to reach 96.0 percent of GDP in 2022.

The pandemic will curb incomes across the entire income distribution. However, due to the AE, poverty is projected to decrease in 2020 with 13.3 percent of Brazilians living with less than US$5.5 (2011 PPP) and 1.5 percent (or 3.2 million people) living in extreme poverty (US$1.90 PPP). Yet this drop is likely to be reversed as the emergency measures expire and the labor market is not able to fully absorb the unemployed. Schools are expected to remain closed for most of 2020, putting especially pupils from lower-income households at risk.

Risks and challenges

As elevated virus case numbers persists, a full recovery, especially of the services sector, remains dependent on an improving public health situation. The continuing pandemic can trigger renewed lockdowns in other parts of the world, which would affect Brazil through trade channels and international capital flows. Although FX-denominated debt is low in Brazil, this would put pressure on interest rates and on debt sustainability metrics.

Uncertainty also lies on the capacity of the labor market to absorb the 10 million people that left the workforce, of which the majority is informal workers (7.9 million) that depends on the AE in 2020. If the market remains sluggish, withdrawal of the AE in 2021 may result in a large drop of consumption and poverty and unemployment rates increases. The government fiscal capacity is constrained in 2021, which calls for more efficient use of existing government's programs.

To regain lost ground, it will be critical to ensure that emergency measures remain temporary and that long-term fiscal sustainability remains anchored in Brazil's expenditure rule. It will be important to safely return the country to normalization, including the opening of schools, while the pre-crisis reform agenda on productivity remains ever more important to help Brazil rebuild back better from Covid-19.

TABLE 2 **Brazil** / 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	1.3	1.3	1.1	-5.4	3.0	2.5
Private Consumption	2.0	2.1	1.8	-6.9	3.3	2.9
Government Consumption	-0.7	0.4	-0.4	-0.5	0.0	0.0
Gross Fixed Capital Investment	-2.6	3.9	2.2	-6.0	5.3	5.5
Exports, Goods and Services	4.9	4.0	-2.5	0.5	5.5	5.0
Imports, Goods and Services	6.7	8.3	1.1	-2.0	6.0	7.0
Real GDP growth, at constant factor prices	1.4	1.3	1.1	-5.4	3.0	2.5
Agriculture	14.2	1.4	1.3	2.5	1.8	1.7
Industry	-0.5	0.5	0.5	-5.9	7.1	2.1
Services	0.8	1.5	1.3	-6.1	1.8	2.8
Inflation (Consumer Price Index)	3.4	3.7	3.7	2.7	2.7	3.2
Current Account Balance (% of GDP)	-0.7	-2.2	-2.7	-0.8	-1.3	-2.0
Net Foreign Direct Investment (% of GDP)	2.3	4.0	3.1	3.0	3.0	3.0
Fiscal Balance (% of GDP)	-8.4	-7.6	-6.7	-15.3	-7.2	-7.3
Debt (% of GDP)	73.7	76.5	75.8	93.5	93.9	96.0
Primary Balance (% of GDP)	-1.7	-1.7	-1.1	-11.6	-2.5	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.4	4.4	4.0	1.5	5.2	4.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.1	9.1	8.8	4.5	10.0	9.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	20.2	19.8	19.7	13.3	20.2	20.0

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

(a) Calculations based on SEDLAC harmonization, using 2013-PNADC-E1and 2018-PNADC-E1Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using point-to-point elasticity (2013-2018) with pass-through = 0.87 based on private consumption per capita in constant LCU. Projection for 2020 based on microsimulations to reflect emergency policy measures.

CHILE

Table 1	2019
Population, million	19.0
GDP, current US$ billion	282.3
GDP per capita, current US$	14896.5
International poverty rate ($1.9)[a]	0.3
Lower middle-income poverty rate ($3.2)[a]	0.7
Upper middle-income poverty rate ($5.5)[a]	3.6
Gini index[a]	44.4
School enrollment, primary (% gross)[b]	101.4
Life expectancy at birth, years[b]	80.0

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

Despite a massive stimulus package, the COVID-19 crisis has plunged the economy into a deep recession, increased poverty, and reduced the size of the middle class. Growth is expected to rebound strongly in 2021, conditional on containment of the pandemic, allowing for a gradual withdrawal of the stimulus. The fallout of the pandemic and the social crisis of late 2019 underscores the importance of strengthening equitable growth by boosting productivity and reducing inequality of opportunity while maintaining sound macroeconomic management.

Recent developments

Due to the impact of the pandemic, GDP decreased by 7.1 percent y-o-y in the first half of 2020. Domestic demand, in particular private consumption, collapsed as a result of the social distancing measures imposed to contain the spread of the virus. Net exports had a positive contribution to growth thanks to the relatively good performance of mining exports amid severe import contraction. Except for mining and public administration, all sectors recorded a contraction, with the largest declines in low-skilled nontradable sectors such as commerce, transport, personal services, and construction, leading to significant job losses. In July 2020, employment was 21 percent lower than a year ago, while unemployment rose from 7.5 to 13.1 percent, and labor force participation decreased from 63 to 52 percent in the same period. By end-July, 1.87 million jobs had been lost since March, with women, low-skilled workers, and those who could not perform their jobs online more severely affected. According to World Bank high frequency surveys, households with independent or self-employed workers have seen higher income losses.

Increased mining export, dampened domestic demand, and low oil prices led the current account into a small surplus in the first half of the year. At the same time, international reserves showed a small downtick as sizable capital outflows more than offset the effect of the current account surplus, increased external financing to the public sector, and higher foreign investment—related to the acquisition of 20 percent of Latam Airlines and communications towers of Entel.

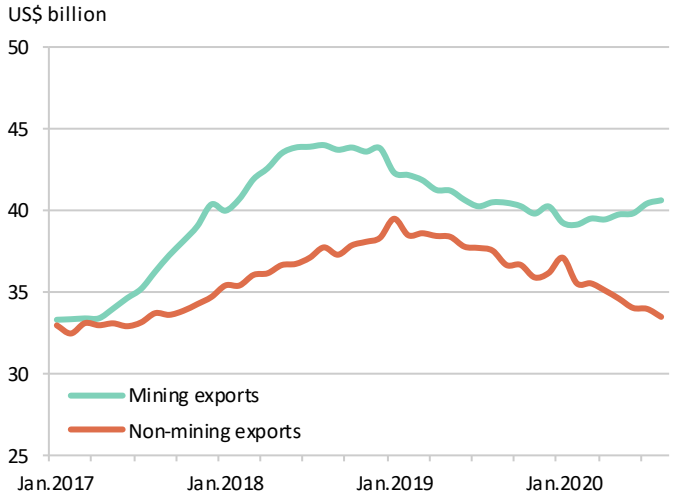
After reaching a peak of 3.9 percent in February 2019, annual inflation decreased to 2.4 percent in August 2020. With the widening of the output gap, the Central Bank reduced the monetary policy interest rate to 0.5 percent and drew on nonconventional measures to spur liquidity and credit. Additionally, the authorities allowed workers to withdraw part of their pension saving and launched mechanisms to provide liquidity to SMEs and households through a credit-guarantee scheme, soft credits, and mortgage payment deferments.

The 12-month rolling central government deficit widened from 2.8 percent of GDP in December 2019 to 6.8 percent in August 2020 due to a series of fiscal stimulus packages. Revenue measures included tax deferrals, temporary reduction of the corporate income tax, and accelerated depreciation. On the expenditure side, the Government increased health expenditures, introduced emergency social transfers and wage subsidies, and accelerated payments for public procurement contracts.

Outlook

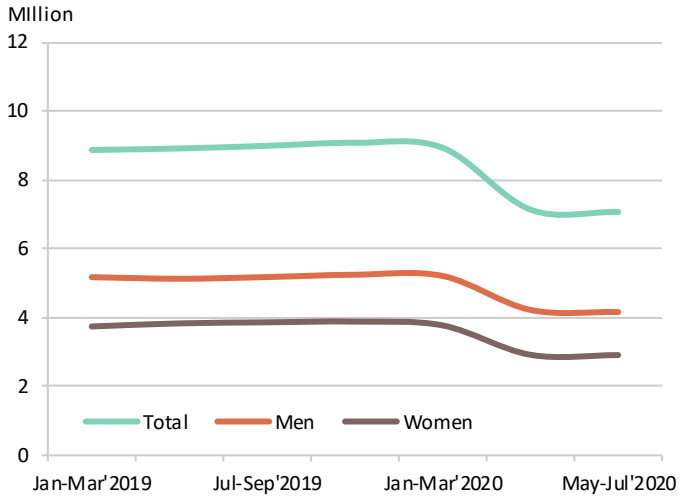
Overall, in 2020, GDP is projected to decline by around 6.3 percent, more than anticipated in June 2020 (-4.3 percent). The resurgence of the virus in the poorest

FIGURE 1 **Chile** / 12-month rolling mining and non-mining exports



Source: Central Bank of Chile.

FIGURE 2 **Chile** / Employed population



Sources: Encuesta Nacional de Empleo. Instituto Nacional de Estadística.

neighborhoods of Santiago has slowed the lifting mobility restrictions, offsetting the effect of recovering external demand and additional income support measures, including the partial withdrawal of the private pension savings. The wide range of social measures targeting the poor is expected to mitigate the impacts on poverty, which is projected to increase only slightly from 3.3 percent in 2019 to 3.4 percent in 2020 at US$ 5.5 a-day poverty line resulting in thirty thousand new poor. However, the middle class is expected to contract from 63.3 to 53.7 percent of the population, implying that over 2.2 million people would fall into vulnerability. Inequality is expected to remain stable.

After a rebound in 2021 of around 4.2 percent, economic growth could reach about 3 percent in 2022 provided the health crisis gets resolved. Although the Government is expected to continue the countercyclical policy stance, the uncertainty around the constitutional reforms and limited productivity gains would prevent a stronger upturn. Poverty at the US$5.5 a day line is projected to decline to 2.5 percent by 2022 as growth resumes, while the middle class would grow to 57.5 percent of the population, still 5.8 percentage points below its 2019 level.

After reaching 2.7 percent in 2020, average inflation is projected to converge to 3 percent, the midpoint of the Central Bank's target range. The economic recovery would allow a tighter monetary policy stance and recovered confidence would keep the exchange rate stable.

On the external side, the increasing mining export and collapsing import should help narrow the current account deficit to around 0.6 percent of GDP in 2020 from about 4 percent in 2019. However, as the health crisis is overcome and the domestic demand recovers, the current account is projected to widen again to about 2.2 percent by 2022. This deficit is expected to be financed by external debt and foreign investment, keeping international reserves stable.

The general government deficit is projected to increase to 9.8 percent of GDP in 2020 due to the economic contraction and discretionary measures. As the emergency expenditures expire and tax revenues recover, the fiscal deficit is expected to decline gradually to 4.6 percent by 2022. Government efforts to support the recovery and meet latent social demand would prevent the deficit from converging to the structural balance target within the projection horizon. As a result, public debt could increase from 28 percent of GDP in 2019 to 43 percent in 2022, the highest level in more than three decades.

Risks and challenges

The balance of risks is tilted to the downside due to uncertainty about the COVID-19 crisis. Despite the resilience of mining exports, Chile is exposed to shocks stemming from lower copper prices and a more extended global recession. Additionally, a new wave of the COVID-19 outbreaks could require new containment measures. On the domestic front, political uncertainty around the constitutional reform and sporadic social unrest could further undermine private sector confidence and willingness to invest.

A political consensus is needed to meet social demands and propel potential growth without jeopardizing prudent macroeconomic management. Reforms supporting productivity gains, particularly those geared towards improving labor productivity at the bottom of the income distribution, are crucial and include: fostering innovation, enhancing the link between education and the labor market, enhancing labor market flexibility, and promoting female labor participation. In a longer perspective, reducing inequality of opportunity will be crucial to eliminate the persistent pockets of poverty and ensure social cohesion.

TABLE 2 Chile / 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	1.2	3.9	1.1	-6.3	4.2	3.1
Private Consumption	3.4	3.7	1.1	-8.8	5.3	3.2
Government Consumption	4.6	4.3	-0.3	-5.1	2.6	2.5
Gross Fixed Capital Investment	-3.1	4.8	4.2	-12.5	6.0	5.9
Exports, Goods and Services	-1.5	5.0	-2.3	0.0	4.2	3.3
Imports, Goods and Services	4.6	7.9	-2.3	-9.4	6.9	5.0
Real GDP growth, at constant factor prices	1.0	4.0	1.2	-6.3	4.2	3.1
Agriculture	2.2	1.7	-1.6	-3.7	3.2	2.2
Industry	-0.5	4.9	0.4	-3.4	4.6	3.1
Services	1.7	3.6	1.7	-7.9	4.1	3.2
Inflation (Consumer Price Index)	2.2	2.4	2.6	2.7	2.8	3.0
Current Account Balance (% of GDP)	-2.3	-3.6	-3.9	-0.6	-2.1	-2.2
Net Foreign Direct Investment (% of GDP)	0.4	2.3	1.2	4.1	2.1	2.2
Fiscal Balance (% of GDP)	-2.6	-1.5	-2.7	-9.8	-5.3	-4.6
Debt (% of GDP)	23.6	25.6	27.9	38.9	41.5	43.4
Primary Balance (% of GDP)	-1.8	-0.6	-1.8	-8.7	-3.9	-3.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.3	0.3	0.3	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.7	0.6	0.6	0.3	0.3	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.6	3.4	3.3	3.4	2.8	2.5

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

(a) Calculations based on SEDLAC harmonization, using 2017-CASEN. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.

(b) Projection using microsimulation model for 2020 and neutral distribution with pass-through 0.8 based on GDP per capita in constant LCU for 2021-2022.

COLOMBIA

Table 1	2019
Population, million	49.4
GDP, current US$ billion	323.6
GDP per capita, current US$	6550.9
International poverty rate ($1.9)[a]	4.2
Lower middle-income poverty rate ($3.2)[a]	11.1
Upper middle-income poverty rate ($5.5)[a]	28.2
Gini index[a]	50.4
School enrollment, primary (% gross)[b]	114.5
Life expectancy at birth, years[b]	77.1

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

COVID-19 has caused an unprecedented contraction in economic activity, reversing hard-fought gains in poverty reduction. The authorities responded decisively to the crisis within their solid macroeconomic framework. In the baseline scenario GDP is estimated to contract 7.2 percent in 2020 and poverty to increase. The depth of the crisis and the exposure to external demand and oil price shocks will weigh on the outlook. As uncertainty remains elevated, a deeper contraction in 2020 and a slower recovery cannot be excluded.

Key conditions and challenges

Colombia has a strong macroeconomic policy framework, founded on a flexible exchange rate, an inflation targeting regime, and a rules-based fiscal framework. Before the outbreak of the COVID-19 pandemic, economic growth had been accelerating since the 2014-16 drop in oil prices, and Colombia was successful in absorbing the large flow of migrants from Venezuela. However, low productivity has been a drag on economic growth, with many factors (including infrastructure bottlenecks, low labor productivity, a complex tariff regime and the existence of non-tariff barriers) weighing on total factor productivity. Exports are highly concentrated in non-renewable commodities (oil in particular), increasing exposure to price shocks. Finally, despite a significant reduction in poverty between 2008 and 2018, inequality remains high and labor informality is among the highest in Latin America.

These conditions shape the channels through which the COVID-19 shock is affecting the economy and the recovery. Strong macroeconomic policies have provided Colombia with enough buffers to confront the crisis, anchoring expectations and reducing uncertainty. However, reliance on oil exports compounds the effect of the reduction in global demand and of the oil price drop. Low total factor productivity will limit the speed of the recovery. Informality and job insecurity amplify the effect of the economic contraction on household income, increase uncertainty about future disposable income, and hinder the rebound of private consumption.

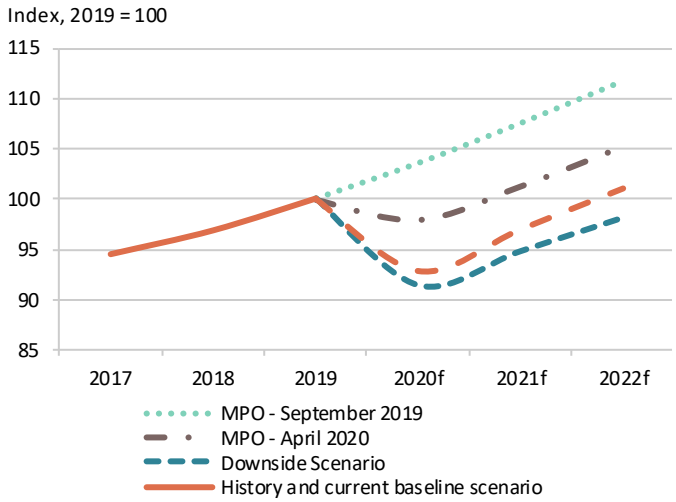
Recent developments

The COVID-19 crisis is taking a heavy toll on the economy. GDP contracted 7.4 percent year-on-year in the first half of 2020 as domestic demand fell 8.1 percent year-on-year and manufacturing, construction, and commerce slumped. High frequency indicators suggest that activity is now recovering.

The authorities took decisive actions to support the economy. With inflation slipping below the 3 percent inflation target, the Central Bank cut the monetary policy rate to 1.75 percent (a record low) and provided ample liquidity. The government increased spending on health and mitigated the impact on households by raising transfers to vulnerable groups through existing and new programs (*Ingreso Solidario*), and by postponing utility payments for low income households. Also, it deferred tax collection for firms and provided wage subsidy and liquidity support for businesses. To ensure adequacy of the fiscal support, the suspension clause of the fiscal rule was activated for 2020 and 2021.

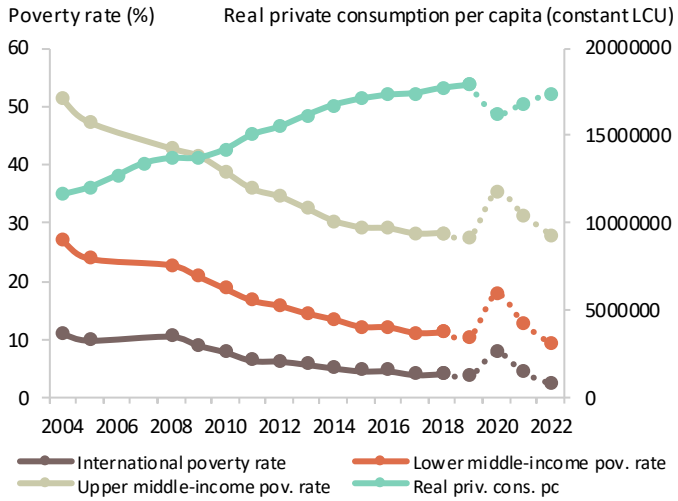
The current account deficit narrowed to 3.3 percent of GDP in January-June as remittances remained robust while distribution of dividends and reinvestment of

FIGURE 1 **Colombia** / GDP level under different scenarios



Sources: DANE, World Bank staff calculations.

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



Sources: World Bank. Notes: see table 2.

earnings abroad declined substantially. The reduction in imports compensated the decline in export and in oil prices. Foreign Direct Investment inflows declined but were still sufficient to finance the current account deficit. Foreign borrowing increased and the government has been able to maintain access to financial markets on favorable terms.

The COVID-19 crisis has exacerbated existing labor market weaknesses. The unemployment rate doubled since July 2019, reaching 20.2 percent in July 2020, with large increases in urban areas and among women, the youth, the self-employed, and workers in small firms. Inactivity increased, as 4.2 million jobs were lost over the same period. The number of people working less than 20 hours a week increased from 14 percent to 23 percent among the employed. As a result, household income has plummeted: by May, income had fallen for 72 percent of households, with no signs of recovery by August. The crisis is also affecting the livelihood of the middle class and other dimensions of wellbeing, in urban and rural areas, including food security, access to health services and to quality education, with potential long-term impacts on human capital and productivity.

Outlook

Under the baseline scenario, the economy is projected to decline 7.2 percent in 2020, rebound in 2021, and reach end-2019 levels in the second half of 2022. This scenario assumes that there are no significant second COVID-19 waves (either in Colombia or in trading partners), and a vaccine is made available in 2021, but that oil prices and external demand remain subdued in 2021. The current account deficit is expected to improve in 2020 driven by a stronger primary balance. Imports are expected to recover faster than exports, and primary income outflows to rebound in 2021 and normalize in 2022. The general government's deficit is expected to widen to 9.2 percent of GDP driven by crisis response spending, lower tax receipts, and a base effect of lower nominal GDP. The unwinding of COVID-19 related spending, measures to cut tax expenditures, and privatizations are assumed to improve the fiscal balance in 2021 and 2022.

Government emergency transfers are estimated to mitigate around one third of the negative impact of the crisis on poverty. Yet, as activity and jobs are expected to contract the most in sectors with a large share of informal labor (such as commerce, manufacturing, and hospitality), 4 million people are estimated to fall into poverty. The incidence of poverty is projected to increase by over 7 percentage points (US$5.5/day poverty line), wiping out the gains since 2011. Inequalities are expected to increase, as gender gaps and inequalities between high-skilled and low-skilled workers widen.

Risks are mainly on the downside. A second wave of COVID-19 abroad would affect exports and oil prices, which a resumption of trade tension could amplify, while in Colombia it would further reduce domestic activity. Under a downside scenario, GDP could contract 8.6 percent in 2020 and grow 3.7 percent in 2021. The current account deficit could increase to 5 percent of GDP, and the fiscal deficit of the general government could reach almost 10 percent of GDP. Poverty would deteriorate further, likely accompanied by an adverse long-term impact from asset depletion and lower human capital accumulation.

TABLE 2 Colombia / Macro poverty indicators, history and baseline projections (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	1.4	2.5	3.3	-7.2	4.5	4.2
Private Consumption	2.1	3.0	4.5	-7.8	6.7	4.7
Government Consumption	3.6	7.0	4.3	4.1	3.1	3.2
Gross Fixed Capital Investment	1.9	1.5	4.3	-20.7	5.0	3.2
Exports, Goods and Services	2.6	0.9	2.6	-14.2	5.0	4.0
Imports, Goods and Services	1.0	5.8	8.1	-18.5	12.0	4.0
Real GDP growth, at constant factor prices	1.4	2.5	3.1	-6.9	4.3	4.0
Agriculture	5.6	2.4	1.9	3.0	3.0	4.1
Industry	-2.2	0.6	0.9	-10.7	5.7	3.1
Services	2.7	3.4	4.3	-6.3	3.9	4.3
Inflation (Consumer Price Index)	4.3	3.2	3.5	2.8	2.9	3.0
Current Account Balance (% of GDP)	-3.3	-3.9	-4.2	-4.1	-4.5	-4.2
Fiscal Balance (% of GDP)	-2.3	-2.2	-2.4	-9.2	-5.2	-2.8
Debt (% of GDP)	48.5	51.4	52.2	66.5	66.6	64.1
Primary Balance (% of GDP)	0.6	0.6	0.6	-5.9	-1.6	0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.0	4.2	3.7	7.9	4.3	2.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.1	11.1	10.3	17.8	12.7	9.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	28.1	28.2	27.3	35.2	31.3	27.9

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

(a) Calculations based on SEDLAC harmonization, using 2008-GEIH and 2018-GEIH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using average elasticity (2008-2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

COSTA RICA

Table 1	2019
Population, million	5.0
GDP, current US$ billion	61.9
GDP per capita, current US$	12388.1
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	3.7
Upper middle-income poverty rate ($5.5)[a]	11.2
Gini index[a]	48.0
School enrollment, primary (% gross)[b]	113.3
Life expectancy at birth, years[b]	80.1

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

GDP will contract in 2020 due to domestic and global response measures to Covid -19, which will hit hard Costa Rica's large tourism sector. The crisis is rising unemployment, poverty, and inequality and interrupting the government's bold fiscal consolidation efforts. As restrictions are gradually lifted, growth is expected to start recovering supported by accommodative monetary policy, stronger external demand, and structural reforms related to the OECD accession, alongside fiscal consolidation efforts. Poverty reduction hinges on deepening the equity lens of reforms.

Recent developments

The COVID-19 pandemic is having severe impacts on Costa Rica's economy. Economic activity shrunk 8.6 percent y-o-y in the second quarter (Q2), the largest drop on record, leading to a GDP contraction of 4.0 percent during the first semester. Tourism exports have been particularly affected in the first half of the year. Private consumption declined moderately as emergency transfers helped attenuate the impacts of the crisis. Private investment dropped sharply due to the high uncertainty generated by the crisis. Industry and services were hit hard by containment measures, while agriculture increased y-o-y during the first half of the year. Initial efforts to relax containment measures in May worsened the health situation, delaying further opening.

The economic contraction significantly weakened labor markets and deteriorated family income. By May, 63 percent of households had reported a decline in total income driven mainly by lower labor income (World Bank, 2020). Unemployment doubled from 11.9 percent in Q2 2019 to 24 percent in Q2 2020, its highest level in the decade. Unemployment affected particularly the youth, people with incomplete secondary education, and women. Private transfers and social protection measures helped mitigate the shock. As lockdown was relaxed, the occupation rate recovered. Less than 40 percent of households reported income loss by July.

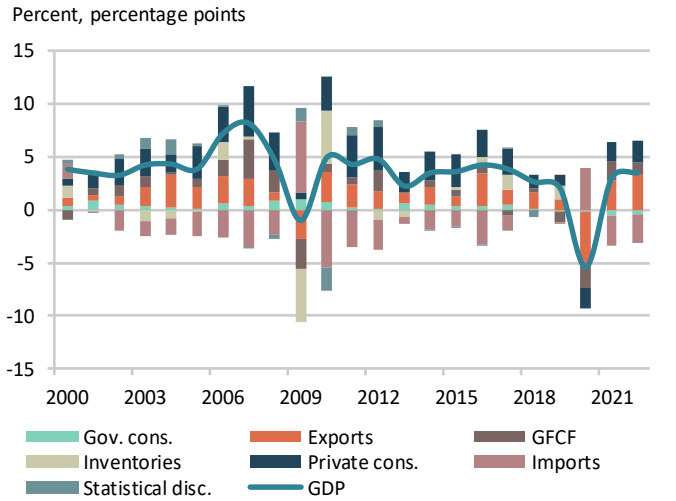
The current account deficit (CAD) narrowed to 0.4 percent of GDP in the first half of 2020. Plummeting oil prices, resilient goods exports, and solid tourism in the first quarter of the year more than compensated a sharp drop in services exports in the second quarter. The financial account fully covered the CAD, helped by lower but still positive net FDI and public sector borrowing. As a result, international reserves remained stable at around 14 percent of GDP, and the exchange rate depreciated only 3.9 percent against the US dollar (YTD). As a response to the crisis, the Central Bank lowered the policy rate from 2.25 to 0.75 percent throughout 2020, but inflation remained close to zero.

The fiscal situation has worsened because of declining revenues and higher spending to cover health services and emergency social transfers. The 2018 fiscal reform increased tax revenues during the first two months of 2020, contributing to the lowest monthly deficit in the last 10 years (an annualized 0.5 percent of GDP). However, since March the fiscal deficit has increased, reaching a cumulative 4.8 percent of GDP in July and pushing Central Government debt to 66.2 percent of GDP. Sovereign debt has been downgraded to B (Fitch and S&P) and B2 (Moody's) in late May and early June, due to concerns about fiscal sustainability.

Outlook

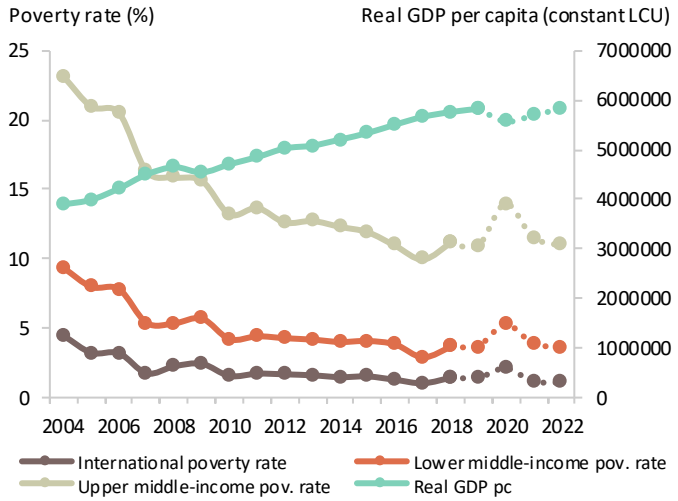
GDP is projected to contract sharply in 2020 and start a slow recovery in 2021. GDP is expected to decline by 5.4 percent

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



Source: World Bank.

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



Sources: World Bank. Notes: see Table 2.

in 2020 due to a protracted Covid-19 impact in the second half of the year. Services will be the most affected sector, led by a sharp decline of tourism (by an expected 60 percent over the year). Industry is expected to record a drop of 4 percent, as disruptions in low-skill manufacturing more than compensate for the solid performance of special regime companies, particularly medical equipment and implements. Finally, agriculture is expected to remain resilient, supported by good weather relative to 2019 and stable food exports. Growth is expected to recover (to 3.1 percent) in 2021 as the health crisis is contained, and to pick up (to 3.5 percent) in 2022 assuming a vaccine is widely available, and confidence increases.

Informal workers, self-employed individuals, and small businesses will bear the brunt of the shock, and many could fall into poverty. Sectors like hotels, restaurants, and transport (which employ 61 percent unskilled and 11 percent poor) will be directly affected, exacerbating inequality. Higher unemployment and a loss of just 14 days of monthly labor income among the informal could push 154 thousand people into poverty (US$5.5/day PPP), increasing the poverty rate from 11 percent in 2019 to 14 percent in 2020. The heterogeneous impact of COVID-19 in society would increase inequalities of income and opportunities. Economic support measures could contain this effect but will be limited by reduced fiscal space.

The CAD is expected to worsen significantly in the second half of 2020 and gradually improve afterward. Sharp declines in tourism receipts, disruption in goods exports, and high-interest payments abroad are expected to bring the CAD to a peak of 3.7 percent of GDP in 2020, more than compensating the decline in imports. The deficit should decline as mobility restrictions fade, and exports recover. Already secured financing from multilaterals (4.7 percent of GDP) will cover the additional deficit and preserve reserves. Inflation is expected to remain low due to the increasing output gap and unemployment rates, converging to the 3 percent target in 2023.

The fiscal deficit is expected to reach a record high in 2020, but fiscal consolidation is expected to accelerate in 2021, as tax revenues increase, the fiscal rule is enforced, and spending provisions are implemented. In 2020, primary and overall deficits are expected to reach -4.0 and -9.3 percent of GDP, respectively. Fiscal consolidations efforts underpinned by a new IMF program should deliver a primary fiscal surplus by 2023. The Central Government debt is expected to increase to a peak of 77.1 percent of GDP by 2023 and decline gradually thereafter.

Risks and challenges

The main downside risk to this outlook is a protracted impact from Covid-19 pushing economic recovery into the second half of 2021. This would further stress the fiscal situation and threaten sustainability. The prolonged crisis would further reduce households' income; poverty and inequality impacts could linger if jobs are permanently lost and/or firms' assets weaken. Monitoring and improving social programs' coverage could help mitigate this impact. The country has strengths to face the challenge, with a highly diversified production structure, adequate international reserves, and a robust and liquid financial system. OECD accession reforms could help improve confidence and boost long-term growth. Recently announced negotiations for an IMF EFF to support fiscal sustainability should also help allay concerns.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.9	2.7	2.1	-5.4	3.1	3.5
Private Consumption	3.6	2.0	1.6	-2.9	2.6	3.1
Government Consumption	3.1	0.5	-1.3	-0.8	-3.7	-2.3
Gross Fixed Capital Investment	-2.4	1.9	-5.0	-11.6	11.0	6.7
Exports, Goods and Services	4.0	4.7	2.7	-14.9	9.1	9.8
Imports, Goods and Services	3.7	0.1	0.2	-10.7	7.9	7.5
Real GDP growth, at constant factor prices	4.0	2.9	1.9	-4.9	3.0	3.7
Agriculture	3.7	1.8	-1.2	-0.4	1.9	3.2
Industry	1.9	3.5	-1.2	-4.0	2.9	3.3
Services	4.6	2.8	3.0	-5.4	3.2	3.8
Inflation (Consumer Price Index)	1.6	2.2	1.5	0.8	0.9	2.0
Current Account Balance (% of GDP)	-2.9	-3.1	-2.4	-3.7	-3.0	-2.9
Net Foreign Direct Investment (% of GDP)	4.3	3.6	4.0	2.4	3.2	3.5
Fiscal Balance (% of GDP)	-6.1	-5.8	-6.9	-9.3	-8.0	-6.2
Debt (% of GDP)	48.4	53.2	58.5	70.7	74.6	76.6
Primary Balance (% of GDP)	-3.0	-2.3	-2.8	-4.0	-2.5	-0.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.1	1.5	1.4	2.1	1.2	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.9	3.7	3.6	5.2	3.9	3.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	10.0	11.2	11.0	13.9	11.6	11.0

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

(a) Calculations based on SEDLAC harmonization, using 2018-ENAHO.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projections using microsimulation model.

DOMINICA

Table 1	2019
Population, million	0.1
GDP, current US$ billion	0.6
GDP per capita, current US$	7784.2
School enrollment, primary (% gross)[a]	114.7
Life expectancy at birth, years[a]	76.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2016); Life expectancy (2002).

The COVID-19 shock has severely hit Dominica, with 2020 GDP growth projected at -7.3 percent. Fiscal pressures remain acute due to lower revenues from the COVID-19 impact and the demands of building a more climate-resilient economy. Risk of debt distress remains high. Further downside risk exists as the pandemic shows few signs of abating and tourism and travel remains seriously constrained.

Recent developments

COVID-19 presents a shock to growth and public finances and comes on top of ongoing reconstruction, rehabilitation and natural disaster recovery efforts. The global recession, disruptions in international trade and travel, and local containment measures have paralyzed the tourism sector and adversely affected domestic production. Growth is now estimated at -7.3 percent in 2020, as a result of: the sudden stop in tourism; declining remittances, as global growth slows; lower foreign direct investment, as several large hotel/resort projects are reconsidered; and falling Citizenship by Investment (CBI) revenues.

Post Hurricane Maria, Dominica's GDP growth had been driven by reconstruction spending and the restoration of electricity services. Agriculture was recovering and the tourism sector, with the completion of several new resorts, was expected to boost service sector growth. Recent poverty data is unavailable, but the 2008 country poverty assessment indicated poverty rates of 28.8 percent. Estimates after Hurricane Maria are that poverty had increased to 43 percent. Economic recovery in 2018 and 2019, may have lowered poverty to below 30 percent in 2019.

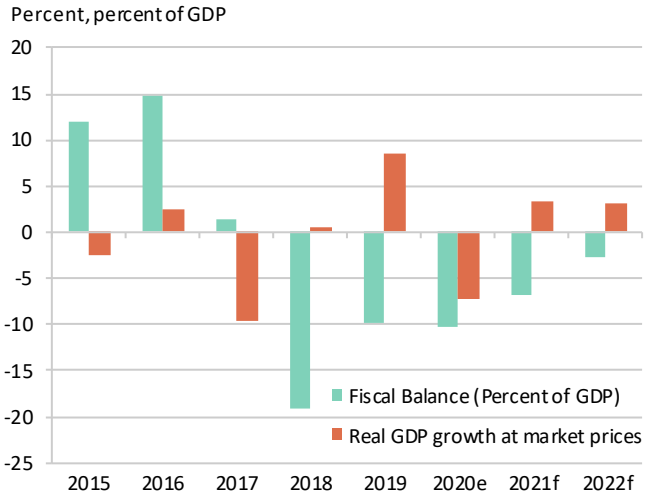
Dominica's macroeconomic policy framework came under increasing strain after Hurricane Maria. The budget deficit increased to 10.2 percent of GDP in FY20 (July 2019-June 2020) with a primary deficit of 7.8 percent. Accumulated Citizenship-by-Investment (CBI) reserves, which funded reconstruction, were depleted, though CBI revenues remained robust in FY20 at around 10 percent of GDP. Debt increased to 78.8 percent of GDP at end-2019 and Dominica remains at high risk of debt distress. While the Government has taken measures to consolidate spending, as recovery efforts wind-down, challenges remain in a pandemic environment. Inflation remains well-controlled at 2 percent, consistent with the fixed exchange rate regime and currency board arrangement of the Eastern Caribbean dollar.

The current account deficit (CAD) is estimated to have narrowed to 28.0 percent of GDP in 2019 after a deterioration in 2018 to 44.8 percent of GDP due to post-hurricane reconstruction and recovery. The 2020 CAD is projected to be 30.5 percent of GDP.

Outlook

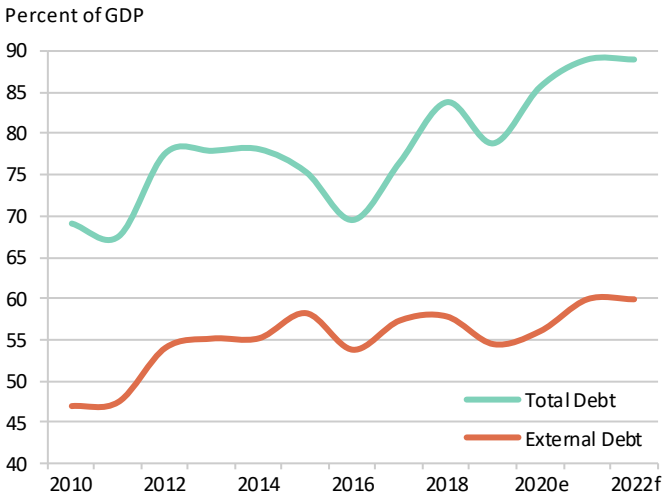
The impact of COVID-19 dampens growth forecasts significantly as growth is now forecast at -7.3 percent in 2020, recovering to 3.3 percent in 2021, though risks remain. COVID-19 will impact growth through several channels, including: tourism, as people refrain from flying; declining remittances, as global growth slows; lower FDI; and through falling CBI revenues. Ongoing recovery-related donor funding will continue to contribute to reconstruction efforts, though funding is scaling down. Prospects in geothermal energy, agricultural niche markets and expanded tourism infrastructure post-COVID are promising.

FIGURE 1 Dominica / Real GDP and Fiscal balance



Sources: ECCB/MOF, IMF, and World Bank staff estimates (2020).

FIGURE 2 Dominica / Public debt



Sources: ECCB/MOF, IMF, and World Bank staff estimates (2020).

Efforts to boost climate resilience, including investments in energy infrastructure, port and airport modernization, and agricultural productivity should contribute to a more resilient economy, fewer losses and damages post-disaster, and are also seen as growth-enhancing. Inflationary pressures are expected to remain low and stable.

Dominica is embarking on an effort to become the first fully climate resilient country in the world and has developed a Climate Resilience and Recovery Plan. The cost of the plan is estimated at US$2.8 billion over 20 years. Financing this plan will require careful fiscal management, considerable fiscal consolidation, and will result in increased public debt levels. The approach to implement the resilience strategy is to aim for a substantive 6 percent of GDP fiscal consolidation and to seek donor support to cover additional costs. This implies approximately US$50 million annually in donor support, which exceeds current levels of around US$20 million and will require a realistic financing plan.

With growth decelerating markedly in 2020 due to the COVID-19 pandemic, poverty rates are expected to increase in 2020. Based on the 2008 Dominica Country Poverty Assessment, most poor work in services and agriculture, sectors directly linked to tourism. Given the high impact on the tourism sector, all sectors linked directly and indirectly to tourism are expected to be heavily impacted and income losses are likely to be substantial among the poor in these sectors. The government distributed transfers under the Government of Dominica's Livelihood Support and Social Protection Programme to over 7,000 Dominicans, targeting people who have lost income because of the pandemic, the poor and elderly. These measures are unlikely to fully offset the impacts on poverty. Furthermore, continued reconstruction spending is expected to mitigate some of the impacts on poverty. Despite all this, the incidence of poverty is expected to remain high over the medium term.

The FY2021 (current year) overall budget deficit is forecast at 6.9% of GDP as the impact of the pandemic continues. Tax revenue projections remain muted given the global economic recession and the constraints in tourism, though budget expenditures are expected to fall modestly as COVID-19 support programs unwind. On the expenditure side, this is primarily reflected in lower transfers and subsidies as unemployment benefits and support to households and businesses diminish.

Risks and challenges

The main risks stem from the COVID-19 pandemic, public financing uncertainties, possible financial sector instability, and natural disaster shocks. A struggling economy will exert further strain on an already difficult fiscal position and perhaps aggravate financial instability from previously weakened bank balance sheets post-hurricane. These strains will require additional efforts to strengthen fiscal consolidation to create needed fiscal space. Post-pandemic, the Government will need to focus on building fiscal buffers, climate resilient investment and facilitating and encouraging expanded insurance protection, so that the Government is not perceived as the insurer of last resort and required to assume large implicit contingent liabilities. Managing these various risks will be challenging.

TABLE 2 Dominica / 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	-9.5	0.5	8.6	-7.3	3.3	3.2
Real GDP growth, at constant factor prices	-9.5	0.5	8.6	-7.3	3.3	3.2
Agriculture	-19.1	-27.4	14.9	4.9	2.5	3.5
Industry	-13.8	33.1	4.0	-2.9	-1.1	-1.0
Services	-6.9	-1.1	9.0	-9.9	4.6	4.2
Inflation (Consumer Price Index)	0.6	1.4	1.8	1.8	2.0	2.0
Current Account Balance (% of GDP)	-8.8	-44.6	-28.0	-30.5	-24.8	-20.1
Fiscal Balance (% of GDP)[a]	1.3	-19.2	-9.9	-10.2	-6.9	-2.7
Debt (% of GDP)[a]	76.5	83.8	78.8	85.7	89.0	89.0
Primary Balance (% of GDP)[a]	3.4	-17.2	-8.6	-7.8	-5.3	-0.8

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

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

DOMINICAN REPUBLIC

Table 1	2019
Population, million	10.7
GDP, current US$ billion	88.9
GDP per capita, current US$	8280.2
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	2.6
Upper middle-income poverty rate ($5.5)[a]	13.9
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	73.9

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

Following 25 years of sustained growth and poverty reduction, the Covid-19 pandemic triggered an economic contraction in the Dominican Republic, and the poverty rate is projected to rise. While monetary easing is expected to continue, a large debt stock limits the scope for expansionary fiscal policy. The incoming government faces both the short-term shock of the pandemic and the challenge of resuming long-term sustainable growth.

Recent developments

A sharp economic contraction in Q2 2020 pushed the Dominican Republic (DR) into its first recession in nearly 25 years. Tourism contributed 8.4 percent to GDP and almost 14 percent to fiscal revenues in 2019, and the collapse of the international tourism market drove a decline in external demand during the first eight months of 2020. Domestic demand fell further during the April lockdown, and the resulting contraction in aggregate supply reduced employment by 1 percent during Q1 2020. Around 40 thousand jobs have been lost since mid-March, and the employment rate fell from 76 to 67 percent y/y in late May. The worsening labor market has hit poor households and informal workers the hardest. GDP contracted by an estimated 16.9 percent in Q2. Containment policies were lifted at the end of May, facilitating a slow and incomplete recovery during the second half of the year.

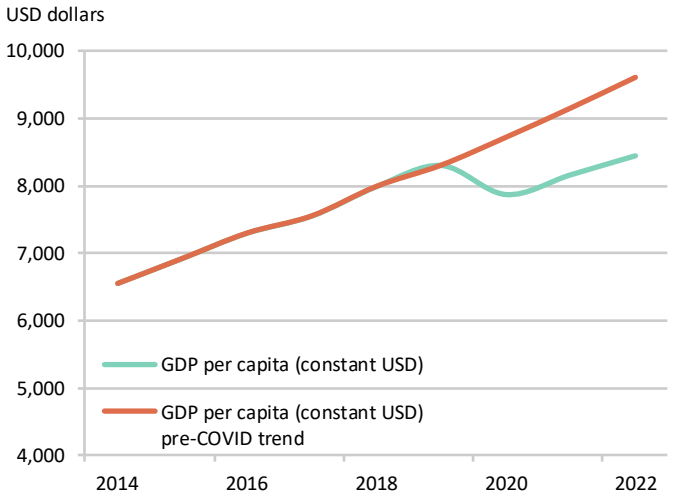
An economic downturn in a context of weak external demand shifted the current account from a US$283.5 million surplus in Q1 2019 to a US$67.9 million deficit in Q1 2020, as tourism receipts and foreign direct investment fell sharply. In 2020 Q2, total exports declined by 53.6 percent y/y, while imports fell by 26.8 percent. Central-bank interventions eased pressure on the exchange rate, and US dollar-denominated remittances rebounded by 5 percent y/y between January and July, mitigating the shock's impact on household consumption and poverty. Exchange-rate stability is crucial to lower-income households, which are especially dependent on remittances.

Monetary and fiscal policies continue to support the recovery. An effective inflation-targeting mechanism, a well-capitalized banking sector, and ample foreign-exchange reserves have allowed monetary policy to become more accommodative, while existing buffers have attenuated the impact of the pandemic on the balance sheets, asset quality, and the profitability of financial institutions. The central bank cut interest rates from 4.5 in February to 3.0 percent in September, combined with lower reserve requirements and other supportive policies. Fiscal policy became expansionary: total spending rose by 24 percent y/y in the first half of 2020, while fiscal revenues fell by 14 percent. During April-July, social assistance expenditures have increased by 1.2 percentage points of annual GDP. The fiscal deficit is projected to be financed by domestic and external sources, accelerating the growth of public debt that is projected to increase by almost 8 percentage points of GDP in 2020. D.R. continues to have access to international bond markets, issuing US$2.5 billion in January and US$3.8 billion in September.

Outlook

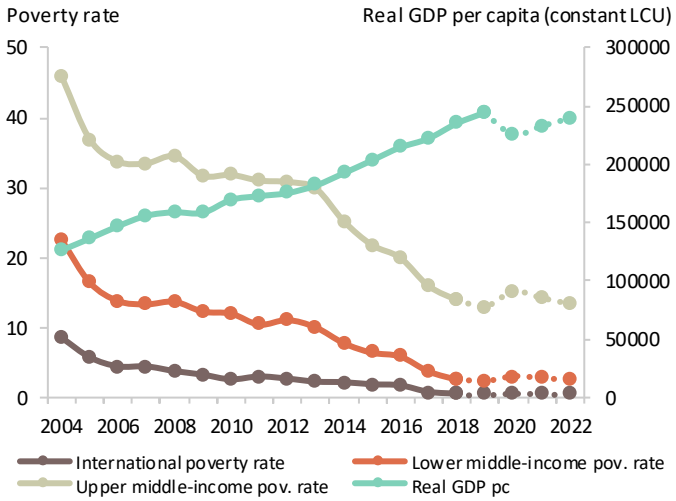
The recovery that began in May is projected to accelerate later in the year, supported by fiscal stimulus and accommodative

FIGURE 1 Dominican Republic / GDP per capita



Sources: Central Bank of Dominican Republic and World Bank's staff projections.

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



Sources: World Bank. Notes: see Table 2.

monetary policies. Agricultural and industrial output are projected to approach pre-pandemic levels, but services output—including tourism—will recover slowly despite expanded social transfers and lower interest rates. The deep contraction and gradual recovery of services will extend the demand shock even as the economy reopens and the supply shock fades. GDP growth is expected to remain below its potential in 2021 and 2022, and a slow recovery in a context of high uncertainty will weigh on employment and income.

The government has announced a continued temporary expansion of conditional cash transfers, partial wage subsidies for formal firms that retain their workers, emergency food support, and an unconditional cash transfer to support independent workers that have access to banking services. Poverty defined as those households living under the US$5.5/day (PPP 2011) poverty line is projected to increase by at least 1.4 percentage points to 14.2 percent in 2020 and the middle class is projected to shrink by 2 percentage points to 40 percent in 2020.

Diminished revenues and heightened expenditure pressures will widen the fiscal deficit. However, by 2021 a combination of economic recovery and improvements in public expenditure efficiency should help return the fiscal deficit to a sustainable trajectory. Meanwhile, public investment and targeted policies to accelerate the recovery of the industrial and agricultural sectors will be vital to foster renewed growth and alleviate poverty.

Monetary policy will remain accommodative. The authorities are expected to continue employing both conventional and unconventional measures to boost liquidity and mitigate the inflationary pass-through effect of exchange-rate depreciation, which will help limit the negative impact of rising prices on household consumption. In 2020, weak demand will be aggravated by diminished foreign-exchange inflows from the tourism sector and slow growth among major trading partners, widening the current-account deficit to 3 percent of GDP. However, the deficit is expected to narrow in 2021 as the global tourism industry gradually recovers.

Risks and challenges

Fiscal policy is constrained by a rising debt stock. Consequently, effective debt management and the development of local capital markets will become increasingly important to safeguard long-term debt sustainability and reduce exposure to foreign-exchange risk. Complementary fiscal reforms aimed at expanding the tax base by reducing exemptions and increasing the progressivity of the tax system will be necessary to support the structural reorientation of the economy. These reforms should boost economic efficiency and job creation in the formal sector and address long-standing subsidies to electricity that threaten sustainability. D.R. remains at risk of hurricanes and flooding, and could consider insurance and expanded safety nets against extreme weather events As credit constraints on firms and households are expected to pose a challenge in the wake of the crisis, policies to modernize the credit infrastructure and expand financial inclusion will become increasingly important.

The pandemic's longer-term impact on poverty will depend on the effectiveness of the government's mitigation and recovery measures. Although macro-financial policies will primarily benefit the formal sector, most employment remains informal. Accelerating formalization will require structural reforms to support human capital development. Key challenges include: (i) the absence of level playing field for new entrants, small firms, and local suppliers; and (ii) outdated business regulations.

TABLE 2 Dominican Republic / 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	4.7	7.0	5.1	-4.3	4.8	4.5
Private Consumption	4.4	5.7	4.6	-2.3	2.6	4.2
Government Consumption	0.8	2.8	6.3	1.0	1.8	3.1
Gross Fixed Capital Investment	-0.3	13.3	8.1	-1.5	4.9	6.4
Exports, Goods and Services	4.9	6.1	1.5	-24.5	14.9	4.7
Imports, Goods and Services	-3.0	8.5	5.8	-11.0	5.5	5.1
Real GDP growth, at constant factor prices	4.5	6.1	4.8	-4.3	4.8	4.5
Agriculture	5.8	5.5	4.1	4.5	5.0	5.2
Industry	3.2	7.9	5.9	2.5	4.5	5.4
Services	5.1	5.3	4.4	-8.7	4.9	3.9
Inflation (Consumer Price Index)	3.3	3.6	1.8	3.1	3.0	3.0
Current Account Balance (% of GDP)	-0.2	-1.4	-1.4	-3.0	-1.7	-2.2
Fiscal Balance (% of GDP)[a]	-2.9	-2.4	-2.3	-8.4	-5.4	-3.1
Debt (% of GDP)[a]	46.5	47.9	50.5	58.3	59.8	61.5
Primary Balance (% of GDP)[a]	-0.4	0.2	0.4	-5.7	-2.2	0.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.7	0.4	0.4	0.5	0.4	0.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	3.8	2.6	2.3	2.8	2.5	2.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	15.9	13.9	12.9	14.2	13.2	12.5

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

(a) Fiscal indicators are shown for the non-financial public sector (i.e. excluding central bank's quasi-fiscal balances and debt).

(b) Calculations based on SEDLAC harmonization, using 2018-ECNFT-Q03.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(c) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

ECUADOR

Table 1	2019
Population, million	17.4
GDP, current US$ billion	107.4
GDP per capita, current US$	6183.8
International poverty rate ($1.9)[a]	3.3
Lower middle-income poverty rate ($3.2)[a]	9.7
Upper middle-income poverty rate ($5.5)[a]	24.2
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	103.3
Life expectancy at birth, years[b]	76.8

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

With the lack of macroeconomic buffers limiting the policy response to the COVID-19 crisis, the economy is expected to plunge by 11 percent leading to an increase of 7.3 percentage points in poverty. Despite the recent renegotiation of debt with bondholders and China, Ecuador still needs to complete structural reforms, reduce vulnerabilities arising from fiscal imbalances, and improve the investment climate. This process will also require measures to protect the most vulnerable people and improve access to opportunities.

Recent developments

Ecuador has been hit hard by the COVID-19 pandemic. As of September 30, over 135,700 cases were reported – including almost 11,300 deaths. The actual number could well be higher; the Economist's Excess Deaths Tracker estimates 28,536 excess deaths between March 1 and July 31, or 166 per 100,000 people – the third highest of all countries tracked.

Measures taken to contain the pandemic combined with other factors – such as the temporary disruption of oil export after two landslides damaged the main crude pipelines – cause the economic activity index to drop by 14 percent y-o-y in the first half of 2020. Recovery will be challenging as Ecuador faces limited fiscal space, unavailability of monetary policy due to dollarization, and constrained access to external financing limit.

Overall, the pandemic appears to have hit harder than anticipated in the last MPO. By May, three-quarters of households had reported a decline in their incomes driven mainly by a significant reduction in labor income (World Bank (2020), High Frequency Phone Survey). Unemployment increased from 3.8 percent in December 2019 to 13.3 percent in May/June, its highest level in Ecuador's history, while underemployment rose from 18 to 35 percent, and participation remains almost constant at around 66 percent. Social protection measures only partially mitigated the shock to households' income. Other dimensions of wellbeing, including food security and access to healthcare and education, were also affected, with potential long-term impacts. As social distancing measures started to relax, occupation rates have begun to recover, and less than 45 percent of households reported reductions in family incomes by July.

The Non-Financial Public Sector (NFPS) balance turned from a surplus of US$301 million in the first five months of 2019 (0.3 percent of GDP) to a deficit of US$1,115 in the same period of 2020 as low oil prices, dampened economic activity, and tax deferrals reduced fiscal revenues. Despite emergency health and social protection expenditure, total expenditure decreased by 7.5 percent y-o-y due to capital expenditure cuts and low fuel subsidy. Additionally, the government applied adjustment measures to create fiscal space for priority emergency spending. With limited access to external financing, the fiscal deficit increased due to mounting arrears and reduced public deposits at the Central Bank. However, the country risk fell from a peak of 6,063 basis points in mid-March to about less than 1000 in early October thanks to successful debt negotiation with private bondholders and China and a new medium-term program with the IMF.

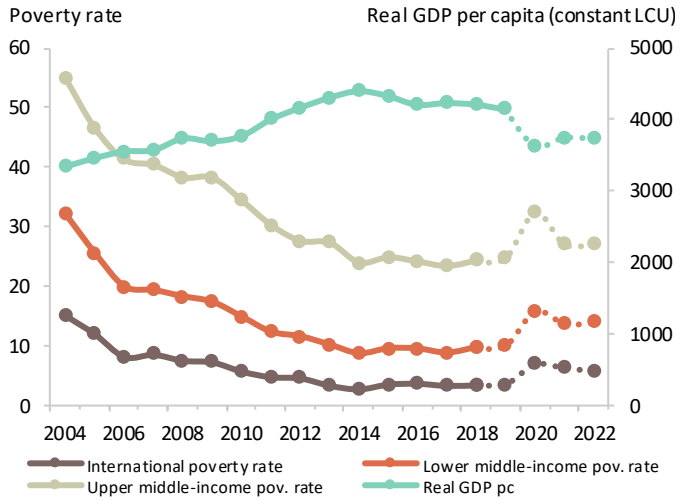
Outlook

GDP is projected to decrease by 11 percent in 2020 due to COVID-19 contention measures, rising uncertainty, and damages to crude pipelines. As the crisis hit low-skill workers in non-tradeable sectors the

FIGURE 1 Ecuador / Emerging markets bond index

Source: JP Morgan.

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



Sources: World Bank. Notes: see table 2.

most, poverty is expected to grow from 24.8 percent in 2019 to 32.3 percent in 2020. More than 1.3 million people are projected to have fallen into poverty in 2020, despite the social protection measures. Most importantly, food insecurity has mostly impacted households with children. The prolonged deterioration in nutrition may result in long-term health and economic problems.

Assuming the pandemic starts to fade in the second half of 2020, growth is projected to resume at 4.8 percent in 2021, but drop again to 1.3 percent in 2022 as the government proceeds with fiscal consolidation. Private investment and exports linked to the growth-related reforms are expected to support the recovery, partially reverting the 2020 spike in poverty. Nonetheless, even with the rebound, Ecuadorian output and poverty levels are expected to remain worse than their pre-COVID-19 levels over the projection period.

The current account deficit is projected to increase from 0.1 percent of GDP in 2019 to 2.0 percent in 2020 due to low oil exports and remittances. With dampened domestic demand, the current account deficit is projected to turn into a small surplus by 2022 due to recovering oil exports and new mining projects. In conjunction with sizable funding from international financial institutions and China, the falling current account deficit would increase the international reserves from 3.1 percent of GDP in 2019 to 4.9 percent in 2022.

The fiscal deficit is expected to increase from 3.2 percent of GDP in 2019 to 8.9 percent in 2020 due to collapsing fiscal revenues and emergency expenditures. However, it is projected to converge to near balance by 2022 thanks to a recovery in revenues, the end of emergency expenditures, and sustained consolidation policies. After reaching a peak of 69 percent of GDP in 2020, public debt should decline to 66 percent by 2022 due to declining fiscal deficit and debt reprofiling. Funding from international financial institutions and China and fiscal consolidation will also contribute to reduce arrears and start building reserves at the Central Bank.

Risks and challenges

Ecuador faces downside risks, including uncertainties about the COVID-19 crisis depth and duration, oil price volatility, and the appreciation of the US dollar. Moreover, Ecuador still needs to complete structural reforms, reduce vulnerabilities arising from fiscal imbalances, and improve the investment climate. This process will face significant challenges to protect vulnerable populations such as households with children are particularly at risk of food insecurity, reduced access to employment disproportionately affects women, unskilled workers, and the self-employed, and access to education decreases because of school shutdowns and limited internet access hampers distance learning. These challenges will require specific measures to even recover pre-COVID-19 access to opportunities.

Despite government commitment to the reform agenda and support from the international community, limited implementation capacity and popular support could delay or distort some reforms, particularly given likely growing political polarization around the upcoming (February) elections.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.4	1.3	0.1	-11.0	4.8	1.3
Private Consumption	3.7	2.1	1.5	-10.9	6.7	1.7
Government Consumption	3.2	3.5	-2.4	-7.2	-1.5	-4.6
Gross Fixed Capital Investment	5.3	2.0	-3.4	-22.6	8.1	1.9
Exports, Goods and Services	0.7	1.2	5.2	-1.9	1.3	2.9
Imports, Goods and Services	12.2	4.4	1.6	-9.0	4.1	1.4
Real GDP growth, at constant factor prices	1.6	1.2	0.3	-11.0	4.8	1.3
Agriculture	5.5	0.1	1.8	1.0	1.8	1.8
Industry	0.0	-1.0	0.1	-8.7	4.8	1.2
Services	2.0	2.7	0.2	-14.5	5.4	1.2
Inflation (Consumer Price Index)	0.4	-0.2	0.3	0.0	1.0	2.3
Current Account Balance (% of GDP)	-0.1	-1.2	-0.1	-2.0	-0.1	0.3
Net Foreign Direct Investment (% of GDP)	0.6	1.4	0.9	0.7	0.7	0.8
Fiscal Balance (% of GDP)	-4.5	-3.2	-3.2	-8.9	-2.9	0.6
Debt (% of GDP)	44.6	46.1	51.8	68.9	67.4	65.8
Primary Balance (% of GDP)	-2.3	-0.7	-0.5	-5.8	-1.4	2.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.2	3.3	3.4	6.9	6.2	5.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	8.7	9.7	10.1	15.7	13.7	13.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.3	24.2	24.9	32.3	27.0	27.1

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

(a) Calculations based on SEDLAC harmonization, using 2018-ENEMDU. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projections using microsimulation model and includes government compensation measures.

EL SALVADOR

Table 1	2019
Population, million	6.4
GDP, current US$ billion	27.0
GDP per capita, current US$	4192.8
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	7.9
Upper middle-income poverty rate ($5.5)[a]	26.2
Gini index[a]	38.6
School enrollment, primary (% gross)[b]	94.8
Life expectancy at birth, years[b]	73.1

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

El Salvador is facing three shocks: (i) the COVID-19 pandemic, (ii) a recession in the USA; and (iii) two tropical storms. While the government response was adequate, the fiscal cost is high. The pandemic caught El Salvador in a weak fiscal position, which is now worsening. Poverty was declining but is expected to increase due to the shocks. Going forward, the country must implement a credible fiscal consolidation that minimize its impacts on growth, while fostering new growth drivers.

Recent developments

El Salvador is facing three negative external shocks: (i) the COVID-19 pandemic, (ii) a recession in its major economic partner – the United States (US); and (iii) the effects of two tropical storms – Amanda and Cristobal. Government response to the pandemic kept cases low (El Salvador had 401.4 cases per 100,000 people, while the Central American average, excluding Nicaragua, was 841.9 as of September 3) and provided economic support to the vulnerable population and firms. While adequate, the government response is costly. The COVID-19 pandemic caught El Salvador in a weak fiscal position, which is worsening. Although poverty has declined during the last decade, El Salvador's poverty rate remains above the regional average. Poverty reduction has been driven by labor income, and people at the bottom of the distribution shifting to work in services and construction, which is an additional vulnerability given that these sectors have been impacted.

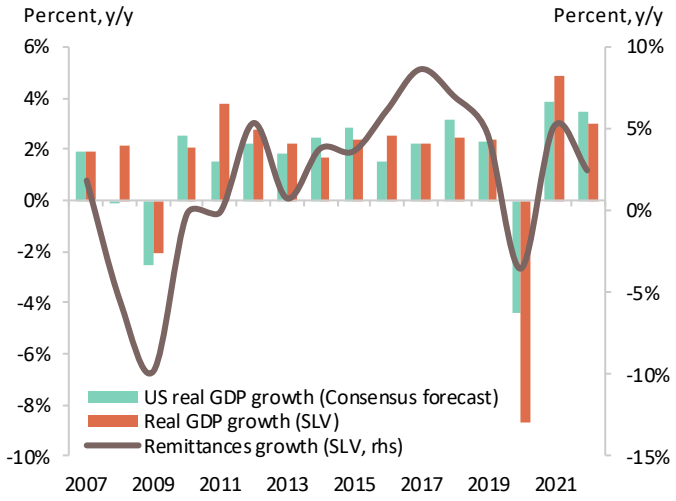
These shocks triggered a deep recession in El Salvador. The COVID-19 pandemic led the government to issue a nationwide stay-at-home order. The US recession reduced El Salvador's exports and remittances, and the tropical storms affected agricultural production and destroyed buildings, leaving nearly 10,000 people displaced. Consequently, the economic activity index declined by 15.3 percent up to May, and exports declined by 25.9 percent up to July. Workers in the informal economy are likely to be disproportionately impacted by the pandemic. In 2019, two out of three workers were informally employed.

Remittances, however, have been showing an unexpected resilience, providing a cushion to economic activity, current account financing, and poverty. Remittances represent more than 20 percent of the country's GDP and posted a 1.7 percent decline year-to-date in August, much less than the 40 percent drop registered up to April. Remittances rebounded due to the increased unemployment benefits and the stimulus check in the US, where 98 percent of the remittances come from and 67 percent of Salvadorians living in the US are eligible for those benefits.

El Salvador's large fiscal response may have helped prevent larger declines in output and poverty but has aggravated an already fragile fiscal situation. El Salvador has enacted the largest fiscal response in Central America - nearly 15 percent of GDP. The country started the year with a debt of 73.5 percent of GDP and a deficit of 2.7 percent of GDP. The combination of lower revenues (tax revenues declined by 10.9 percent up to June), higher expenditures (current expenditures increased by 30.3 percent) and larger debt (debt stock increased by 12.2 percent) is only making it more fragile.

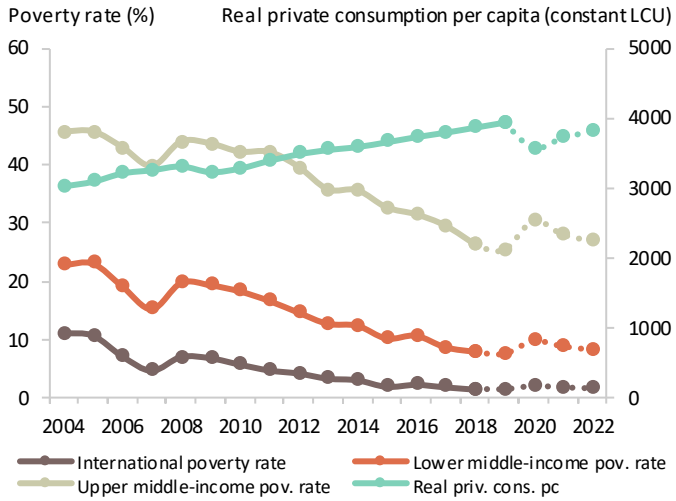
On a positive note, the shocks reduced the external deficit and not affected prices. Government restrictions imposed on manufacturing activities and low external demand reduced exports by 25.9 percent up to July. Imports declined 17.8 percent in the same period, reflecting lower economic activity and lower oil prices. Overall, the trade deficit declined by 9.4 percent. Inflation was at only -0.23 percent up to June.

FIGURE 1 El Salvador / Remittances are outperforming GDP for the first time



Sources: Central Bank of El Salvador, The World Bank, Consensus Forecasts.

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



Sources: World Bank. Notes: see Table 2.

Outlook

The triple shock will bring a recession in 2020 with GDP expected to contract by nearly 9 percent. Economic rebound is expected as COVID-19 restrictions are lifted, and reconstruction of the buildings affected by the storm starts by mid-2021. The current account deficit is expected to decline to around one percent of GDP in 2020 due to smaller trade deficit and resilient remittances. As the economy rebounds, imports are expected to grow faster than exports, which will widen the current account deficit. Inflation is expected to remain low.

Fiscal accounts remain the main vulnerability of the economy. They will require a carefully crafted fiscal consolidation program to avoid a contractionary consolidation and negative distribution impacts, but yet credible enough to allow the country to refinance its maturing Eurobonds in 2023 and 2025. Public debt will remain around 90 percent of GDP but should start to decline in the medium term. An eventual IMF program would help in refinancing and fiscal consolidation.

Extreme poverty, using the US$3.2 (2011 PPP) poverty line, is expected to increase by 2.1 percentage points. Microsimulations show that poverty (using the US$5.5 poverty line) is expected to increase up to 5.9 percentage points in 2020, when considering government measures. This means the pandemic can return poverty to levels last seen in 2016, reversing recent years of progress. The most affected are expected to be informal and self-employed workers in declining sectors, mostly in services, with around 42 percent work in "retail and wholesale, restaurants, hotels, and repairs;" half of the new poor are young (between 0 and 24 years old), and three-fifths live in urban areas. Inequality is also expected to increase (from a 0.386 Gini in 2018 to a 0.396 in 2020 without government measures).

Risks and challenges

The baseline outlook is vulnerable to three main risks. The first is the uncertainty regarding the extension of increased unemployment benefits and a new round of stimulus checks as well as the level of unemployment in US. The second risk is the trajectory of the COVID-19 pandemic domestically. This outlook assumes that the pandemic will gradually phase-out, allowing the resumption of normal economic activity in the medium term. Finally, El Salvador will hold legislative and sub-national elections in February 2021, and the outcome will define the degree of political support for the needed fiscal consolidation. Changes in external capital markets and its willingness to finance the budget deficit might also require adjusting the fiscal consolidation trajectory, with possible implications to growth.

El Salvador still has the largest share of vulnerable population in the region (i.e. US$5.5-13 2011 PPP monthly income) - 48 percent of the population. Thus, a further decline in economic activity can result in a significantly higher share of people at risk of falling into poverty.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.2	2.4	2.4	-8.7	4.9	3.0
Private Consumption	1.7	3.1	2.6	-9.3	7.5	4.0
Government Consumption	0.1	0.2	-0.2	12.3	-5.4	-1.4
Gross Fixed Capital Investment	3.6	6.7	9.6	-24.6	15.6	6.2
Exports, Goods and Services	3.4	2.2	6.5	-17.4	10.8	3.4
Imports, Goods and Services	1.4	5.5	3.8	-12.0	12.5	4.6
Real GDP growth, at constant factor prices	2.0	2.3	2.6	-8.6	4.9	3.0
Agriculture	0.7	-3.3	3.0	-2.3	3.0	2.1
Industry	2.2	2.9	4.0	-11.0	5.4	3.2
Services	2.1	2.6	2.0	-8.2	4.9	3.0
Inflation (Consumer Price Index)	1.0	1.1	0.1	0.1	0.6	1.1
Current Account Balance (% of GDP)	-1.9	-4.7	-2.1	-1.1	-4.7	-5.0
Net Foreign Direct Investment (% of GDP)	3.6	3.2	2.4	0.6	2.0	2.9
Fiscal Balance (% of GDP)[a]	-2.5	-2.7	-3.1	-9.2	-6.3	-4.7
Debt (% of GDP)[b]	73.6	72.7	73.3	88.6	89.4	89.9
Primary Balance (% of GDP)[a]	0.7	0.9	0.6	-4.9	-1.9	-0.6
International poverty rate ($1.9 in 2011 PPP)[c,d]	1.9	1.5	1.4	2.2	1.8	1.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	8.7	7.9	7.6	9.8	8.9	8.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	29.5	26.2	25.4	30.5	28.1	27.0

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

(a) Fiscal and Primary Balance correspond to the non-financial public sector.

(b) Debt is total public debt.

(c) Calculations based on SEDLAC harmonization, using 2018-EHPM. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(d) Projection using neutral distribution (2018) with pass-through = 1 based on GDP per capita in constant LCU.

GRENADA

Table 1	2019
Population, million	0.1
GDP, current US$ billion	1.2
GDP per capita, current US$	10972.5
School enrollment, primary (% gross)[a]	106.9
Life expectancy at birth, years[a]	72.4

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

The economy is projected to contract by 12 percent in 2020, owing to a standstill in tourism due to the pandemic. The fiscal accounts are expected to turn to a deficit while the downward debt trajectory should reverse for the first time since 2014. Despite mitigation measures, the poverty impact remains significant. The economy is projected to recover slowly to 2019 levels by 2023 as tourism resumes. However, the outlook remains uncertain depending on the length and severity of the crisis.

Recent developments

The direct health-related impacts due to COVID-19 have been limited for Grenada. However, the pandemic has indirectly triggered a massive economic recession. The containment measures helped mitigate the spread of the pandemic, nevertheless precipitating a tremendous economic contraction. The authorities also executed fiscal stimulus measures costing about 2.2 percent of GDP, which entailed ramping up health spending and income and payroll support programs to workers, liquidity support for small businesses, and expansion of jobs under the public sector investment program.

The Grenadian economy was on a steady growth path when the COVID-19 crisis hit. Real output growth averaged 4.7 percent annually between 2013 and 2018, driven by an expansion in the tourism and construction sectors. In 2019, Grenada's GDP grew 2.0 percent, as a slower expansion in construction and tourism was partly offset by continued buoyancy in private education given higher enrollment at St. George's University (about 20 percent of GDP). Sustained growth led to falling unemployment rates, which reached 15.2 percent in 2019, relative to 20.9 percent in the previous year. Prior to the onset of the pandemic, tourism picked up in the beginning of 2020, with tourism expenditure growing by 10.2 percent for the period January-February 2020, compared to the same period in 2019.

The current account deficit was stable at 15.8 percent of GDP in 2019 and was primarily financed by foreign direct investment (FDI) of 10.6 percent of GDP. Meanwhile, inflation eased slightly to an estimated 0.6 percent in 2019, down from 0.8 percent in 2018, following declines in international oil prices coupled with a deceleration in US inflation.

The financial sector remained robust amid substantial capital and liquidity buffers along with additional cushion facilitated by regionally low NPLs of 2.2 percent in 2019. Despite a slight decline, the capital adequacy of Grenada's banking system is at approximately 12 percent in 2019, comfortably above the regulatory minimum.

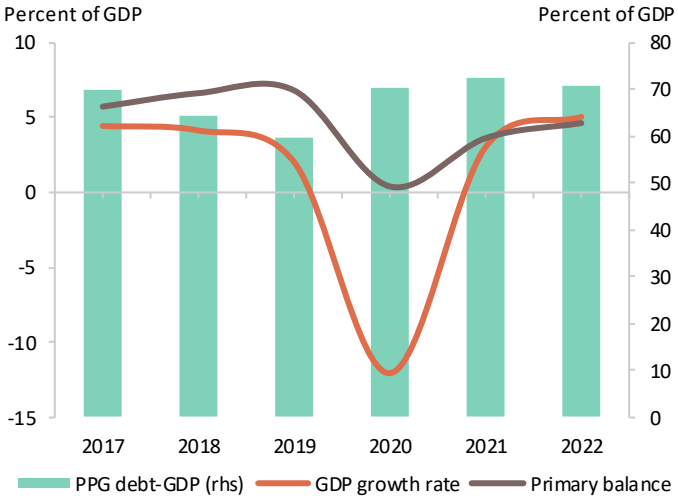
Grenada maintained a robust fiscal position in 2019 with a fiscal surplus of 5.0 percent of GDP, as well as a primary surplus of 6.8 percent of GDP. The solid fiscal revenues combined with the mandated expenditure restraint by the Fiscal Responsibility Law (FRL) has enabled considerable debt reduction and fiscal space. The General Government debt continued the declining trend to 59.6 percent of GDP in 2019 from 64.4 percent in 2018. The debt was on track, prior to the COVID-19, to reach the debt target of 55 percent of GDP by 2020.

As labor market conditions improved significantly since 2018 and unemployment rates have been falling, poverty is likely to have continued to decline in 2019, especially in the lower part of the income distribution.

Outlook

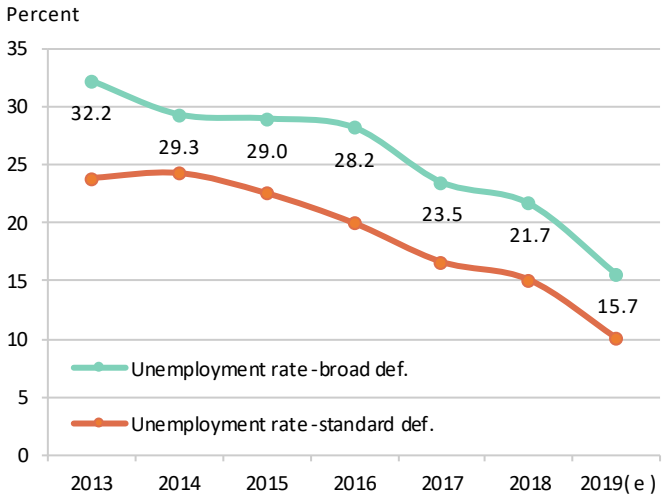
Real GDP is expected to contract by 12 percent in 2020, compared to a projected

FIGURE 1 Grenada / The evolution of main macro variables



Sources: IMF; World Bank staff estimates.

FIGURE 2 Grenada / Unemployment rate



Sources: Labor Force Survey 2013-2019, Central Statistical Office.

pre-COVID-19 expansion of 3.1 percent. The sharp contraction in economic output is primarily tied to the complete halt of the tourism sector, which accounts for 40.5 percent of the economy and generates 42.9 percent of employment. Tourist expenditure is expected to contract by 60 percent for the whole year. Going forward, the economy is projected to return to 2019 levels by 2023, with a moderate recovery of real GDP growth to 3.0 percent in 2021, supported by returning tourism and an anticipated pick-up in construction.

The fiscal balance is expected to turn to a deficit of 1.9 percent of GDP in 2020, compared to a pre-crisis projection for a fiscal surplus of 4.3 percent of GDP. The "Escape Clause" in the FRL was triggered due to the pandemic and the FRL is suspended temporarily to allow more fiscal flexibility. The narrowed fiscal space was largely due to a sharp drop in revenues and the surge in COVID-19 related expenditures to alleviate the effects of the crisis on the most vulnerable groups. Nevertheless, the fiscal savings from lower expenditure such as on public education, together with the Government's commitment to expenditure restraint in sectors besides health, will partly avoid further deterioration in the fiscal position. The debt-to-GDP ratio is expected to jump to 70.5 percent of GDP in 2020. The Government has committed to return to the core parameters of the FRL once the crisis abates and the debt trajectory is expected to resume the downward trend after peaking at 72.5 percent in 2021.

The current account deficit is projected to reach 27.4 percent of GDP in 2020, compared to 9.9 percent projected before the crisis. The fallout in tourism is likely to translate into substantially reduced export earnings. Remittances are expected to be lower by US$10 million, or 0.9 percent of GDP. While remaining a major source of external financing at around 8 percent of GDP, FDI inflows are expected to decline significantly, with the rest of the financing gap likely to be met through external official loans and a drawdown on international reserves.

The sharp economic recession is expected to reverse recent progress in poverty and income distribution. The poor and vulnerable, working in the informal sector and the formal tourism, construction and services sectors, are more likely to face the negative income shock and have fewer means to mitigate the impacts of such loss.

Risks and challenges

The major risk for the short and medium term include the uncertainties related to the COVID-19 pandemic, besides the risks from natural disasters, which are all skewed to the downside. There is still significant uncertainty around the duration of the COVID-19 pandemic, with possibilities existing for multiple waves of outbreaks globally. The rate of infection remains high in the US, which is Grenada's main tourist source market. Slow economic recovery in advanced economies and continued disruptions to international travel also pose risks to tourism. The economy remains vulnerable to natural disasters, particularly given the narrowed fiscal space and diverted policy focus to the pandemic. Despite the strong prior fiscal position, the debt dynamic is threatened by possible delays in returning to the core parameters of the FRL and a potential one-off increase in debt associated with payment obligations to the electricity company Grenlec. The combination of the risks may further push the most vulnerable groups, especially those in tourism, construction, and agriculture, to fall into poverty.

TABLE 2 Grenada / 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	4.4	4.1	2.0	-12.0	3.0	5.0
Real GDP growth, at constant factor prices	4.0	3.4	1.8	-12.0	3.0	5.0
Agriculture	-15.4	3.0	0.9	4.1	4.9	5.1
Industry	15.1	9.9	0.2	-9.8	7.2	4.0
Services	3.9	1.9	2.3	-13.9	1.7	5.3
Inflation (Consumer Price Index)	0.9	0.8	0.6	0.8	1.2	1.7
Current Account Balance (% of GDP)	-14.4	-15.9	-15.8	-27.4	-26.7	-22.0
Fiscal Balance (% of GDP)	3.0	4.6	5.0	-1.9	1.2	2.2
Debt (% of GDP)	70.1	64.4	59.6	70.5	72.5	70.8
Primary Balance (% of GDP)	5.7	6.6	6.8	0.4	3.6	4.6

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

GUATEMALA

Table 1	2019
Population, million	16.6
GDP, current US$ billion	76.7
GDP per capita, current US$	4619.0
International poverty rate ($1.9)[a]	8.8
Lower middle-income poverty rate ($3.2)[a]	24.4
Upper middle-income poverty rate ($5.5)[a]	49.1
Gini index[a]	48.3
School enrollment, primary (% gross)[b]	101.9
Life expectancy at birth, years[b]	74.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2018).

Economic activity plunged in the second quarter of 2020 due to the COVID-19 crisis. However, resilient remittance flows and supportive fiscal measures are expected to temper the adverse socioeconomic impact. Nonetheless, risks are tilted towards the downside. Further fiscal stimulus efforts will be constrained by Guatemala's persistently low domestic revenue mobilization. The new social assistance program, Bono Familia, is expected to benefit approximately 80 percent of poor households; yet, the proportion of households living in poverty is forecasted to increase.

Recent developments

Following years of solid economic expansion, activity plunged in the first half of 2020 as a result of the COVID-19 crisis. Guatemala's strict containment measures led economic activity to contract 11.8 percent (m/m) between February and April 2020. Services, as well as manufacturing and construction were the most affected sectors. Economic activity bottomed out in April, then experienced a strong rebound of 7 percent (m/m) between April and July.

Strong remittance inflows (13.7 percent of GDP in 2019) have continued to sustain a current account surplus in 2020, despite the COVID-19 crisis. Remittance flows rebounded following an initial 8.5 percent decline in April-June from the corresponding period last year, registering y/y cumulative growth of 2.8 percent in August 2020. Such rebound can protect some households from falling into poverty or becoming further impoverished as around 7 percent of Guatemalan households living under the US$5.5/day (PPP 2011) poverty line and 10 percent of non-poor households receive remittances from abroad. The trade deficit improved slightly in the first half of the year with spending on imports declining faster than exports. FDI inflows, however, declined as an adverse impact of the crisis.

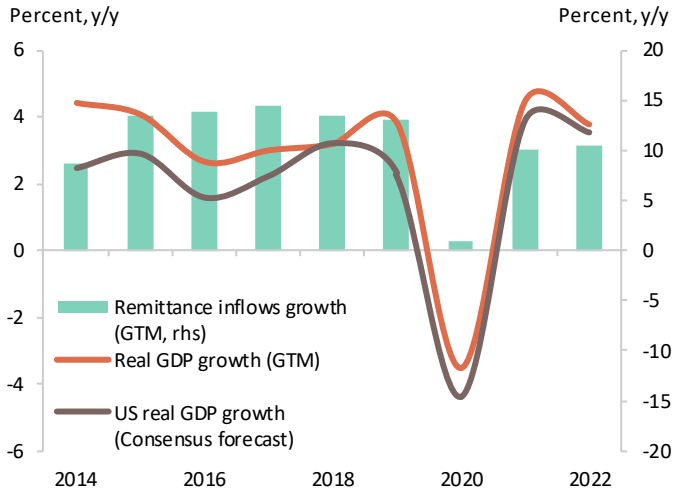
Uncertainty, sparked by COVID-19, generated volatility in financial markets in the first half of 2020 and prompted the central bank to ease monetary policy. While capital adequacy dropped to 14.5 percent in April 2020, it recovered promptly to 15.2 percent in July 2020. The central bank lowered policy rates 100 basis points to 1.75 percent to support economic activity. Consumer inflation fell from 3.7 percent in 2019 to 2.9 percent (y/y) in July 2020, below the central bank target of 4+/-1. Weaker economic activity, lower oil prices, and intervention in exchange rate markets contributed to lower inflation.

Guatemala was hit by the COVID-19 crisis in a situation of chronically low fiscal revenues, averaging 11.5 percent of GDP over the last decade. Fiscal stimulus measures of approximately 3.4 percent of GDP to alleviate the socioeconomic effects of the crisis, coupled with falling tax revenues due to the halt in economic activity, are expected to worsen the deficit. As of August 2020, the cumulative deficit for the Central Government had more than doubled in real terms. However, without such measures, the economic crisis spurred by the pandemic threatens a massive increase in poverty. Estimates from the World Bank High-Frequency Survey conducted in Guatemala to assess the impacts of the COVID-19 crisis show that national employment rates fell from 77 to 66 percent between May and July 2020 during generalized lockdowns, affecting more than 800,000 jobs. Others retained their jobs but with lower salaries. Seven out of every 10 households reported drops in family income.

Outlook

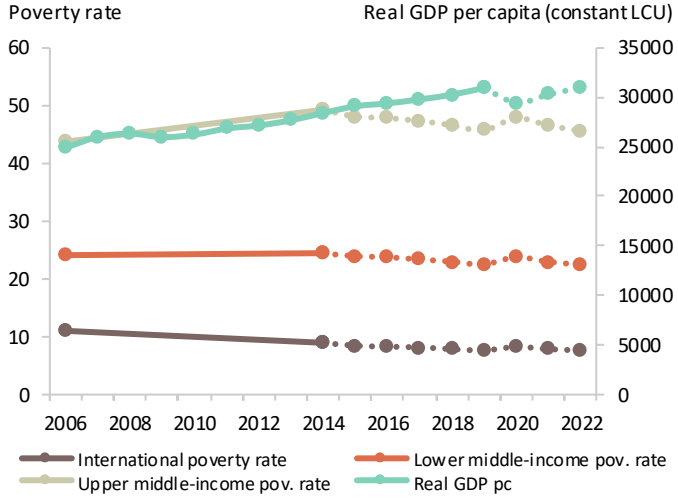
The COVID-19 pandemic and related mitigation measures will result in the first

FIGURE 1 Guatemala / Real GDP growth in Guatemala, U.S. and remittances growth



Sources: Banco de Guatemala, The World Bank, Continuous Consensus Forecasts.

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



Sources: World Bank. Notes: see table 2.

recession in Guatemala in over three decades. The severity of the recession will depend on the evolution of the crisis and the timing of reactivating the economy. If restrictive measures continue to be loosened and there is no second wave outbreak, GDP is projected to contract 3.5 percent in 2020, with a strong recovery in 2021 back to 2019 levels. This rebound is predicated on a progressively stronger recuperation in consumption in the second half of 2020, driven by resilient remittance flows, fiscal stimulus measures and the reopening of the economy. Both exports and imports are expected to decline in 2020 given weakened global demand and interruptions to international trade.

A slight improvement in the trade deficit coupled with resilient remittance inflows are expected to sustain the current account surplus at 3.0 percent of GDP in 2020. FDI is projected to decline due to lower capital inflows and a fall in retained earnings. The current account is projected to maintain a modest surplus over the medium term, averaging 1.7 percent of GDP, as domestic demand rebounds driving up imports.

The fiscal deficit is expected to increase in 2020, given revenue losses and rising costs of COVID-related measures, and decrease thereafter due to fiscal consolidation. Government spending is expected to rise by 2.6 percentage points to 16.1 percent of GDP in 2020 while the already structurally low revenues are expected to fall from 11.3 to 10.5 percent of GDP in 2020. The fiscal deficit is therefore anticipated to widen to 5.6 percent of GDP, compared to 2.1 percent before the crisis. The additional fiscal spending is expected to be financed through increased public borrowing, including through exceptional credit from the central bank and official flows from IFIs. A fiscal adjustment is expected from 2021 to reduce the overall deficit to 3.1 percent of GDP in 2022 and slow the pace of debt accumulation. Debt is projected to increase to 34.6 percent of GDP by 2022. It will be crucial that the fiscal adjustment entails revenue enhancement measures, and not only expenditure cuts, to avoid compromising social investments needed even before the pandemic.

The COVID-related spending measures are expected to ameliorate the impact on vulnerable groups. A cash rebate of US$1.6/day (PPP 2011) through the new social assistance program Bono Familia is expected to benefit 2.6 million households for three months, around 80 percent of households under poverty (below US$5.5/day PPP 2011). School meals for students in public schools would also benefit 60 percent of poor households. Nevertheless, the proportion of poor households living below the international poverty line of US$5.5/day (2011 PPP) is forecasted to increase from 46 percent in 2019 to 48 percent in 2020.

Risks and challenges

Risks to the economy are tilted towards the downside. Protracted outbreak of COVID-19 or a second wave which delays reactivation of the economy could significantly derail recovery. Deceleration in remittance inflows could dampen private consumption. Timely and widespread availability of an effective vaccine present additional risks. The structurally small size of fiscal revenues limits the state's ability to promote recovery and further an inclusive development agenda. The temporary nature of the social protection measures implemented may not sustain the welfare of the most vulnerable if income and job losses linger for a longer period.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.0	3.2	3.8	-3.5	4.5	3.8
Private Consumption	3.2	3.5	4.3	-4.5	5.9	4.1
Government Consumption	1.9	6.1	3.5	7.9	1.8	3.4
Gross Fixed Capital Investment	4.0	4.6	7.2	-9.4	5.6	6.8
Exports, Goods and Services	1.5	-0.3	-0.2	-2.6	4.8	2.0
Imports, Goods and Services	2.9	3.9	5.6	-4.5	7.7	4.4
Real GDP growth, at constant factor prices	2.7	2.9	3.7	-3.5	4.4	3.8
Agriculture	3.1	2.4	2.3	-0.1	2.4	2.2
Industry	0.8	1.6	3.8	-1.1	3.1	2.9
Services	3.4	3.4	3.9	-4.9	5.3	4.4
Inflation (Consumer Price Index)	4.4	3.8	3.7	2.5	3.0	3.3
Current Account Balance (% of GDP)	1.1	0.8	2.9	3.0	2.0	1.4
Fiscal Balance (% of GDP)	-1.4	-1.9	-2.3	-5.6	-4.1	-3.1
Debt (% of GDP)	25.3	26.2	26.7	32.5	34.1	34.6
Primary Balance (% of GDP)	0.1	-0.4	-0.6	-3.8	-2.1	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	8.1	7.8	7.6	8.1	7.8	7.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	23.2	22.9	22.3	23.7	22.8	22.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	47.3	46.6	45.7	47.8	46.5	45.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2014-ENCOVI.Actual data: 2014. Nowcast: 2015-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2014) with pass-through = 0.7 based on GDP per capita in constant LCU.

GUYANA

Table 1	2019
Population, million	0.8
GDP, current US$ billion	5.2
GDP per capita, current US$	6574.0
School enrollment, primary (% gross)[a]	97.8
Life expectancy at birth, years[a]	69.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2012); Life expectancy (2018).

Guyana's economy expanded in the first half of 2020, as rising oil production offset a pandemic-driven contraction in nonoil GDP. Economic ties between the oil and nonoil sectors remain limited, and while oil revenues will boost growth through public spending, this effect will take time to materialize. While oil revenues may positively transform Guyana, there are risks to sustained growth and poverty reduction, as illustrated by oil price volatility, investment costs and the Covid-19 pandemic.

Recent developments

The start of oil production in late 2019 continues to drive economic growth in Guyana despite the adverse impact of Covid-19. As of end August, oil production has yielded over US$144 million in government crude sale revenues and royalties. Oil revenues are held in the Natural Resource Fund (NRF). Guyana's oilfields are entirely offshore and rely primarily on imported goods and expatriate labor. Demand from oil companies currently contributes just 1.6 percent to nonoil GDP, creating an estimated 2,000 jobs.

The Covid-19 pandemic has caused nonoil GDP to contract. Nonoil GDP contributed -3.6 percentage points to total growth more than offset by 26.7 percentage point contribution of oil. Compared to oil, agriculture and artisanal mining have greater impact on employment, income, and poverty. While systematic data on the pandemic's impact at the household level are not yet available, preliminary evidence suggests that movement restrictions and precautionary behaviors have adversely impacted livelihoods and inhibited access to markets.[1] It also suggests rising food prices and some households having had to reduce their caloric intake. While labor income likely declined, inbound remittances rose during the first half of the year, which might mitigate the pandemic's impact on household consumption.

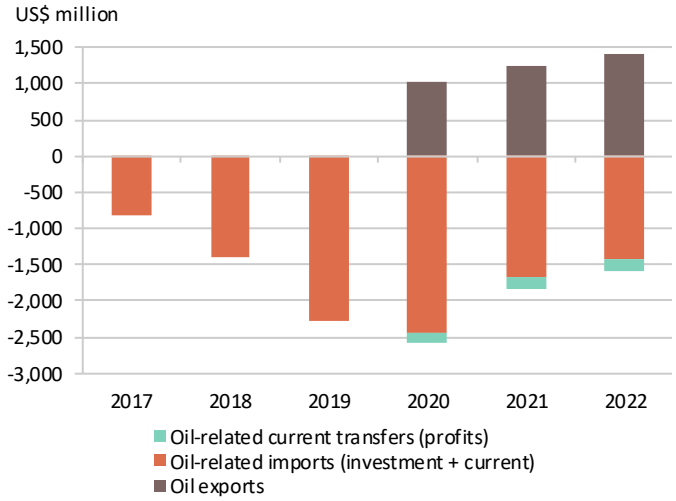
The completion of drilling platforms and the start of oil production narrowed the current-account deficit. The start of oil production improved the current account, and capital transfers started to repay the large investment costs. The nonoil current account also improved. Rising gold prices (over 50% of exports) contributed to export earnings. As the pandemic depressed domestic economic activity, imports declined. While remittances increased during the first half of the year, capital inflows declined and are projected to half during 2020 from US$1.7 billion in 2019.

The government launched both fiscal and monetary policy responses to address the economic crisis caused by Covid-19. Tax revenues are projected to decline by 5.1 percent in 2020 compared with 2019, while expenditures are projected to rise by 13.4 percent, driven by expenditures on health and social assistance to respond to the pandemic. The deficit is projected to widen from 2.8 percent of nonoil GDP in 2019 to 5.1 percent in 2020, assuming disbursement from the NRF as specified in the law.[2] The exchange rate has remained stable, and sound management of the financial sector has allowed for looser monetary policies. The domestic credit increased by 15 percent during Q1, while non-performing loans (NPLs) declined to 10.1 percent. In March, commercial banks granted moratoriums on loan repayment and waived prudential requirements on renegotiation of loans.

Outlook[3]

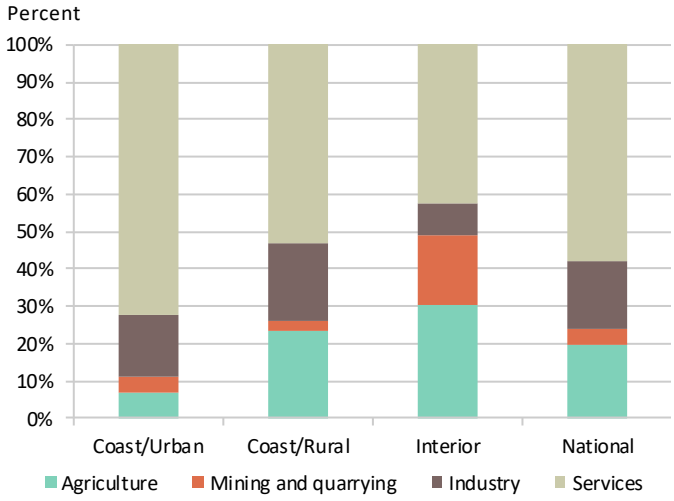
Guyana's oil output is growing rapidly, and international prices substantially

FIGURE 1 Guyana / Impact of oil sector on the current account, 2017-22



Source: World Bank staff estimates.

FIGURE 2 Guyana / Employment by sector and region – Services decline to affect coastal urban workers disproportionately



Source: World Bank staff based on Guyana Labor Force Survey 2017.

exceed production cost. Production from the first oilfield is projected to reach about 30 million barrels in 2020 before rising further in 2021 and 2022. Investment in the development of the first two fields peaked in 2019, but a second wave of investment is expected. While the development of additional fields could spur another surge in capital-goods imports, rising oil production will continue to narrow the current-account deficit.

Nonoil GDP is projected to recover in 2021, gradually narrowing the output gap. As the economy reopens, growth is projected to accelerate. The oil sector is expected to drive the growth of services, which should contribute to poverty alleviation by increasing demand for labor in the construction, transportation, food service, and hospitality subsectors. Continued investment in the gold mining sector is projected to significantly increase labor demand.

The new administration has presented an emergency budget in September 2020 with a range of measures to support the economy. These include the introduction of cash transfers to mitigate the impacts of the crisis on household consumption and support the local economy, and proposed support for sugar estates, an increase in public investment, and a range of tax breaks, including for health and education. The fiscal balance is projected to remain elevated but will, over time, receive rising oil revenues which are projected to increase dramatically after investment costs have been recovered.

Risks and challenges

The Covid-19 pandemic poses the greatest risks to poor and vulnerable households. Lockdown measures and weakening domestic demand could lead to job and income losses in the services sector. Half of all employed workers are engaged in this sector, and this share rises to 70 percent in coastal urban areas. Meanwhile, disruptions in foreign labor markets could threaten the flow of inbound remittances, especially for poor households. Almost 30 percent of poor households receive remittances, which represent an average of 42 percent of their income. By contrast, remittances account for an average of 11.6 percent of the income of nonpoor households.

Fiscal deficits due to the Covid-19 crisis will necessitate additional borrowing if oil revenues remain unused and/or the crisis persist, posing a risk to debt dynamics. In absence of a resolution to the Covid-19 challenge, nonoil fiscal deficits could remain high, contributing to rising public debt. The inherent volatility of oil revenues underscores the importance of proactive debt management.

The rise of the oil sector poses serious short- and long-term macroeconomic risks. Oil prices are volatile, and domestic output is vulnerable to technical challenges and exogenous shocks. While the recent collapse of global oil prices did not significantly disrupt production or investment in Guyana's oil sector, a long-term oil price slump could push fiscal revenues below projections and inhibit investment in new oilfields. A persistent slowdown would also contribute to higher NPLs in the financial sector. Moreover, oil production entails major environmental risks that need to be well managed and mitigated to protect the ecosystem.

1/ Caribbean COVID-19 Food Security & Livelihoods Impact Survey.

2/ The NRF Law specifies that under the current conditions two-thirds of oil revenues will contribute to the budget.

3/ GDP was rebased leading to a break in the series. Higher nominal GDP reduced the contribution of oil to growth and reduced debt and current account deficit to GDP ratios.

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

	2017	2018	2019	2020 e	2021 f	2022 f
GDP growth, at purchaser prices[a,b]	3.7	4.4	5.4	23.2	7.8	3.6
Private Consumption	9.5	-10.4	2.0	-2.0	7.0	6.0
Government Consumption	0.3	12.1	10.3	10.3	5.8	5.8
Gross Fixed Capital Investment[c]	9.9	60.8	32.1	-7.3	-18.1	-4.7
Exports, Goods and Services[d]	0.1	-4.1	13.8	67.7	10.8	7.6
Imports, Goods and Services[d]	14.2	55.5	38.7	-8.0	-10.8	0.1
GDP growth, at factor cost[a]	3.7	4.1	4.4	-3.6	5.0	4.8
Agriculture	12.7	6.6	-0.5	-1.0	3.0	3.0
Industry	-2.7	3.0	6.3	-1.0	5.0	5.0
Services[e]	3.2	3.2	6.3	-7.2	6.4	5.8
Inflation (Consumer Price Index)	1.5	1.6	2.1	1.0	2.6	2.9
Current Account Balance (% of GDP)[g]	-15.4	-40.7	-60.6	-28.4	-13.3	-8.8
Fiscal Balance (% of GDP)[f,g]	-3.3	-2.7	-2.8	-5.1	-3.7	-3.6
Debt (% of GDP)[g]	35.3	35.8	32.6	32.5	33.1	34.5
Primary Balance (% of GDP)[g]	-2.5	-1.8	-2.0	-4.4	-3.2	-3.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast. (a) Non-oil GDP at 2012 prices. (b) Oil at US$54 per barrel.
(c) Gross Fixed Capital Investment includes Oil. (d) BOP definition in current US$. (e) Services calculated as residuals and includes FSIM.
(f) Including fiscal revenues withdrawn from the National Resource Fund. (g) Shares of GDP are calculated from GDP at purchaser prices.

HAITI

Table 1	2019
Population, million	11.2
GDP, current US$ billion	8.7
GDP per capita, current US$	770.8
International poverty rate ($1.9)[a]	24.5
Lower middle-income poverty rate ($3.2)[a]	50.3
Upper middle-income poverty rate ($5.5)[a]	78.6
Gini index[a]	41.1
Life expectancy at birth, years[b]	63.7

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

The COVID-19 pandemic and Haiti's deep-rooted structural problems and political instability took a severe toll on the economy and manifested in rising poverty. Limited fiscal space – due weak revenue mobilization, ill-defined spending priorities and absence of efficient targeting mechanisms – hindered government's response capacity to support vulnerable household and firms adversely affected by the pandemic. Better targeted policies and an ease of the political tensions will be necessary to stabilize the economy and facilitate a recovery.

Recent developments

After dipping 1.4 percent in HFY2019 behind the backdrop of political turmoil and social discontent, economic activity depressed further in the first semester of HFY2020 due to the global economic downturn, the lingering political crisis and the social distancing measures adopted by the Haitian authorities to curb the spread of COVID-19. The business indicator (ICAE), which tracks about 80 percent of economic activity, contracted by 4.1 percent in first half of HFY2020. The increase in government consumption to finance social programs, including cash transfers and payroll support, amid the COVID-19 crisis could not offset the decline in exports (because of sluggish demand from the USA), and investment (due to uncertainty surrounding the country's political process).

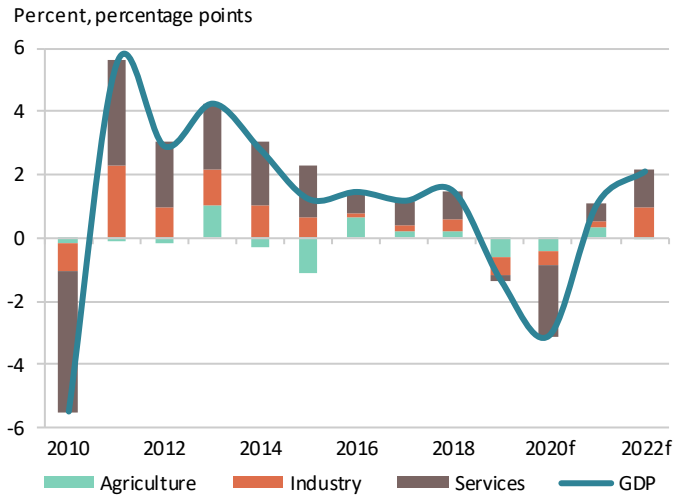
The current account turned slightly positive in H1 HFY2020, thanks to declining oil prices and the unanticipated increase of 10.0 percent y-o-y end June in remittances. These current account dynamics, however, did not prevent the continued depreciation of the local currency. The gourde lost cumulatively 23.4 percent of its value between October 2019 and August 2020 on large government deficits financed principally via central bank (BRH) money creation. But aggressive interventions of BRH in the FOREX market in early September to mop up excess gourde liquidity and the decision of the fiscal authorities to suspend all discretionary expenses before the end of the fiscal year boosted the gourde, which by mid-September has appreciated against the USD by around 30 percent. Fiscal dominance and ensuing monetization of the government deficit has weakened the effectiveness of monetary policy transmission channels. Headline consumer price inflation, moving pari passu with the exchange rate due to the strong pass-through, reached 25.7 percent, while food inflation surged to 31.1 percent y-o-y in July 2020.

The central bank also slashed its key policy rate 400 bsp to 10.0 percent and ordered a three-month moratorium on loans payment in the wake of the COVID -19 crisis, to allow credit to flow to the private sector and preserve firms' working capital to support a certain level of economic activity. But uncertainty due to the unstable political landscape and increased gang violence have kept economic activity subdued.

In this unsettled context, the poverty rate at the international poverty line (US$1.90 per day, 2011 PPP) is estimated to have risen to 27.3 percent in 2020, from 25.9 percent in 2019, in line with the economic slowdown and shrinking real private consumption. As of May 2020, nearly half of those employed pre COVID-19 lost jobs largely due to a halt in business activity (High Frequency Survey results).

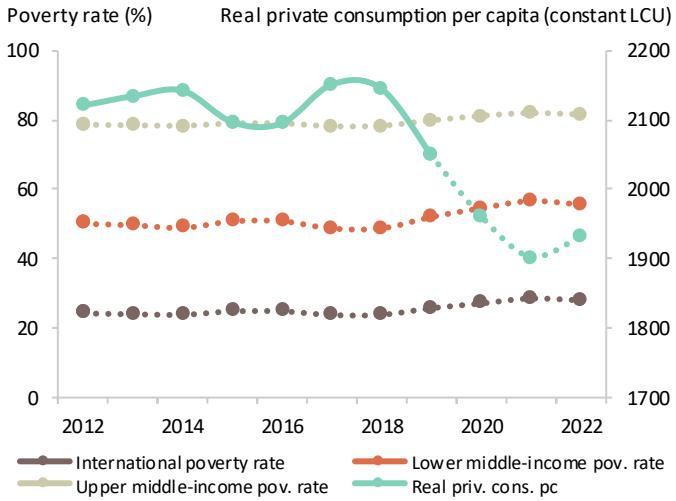
Rampant inflation continues to diminish the purchasing power of households and compounds the effects of income losses stemming from the economic contraction since 2019.

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



Source: Haiti Statistical Office (IHSI).

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



Sources: World Bank. Notes: see table 2.

Outlook

GDP is expected to contract by 3.1 percent in 2020, as a result of the global economic slump, the measures enacted by the authorities to curb the spread of the pandemic and political uncertainty. All aggregate demand components are expected to decline significantly. A current account surplus is expected due to the big decline in import and the unexpected boost in remittances, the latter thanks to crisis support programs enacted by the governments of the United States and Canada (Haiti's top remittances-sending countries) to help households weather through the setbacks of the COVID-19 pandemic. However, since poor households are less likely to be recipients of remittances, their mitigating effect on poverty may be limited.

Despite the widening output gap, fiscal dominance and its effect on the exchange rate will keep inflationary pressures because of the exchange rate pass-through effect and lack of investment to boost productivity in the agricultural sector.

The poverty rate is projected to increase further to 28.7 percent in 2021 based on the expected contraction in private consumption. Disruptions in basic services, namely health and education, are undermining human capital. The negative impacts on early childhood development and educational attainment have the potential for long-term negative effects on the earning potential as adults.

Risks and challenges

The announcement of the first cases of COVID-19 brought a lull to the political tensions, but the hiatus was short-lived. Gang violence has intensified, putting at risk the political process and organization of elections. The path ahead remains fraught and exposed to ongoing political instability that could continue to hamper economic recovery in the medium- to long-term. State capture has prevented progress toward a more enabling business environment. Compounding this, Haiti's ill-preparedness and inadequate response mechanisms make it extremely vulnerable to shocks. Labor income for many households has declined as workers lose jobs or earn less due to the economic slowdown behind the backdrop of the pandemic and the political instability, with attendant negative consequences for poverty reduction.

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

	2016/17	2017/18	2018/19	2019/20 e	2020/21 f	2021/22 f
Real GDP growth, at constant market prices	1.2	1.5	-1.4	-3.1	1.1	2.1
Private Consumption	4.0	0.9	-3.4	-2.7	-1.9	2.6
Government Consumption	-8.0	3.8	-23.0	31.1	-13.3	5.2
Gross Fixed Capital Investment	0.9	2.3	-0.9	-25.2	27.6	4.0
Exports, Goods and Services	-1.2	2.0	-3.3	-5.0	1.5	3.2
Imports, Goods and Services	2.0	1.5	-6.2	-6.5	2.2	3.9
Real GDP growth, at constant factor prices	1.1	1.5	-0.9	-3.3	0.9	1.9
Agriculture	0.8	1.0	-2.3	-2.1	1.4	-0.5
Industry	0.9	1.7	-2.6	-2.1	0.7	4.7
Services	1.2	1.5	0.3	-4.1	0.8	1.9
Inflation (Consumer Price Index)	14.7	13.5	17.2	22.8	26.0	19.0
Current Account Balance (% of GDP)	-1.0	-3.9	-2.0	0.3	-2.0	-3.4
Net Foreign Direct Investment (% of GDP)	4.4	1.1	1.0	0.4	0.5	1.1
Fiscal Balance (% of GDP)	-1.9	-4.3	-3.7	-6.8	-4.1	-2.5
Debt (% of GDP)	35.6	38.3	42.5	47.9	51.2	51.2
Primary Balance (% of GDP)	-1.6	-4.0	-3.2	-5.8	-1.6	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	24.0	24.1	25.9	27.3	28.7	28.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	48.9	49.0	52.2	54.6	56.7	55.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	78.2	78.3	79.8	81.2	82.0	81.5

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

(a) Calculations based on SEDLAC harmonization, using 2012-ECVMAS and fiscal year growth rates.Actual data: 2012. Nowcast: 2013-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2012) with pass-through = 1 based on private consumption per capita in constant LCU.

HONDURAS

Table 1	2019
Population, million	9.6
GDP, current US$ billion	24.9
GDP per capita, current US$	2604.1
International poverty rate ($1.9)[a]	16.9
Lower middle-income poverty rate ($3.2)[a]	30.6
Upper middle-income poverty rate ($5.5)[a]	50.9
Gini index[a]	52.1
School enrollment, primary (% gross)[b]	91.5
Life expectancy at birth, years[b]	75.1

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

Honduras entered a sharp recession in 2020 due to external and domestic supply and demand shocks, exacerbated by a high degree of uncertainty amid the COVID-19 pandemic. This has led to high levels of food insecurity and increases in poverty and inequality as vulnerable households lose income. The economy is expected to rebound in 2021 supported by an accommodative macroeconomic policy stance and the restoration of trade and investment. However, a more prolonged recession is possible.

Recent developments

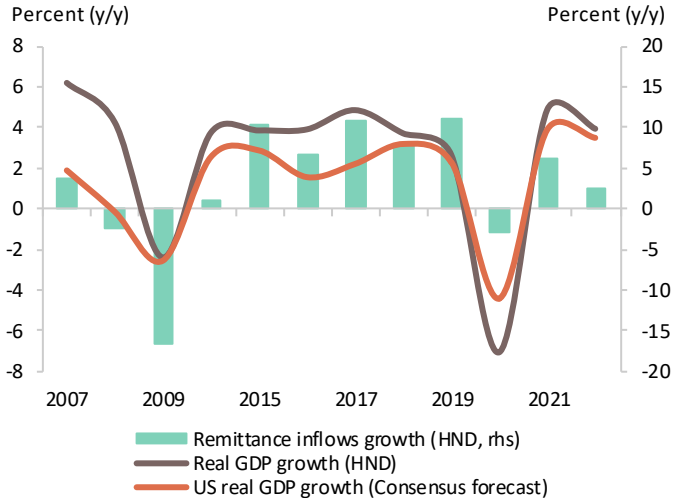
Economic growth halted in the first half of 2020 due to domestic and external shocks amid the COVID-19 pandemic. The government adopted strict containment measures and enacted targeted policies to cushion their impact on economic activity and welfare, requiring new borrowing for US$2.5 billion (10 percent of the GDP). A prudent macroeconomic framework helped contain vulnerabilities, supported by the IMF program. The country's relatively low debt and deficit levels, coupled with good access to concessional financing, allowed for a countercyclical response amid a triggered escape clause of the Fiscal Responsibility Law (FRL). The government prioritized healthcare and humanitarian services, including basic needs support to the poor, as well as support to firms. A low ratio of nonperforming loans and adequate capitalization of the banking sector helped contain financial sector risks. A crawling peg exchange rate regime with ample foreign reserves (30 percent of GDP and 8.3 months of imports) supported price and exchange rate stability.

Real GDP declined by 9.9 percent (y/y) in the first half of 2020 – down from 2.7 percent (y/y) growth in the first half of 2019. This was driven by an output contraction across all sectors amid weakened export demand and investment, and prolonged suspension of business operations. Around 1.5 million people (16.9 percent of Hondurans) lived on less than US$1.90 per day (the International Poverty Line, IPL) and 51 percent lived on less than US$5.50 per day in 2018. However, based on World Bank High Frequency Phone Surveys, an estimated 18 percent of people lost employment as of August 2020, primarily women and low skilled workers in the industry and services sectors. Remittances, representing 21.4 percent of GDP and 30 percent of household income for the poorest remittance-receiving households, declined by 1.8 percent (y/y) in the first eight months of 2020. Moreover, by mid-2020, almost 68 percent of households surveyed reported income losses, and more than one-third of households reported food insecurity due to lack of resources.

Weaker domestic demand, lower commodity prices, freezes in prices and a relatively stable exchange rate reduced consumer price inflation. Annual inflation decelerated to 3.2 percent in August 2020 (y/y) – near the lower limit of the Central Bank's (BCH) target band (4% ± 1 %). As a result, the BCH cut the key policy rate by 175 basis points to 3.75 percent over the first 8 months of 2020. Additionally, the financial sector authorities introduced prudent measures to maintain liquidity and stability in the financial system.

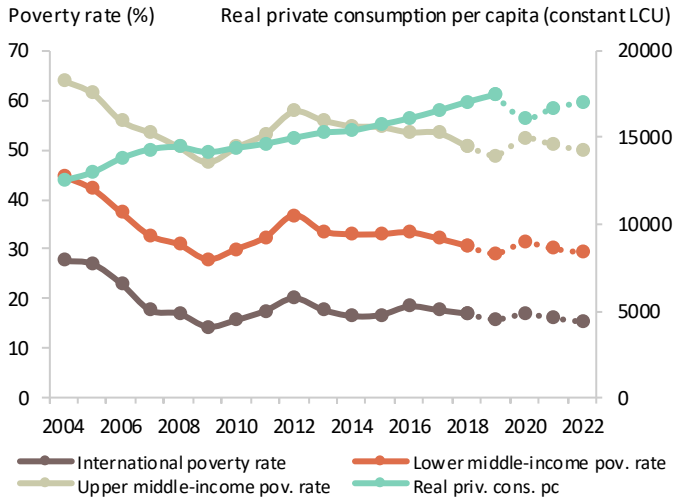
Despite historically low oil prices, the current account deficit is expected to widen as depressed exports outweigh import compression amid decelerated economic activity. Nevertheless, the external position remains relatively strong, supported by higher external financing received to mitigate the effects of the pandemic. External public debt increased by 6.3 percentage points of GDP by July 2020 (from

FIGURE 1 Honduras / Real GDP growth in Honduras, U.S. and remittances growth



Sources: Central Bank of Honduras, The World Bank, Consensus Forecasts.

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



Sources: World Bank. Notes: see table 2.

30.7 percent by end-2019), including a sovereign bond placement (US$600 mil) and multilateral loans (US$ 1,196 mil).

Outlook

The COVID-19 pandemic is expected to have a significant impact on Honduras's economy. Real GDP is expected to contract by 7.1 percent in 2020 due to a sharper than expected fall in trade, investment and consumption amid the global slowdown and prolonged containment measures. A deeper than expected GDP contraction and high unemployment in the US – Honduras' key trade and investment partner and largest source of remittances – amplified the contraction.

The employment and income losses are expected to impact the poor, the near poor (one-third of the population), and the middle class. In scenarios with poverty-mitigation measures, poverty rates under the IPL are estimated to increase from 15.8 in 2019 to 16.8 percent in 2020 while poverty under the US$5.50 line could reach 52.5 percent in the same period.

A steep decline in tax revenues and higher health and social spending put public finances under pressure. The authorities project a fiscal deficit of the Non-Financial Public Sector (NFPS) of 5 percent of GDP in 2020 – up from 0.9 percent deficit in 2019. The government is committed to gradual fiscal consolidation over the medium term and set to resolve the energy sector crisis to revert to complying with the FRL. Inflation is expected to stay within the BCH's tolerance range, while the BCH is expected to maintain accommodative monetary policy to increase access to credit and boost domestic demand.

The economy is expected to rebound in 2021 amid the reactivation of domestic economic activity and recovering investment and external demand. Poverty rates are therefore estimated to begin decreasing in 2021, with poverty under the IPL reaching 15.3 percent by 2022.

Risks and challenges

A deeper global downturn amid the prolonged COVID-19 pandemic could weaken economic recovery and continue to threaten the health and welfare of the population. The risk of intensified virus transmission as the economy begun reopening coupled with uncertainty on the availability of the vaccine could prompt the renewal of containment measures and delay the recovery. This would cause additional pressures on public finances and challenge fiscal sustainability. Further, if remittances growth stalls, more near-poor households could fall below the poverty line. Prolonged unemployment, particularly for informal low-income households that lack insurance and savings, pose further risks to poverty reduction. Large asset losses amongst the poorest, less human capital formation due to school closures and lower nutrition, combined with small and insufficient social assistance programs could make it difficult to rebound from the negative shock.

A number of challenges are pressing. First, to continue limiting the human and economic impact of the COVID-19 pandemic by providing effective, coordinated and sustainable fiscal and monetary stimulus, ensuring a well-capitalized financial sector, and a strong reserve position. Second, to continue the disbursement and to strengthen targeting of transfers to the poorest households and ensure that the most vulnerable and affected populations, including the near-poor, are protected with social safety nets. Third, to improve security and strengthen institutions to support economic recovery, social welfare, and increase resilience to future shocks.

TABLE 2 Honduras / 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	4.8	3.7	2.7	-7.1	4.9	3.9
Private Consumption	4.5	4.7	4.1	-6.0	5.0	3.6
Government Consumption	1.4	1.9	0.6	5.6	1.2	-1.5
Gross Fixed Capital Investment	11.2	5.7	-5.9	-8.3	13.0	5.0
Exports, Goods and Services	6.1	0.7	2.3	-15.0	7.4	3.2
Imports, Goods and Services	7.2	2.2	-2.8	-10.5	9.0	2.1
Real GDP growth, at constant factor prices	5.0	3.5	2.5	-7.1	4.9	3.9
Agriculture	10.3	2.7	-1.0	-0.3	4.0	3.0
Industry	4.5	4.4	1.8	-9.0	5.0	3.6
Services	3.8	3.4	3.9	-8.0	5.0	4.3
Inflation (Consumer Price Index)	3.9	4.3	4.4	3.0	3.8	4.0
Current Account Balance (% of GDP)	-0.8	-5.4	-0.7	-2.0	-2.6	-1.8
Net Foreign Direct Investment (% of GDP)	4.5	3.8	2.0	0.8	1.9	3.7
Fiscal Balance (% of GDP)[a]	-0.8	-0.9	-0.9	-5.0	-4.0	-1.0
Debt (% of GDP)[a]	40.1	42.2	43.1	52.3	54.9	54.3
Primary Balance (% of GDP)[a]	0.1	0.0	-0.2	-4.5	-3.5	-0.5
International poverty rate ($1.9 in 2011 PPP)[b]	17.6	16.9	15.8	16.8	16.0	15.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b]	32.1	30.6	29.0	31.3	30.0	29.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b]	53.6	50.9	48.8	52.5	51.0	49.9

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

(a) Fiscal data refers to non-financial public sector.

(b) Calculations based on SEDLAC harmonization, using 2018-EPHPM .Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022 using microsimulation model (job loss based on sectoral GDP per capita in constant LCU; wage changes based on private consumption per capita in constant LCU).

JAMAICA

Table 1	2019
Population, million	2.9
GDP, current US$ billion	15.6
GDP per capita, current US$	5378.0
School enrollment, primary (% gross)[a]	91.0
Life expectancy at birth, years[a]	74.4

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

Prior to COVID-19, Jamaica implemented a successful economic reform program from 2013 to 2019 that put the country in a strong position to deal with the external shock. Achievements include a reduction in public debt by 54 percentage points of GDP; implementation of an inflation targeting framework with a floating exchange rate; and an improvement in external buffers. However, the pandemic will have a negative impact on employment and poverty. The downside risks are high due to natural disasters and the length and depth of COVID-19.

Recent developments

Jamaica had been emerging from a prolonged period of low growth prior to COVID-19. Real GDP decreased by 0.1 percent in 2019, down from 1.9 percent in 2018. Growth was driven mainly by government consumption and external demand, as investment and private consumption slowed. At the sectoral level, the mining and construction sectors contracted as a result of the temporary closure of a large aluminum refinery and the completion of several road works projects. Unemployment fell to a historic low of 7.7 percent in 2019, with a sharp increase in female employment. Inflation averaged 3.9 percent in 2019, slightly below the central bank target range of 4-6 percent.

The current account deficit (CAD) increased slightly from 1.8 percent of GDP in 2018 to 2.0 percent of GDP in 2019. The CAD was financed primarily by private and official inflows, as Foreign Direct Investment (FDI) decreased by 72 percent in 2019. Prior to COVID-19, the authorities built an appropriate buffer against external shocks and increased the international reserve coverage to 22.9 weeks of imports in December 2019, compared to 19.5 weeks at the end of 2018.

Leading up to COVID-19, Jamaica institutionalized fiscal discipline through the Fiscal Responsibility Law (FRL) in 2014, with policy reforms that strengthened tax administration, public financial management, and debt restructuring. Combined with active liability management and persistent fiscal discipline, this resulted in consistent primary surpluses of 7.5 percent of GDP in 2013-2019. In turn, the public debt stock decreased to 94.0 percent of GDP in 2019 from 146 percent of GDP in 2013.

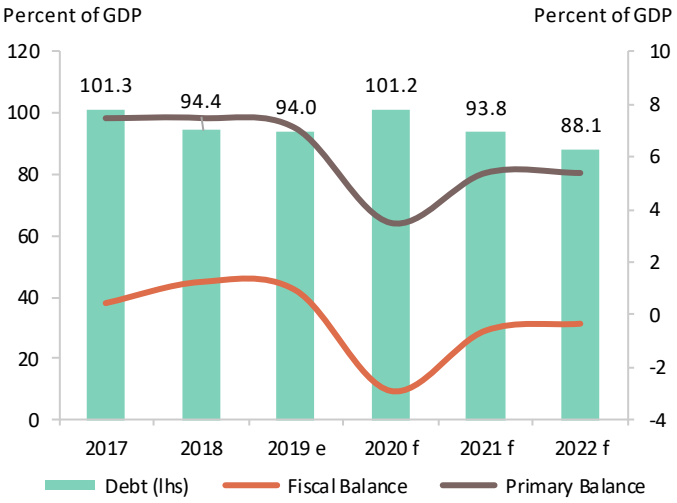
In 2017, Jamaica moved to an inflation targeting framework with a floating exchange rate. The authorities upgraded their FX market infrastructure and enhanced supervision of the financial system. As such, banks were able to build ample capital buffers, strong balance sheets and asset quality. Since August 2019, interest rates have fallen to record lows of 0.5 percent and coupled with declining domestic government financing requirements has resulted in ample liquidity in the banking sector.

Projections based on GDP per capita growth suggest that the percentage of the population living below the official poverty line, decreased from 19.3 percent in 2017 to 18.8 percent in 2019. Unemployment has decreased since 2018 and is likely to contribute to poverty reduction. Job losses due to contraction in the mining and construction sectors (2,900 job losses in each sector) were offset by an improvement in the tourism sector (5,800 new jobs). The homicide rate increased to 47.4 per 100,000 inhabitants in 2019—one of the highest in the region.

Outlook

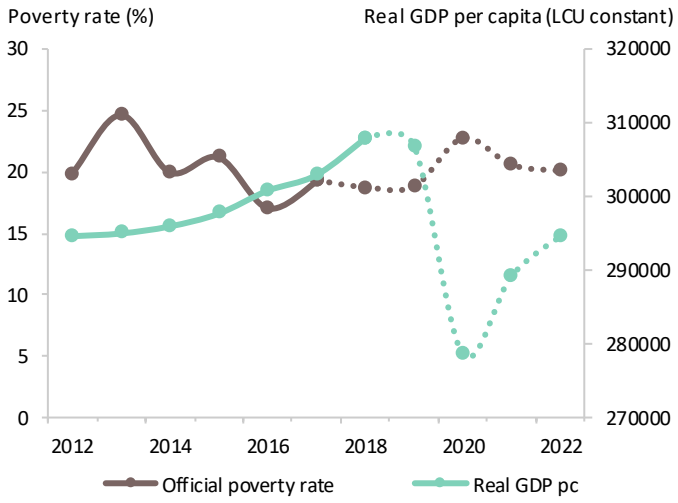
Real GDP growth is projected to contract by 9.0 percent in 2020 before rising to an

FIGURE 1 Jamaica / Fiscal balances and public debt



Sources: GoJ, IMF and WBG staff estimate.

FIGURE 2 Jamaica / Actual and projected poverty rates and real GDP per capita (LCU constant)



Sources: World Bank (see notes to Table 2).

average of 3.0 percent in 2021 and 2022. The decline in GDP in 2020 will be driven by net external demand and private consumption, reflecting the combined impact of the near closure of international travel and a marked slowdown in global demand. On the supply side, services will contract due to the disruption of tourism and related services, accounting for more than 30 percent of all economic activities. Industry will be stymied by disruptions in domestic production linked to the crisis and the temporary closure of Jamaica's largest aluminum refinery. The resumption of mining in 2021 and the recovery in tourism will lead to a revival of economic growth, employment and poverty reduction. Inflation is expected to remain within the 4-6 percent target range of the central bank.

The impact of COVID-19 is expected to increase poverty to 23 percent in 2020 (World Bank estimates using the official poverty line) due to reductions in labor income and remittances. Disruptions in the tourism sector and related activities will reverse recent gains in employment and income levels, with a higher impact on women. Poverty is sensitive to changes in remittances, which add to the income of every other household in Jamaica. Government policy responses to COVID-19, including increases in conditional cash transfers, will help mitigate the impact on the poor. With the recovery of growth, poverty is projected to decline to around 20 percent by 2022.

The CAD is expected to increase to 8.0 percent of GDP in 2020 due to lower demand for tourists, remittances and mining losses. Authorities requested emergency assistance from the IMF under the Rapid Financing Instrument (RFI) in March 2020. This US$ 520 million assistance will be used to strengthen the external buffers of the central bank. As FDI is projected to fall, most of the CAD will be financed by official inflows. Despite the shock to export earnings, the Jamaican dollar remained broadly stable compared to the US dollar and other currencies, and the authorities refrained from large-scale intervention, leaving its reserves largely untouched. In this context, the coverage of international reserves is expected to cover approximately 20 weeks of imports.

Authorities have taken several measures to address the crisis. This includes tax cuts equal to about 0.6 percent of GDP, along with targeted spending measures equal to about 0.5 percent of GDP. In this context, government financing needs increased from an originally estimated 8.6 percent of GDP to 12.0 percent of GDP in 2020. As such, the government announced a primary fiscal surplus of 3.5 percent of GDP from an original target of 6.5 percent of GDP for 2020. Expectations are that the primary surplus target will be increased to 5.4 percent of GDP next fiscal year. Despite the severe shock of COVID-19, Jamaica's public debt remains sustainable.

Monetary policy will remain supportive of growth, ensuring an adequate level of liquidity in the financial system. This includes removing the limits on the amounts that can be borrowed overnight from banks without charging the penalty rate and widening the range of acceptable repo collateral. Authorities are encouraging the banking sector to retain capital by postponing dividend payments to shareholders and by rescheduling loans and mortgages in addition to the mortgage rate cuts announced by the National Housing Trust. Jamaica's financial infrastructure remains sound, but the crisis creates some challenges for financial stability if the situation deteriorates.

Risks and challenges

External risks are high, given the country's dependence on tourism. The pace of the recovery will depend on the duration of the pandemic and the return of tourist comfort to travel. Both the attitudes of potential travelers and the impact of the crisis on disposable incomes may continue to create obstacles for the sector over the coming months. This could be further compounded by natural disasters as climate change is expected to increase the frequency and severity of weather events. Traditionally, natural disasters have affected the agricultural sector and increased rural poverty. The COVID-19 pandemic or a natural disaster could further delay the reopening of Jamaica's aluminum refinery. Moreover, high crime rates are cutting across the social fabric of society, undermining the business environment and the prospects for private investment.

TABLE 2 Jamaica / 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	1.0	1.9	-0.1	-9.0	4.0	2.0
Private Consumption	1.2	0.9	-1.3	-13.2	3.4	3.7
Government Consumption	1.2	0.7	3.1	1.6	-8.2	2.5
Gross Fixed Capital Investment	4.3	5.2	-3.7	-26.2	22.7	-0.3
Exports, Goods and Services	5.1	7.7	2.8	-40.5	23.0	4.0
Imports, Goods and Services	5.9	5.6	-0.7	-45.3	23.8	5.8
Real GDP growth, at constant factor prices	0.7	1.9	-0.1	-9.0	4.0	2.0
Agriculture	-3.5	4.1	0.5	-6.0	5.1	4.2
Industry	0.8	4.8	-0.7	-11.1	5.9	0.1
Services	1.1	0.8	0.0	-8.7	3.3	2.4
Inflation (Consumer Price Index)	4.4	3.7	3.9	4.6	5.3	5.0
Current Account Balance (% of GDP)	-2.6	-1.8	-2.0	-8.0	-5.6	-3.3
Net Foreign Direct Investment (% of GDP)	5.8	4.8	1.4	1.2	3.2	4.6
Fiscal Balance (% of GDP)[a]	0.4	1.2	0.9	-2.9	-0.6	-0.3
Debt (% of GDP)[a]	101.3	94.4	94.0	101.2	93.8	88.1
Primary Balance (% of GDP)[a]	7.5	7.5	7.1	3.5	5.4	5.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).

MEXICO

Table 1	2019
Population, million	133.5
GDP, current US$ billion	1236.0
GDP per capita, current US$	9261.1
International poverty rate ($1.9)[a]	1.7
Lower middle-income poverty rate ($3.2)[a]	6.5
Upper middle-income poverty rate ($5.5)[a]	22.7
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	105.8
Life expectancy at birth, years[b]	75.0

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

The economy is projected to contract by 10 percent in 2020, with a gradual recovery in 2021-2, implying that it may take more than 3 years to return to the pre-pandemic levels of GDP. The recovery would rely on a rapid rebound in the U.S and more openness toward private investment, taking advantage of the USMCA. Adherence to a tight fiscal policy is expected, but with eroded fiscal buffers and growing spending pressures, further fiscal space will have to come from a needed tax reform.

Recent developments

The COVID-19 pandemic is taking a heavy toll on the Mexican economy as output contracted by 1.3 and 18.6 percent y-o-y in the first and second quarters of 2020, respectively. To flatten the contagion curve, policies mandated the suspension of most activities across the country from mid-March to end May. This, coupled with a drop in external and domestic demand, led to major impacts on services (including tourism), manufacturing, and construction. Total employment fell by 20 percent in the 12-months to April. Employment has since recovered marginally, but with 5 million less jobs by July 2020 compared to the previous year, more than 1 million of them lost in the formal sector.

At the onset of the crisis, there was a sharp increase in risk aversion in capital markets that triggered outflows from Mexico. Together with other emerging economies, Mexico also took a hit in debt markets, with spreads soaring to over 700 bps at the end of April. These shocks prompted a rapid depreciation of the peso against the U.S dollar.

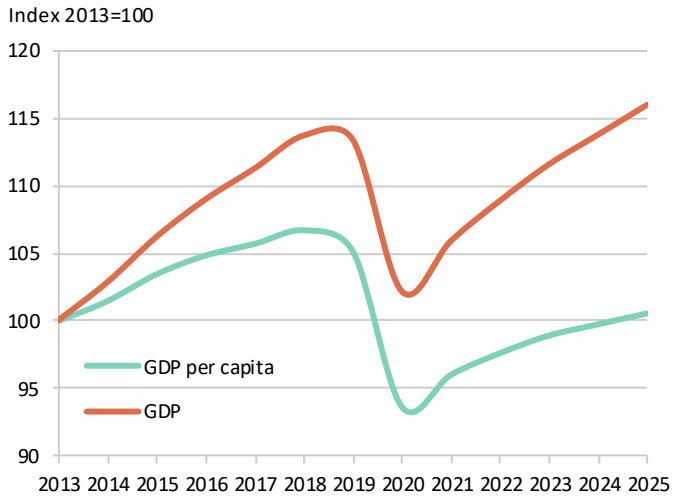
The Central Bank maintained its flexible exchange rate regime and enabled a swap program with the U.S. Federal Reserve for around US$60 billion, and together with the Ministry of Finance provided other swap facilities to market participants. Liquidity for the financial sector was also enabled. Moreover, with inflation expectations within the band of tolerance, and policy easing measures in the U.S. and Europe, the policy rate was reduced from 8.25 percent to 4.25 percent between August 2019 and September 2020. Since May, the peso started to recover terrain, and the balance of payments recorded positive flows.

The current account deficit narrowed significantly in the first half of 2020. Lower exports were mitigated by an even sharper import compression and remittances that recorded a growth compared to 2019 for the first half of the year. International reserves remained robust, at US$193 billion by end August 2020, sufficient to cover more than 6 months of imports and above 300 percent of short-term external debt.

The financial sector entered the economic fallout of the pandemic well-capitalized. At the onset of the crisis, the authorities established a prudent and well-designed regulatory forbearance program through commercial banks. They also enable a number of liquidity and credit facilities.

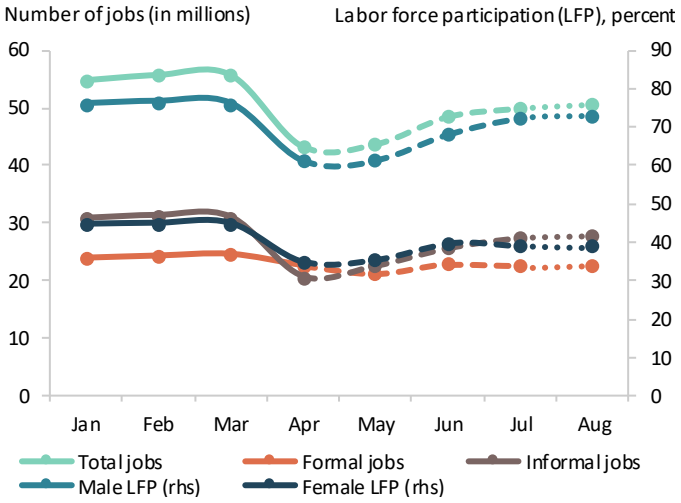
The fiscal policy response to the sharp contraction has been very limited but targeted to social transfers and credits to formal and informal sector MSMEs and workers. Despite the drastic impact of the output drop on revenues, the authorities were able over the first half of 2020 to maintain collection levels similar to those in 2019H1, owing to the settlement of past tax liabilities and stronger tax administration efforts. Despite this, the oil-price hedge payout, and the use of resources from the stabilization fund, the fiscal position is deteriorating for 2020. Amid worsening conditions, lower oil prices, and dragged by the financial vulnerabilities of PEMEX, the credit rating of sovereign

FIGURE 1 **Mexico** / GDP and GDP per capita, 2013-2025



Sources: INEGI and World Bank staff estimates.

FIGURE 2 **Mexico** / Employment and labor force participation



Sources: INEGI ENOE (Jan-Mar), ETOE (Apr-Jun) and ENOE(n) (Jul-Aug).

debt was downgraded by rating agencies, but it remains investment grade.

Outlook

The economy is projected to contract by 10 percent in 2020, with a gradual recovery in 2021 and 2022, assuming a rapid rebound in the U.S. The depth of the contraction and its projected gradual recovery implies that it may take more than three years to attain the pre-pandemic level of GDP. The contraction in economic activity will lead to a large impact in monetary poverty, increasing the (US$5.5 line) poverty rate from 21 percent in 2019 to at least 27 percent in 2020 (or 8.4 million of new poor), with only a gradual reduction in 2021-2.

Inflationary pressures are expected to remain within the Central Bank's band of tolerance. The large negative output gap is expected to curb inflation pressures over the medium term. This, together with external factors, may enable some additional monetary policy space.

The current account deficit (CAD) is expected to be narrow in 2020-21, as slower exports will be mitigated by import compression and resilient remittances from the U.S. FDI will slow significantly, but it would cover the expected moderate CAD over the medium term. The ratification of the USMCA should ease some uncertainties that limited exports and FDI in the manufacturing sector. Volatility in financial markets over the next 12 months may tighten external finance, even as forex reserves would remain at comfortable levels.

Adherence to a tight fiscal stance is expected to continue despite the deterioration of revenue collections. For 2021, the authorities plan to return to a [zero] primary balance, mostly through the containment and re-prioritization of expenditures. This could be possible with the likely transfer from the Central Bank, stemmed from earnings due to the revalorization of reserves, as envisaged in the Mexican Law. Public debt in GDP is expected to have a large one-off increase in 2020 due to a significant drop in GDP, the impact of exchange rate depreciation on foreign currency-denominated debt, and the larger deficit. Yet, it would stabilize after that. Since more than two thirds of public debt is denominated in local currency, and it has a long maturity structure, rollover and foreign exchange risks are moderate.

Risks and challenges

There is a high degree of uncertainty as to the duration of the pandemic externally and domestically and to its economic, social, and health ramifications. The expected gradual recovery may be slowed if policy uncertainty with respect to private investment, including in the energy sector, is not lifted. The impact of the crisis on employment and poverty could undermine the recovery through tamed consumption and high costs of formal jobs re-matching dragging productivity. Moreover, education and health impacts may also hamper longer-term growth prospects. The medium term, including 2021-2022, will be challenging on the fiscal side. With a negative output gap widening, eroded fiscal buffers, and growing spending pressures—including for higher infrastructure investment to support growth—, further fiscal space will be needed. This space will likely need to come from a needed tax reform. Moreover, the financial situation of PEMEX is worsening requiring further relief from its tax and transfer obligations. Additional measures to reduce the company's vulnerabilities are needed to avoid further credit rating downgrades on the company and its impact on the sovereign credit rating.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.1	2.2	-0.3	-10.0	3.7	2.8
Private Consumption	3.2	2.4	0.4	-9.9	3.5	2.6
Government Consumption	0.7	2.8	-1.4	-2.2	1.2	1.8
Gross Fixed Capital Investment	-1.2	1.0	-5.1	-16.3	4.9	3.9
Exports, Goods and Services	4.2	5.9	1.4	-14.5	7.1	5.3
Imports, Goods and Services	6.4	5.9	-0.9	-15.2	6.4	5.1
Real GDP growth, at constant factor prices	2.0	2.2	-0.3	-10.0	3.7	2.8
Agriculture	3.4	2.3	0.4	0.2	3.0	3.0
Industry	-0.2	0.5	-1.7	-8.9	3.7	2.7
Services	3.1	2.9	0.2	-11.0	3.7	2.9
Inflation (Consumer Price Index)	6.0	4.9	3.6	3.5	3.5	3.5
Current Account Balance (% of GDP)	-1.8	-2.1	-0.4	-0.2	-0.5	-0.7
Net Foreign Direct Investment (% of GDP)	2.6	2.2	1.9	1.5	1.8	2.0
Fiscal Balance (% of GDP)	-1.1	-2.2	-2.3	-5.2	-3.7	-3.3
Debt (% of GDP)	45.7	44.9	44.8	56.2	56.1	55.9
Primary Balance (% of GDP)	1.4	0.4	0.4	-2.0	-0.6	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]		1.7	1.7	2.5	2.4	2.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		6.5	5.9	8.3	7.8	7.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		22.7	21.1	27.1	26.1	25.6

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

(a) Calculations based on SEDLAC harmonization, using 2018-ENIGHNS.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Based on a microsimulation model for 2019-2020. For 2021-2022, assumes a neutral distribution with pass-through = 0.87 based on private consumption per capita.

NICARAGUA

Table 1	2019
Population, million	6.4
GDP, current US$ billion	12.5
GDP per capita, current US$	1971.8
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	13.1
Upper middle-income poverty rate ($5.5)[a]	35.4
Gini index[a]	46.2
School enrollment, primary (% gross)[b]	120.6
Life expectancy at birth, years[b]	74.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2014), 2011 PPPs.
(b) WDI for School enrollment (2010); Life expectancy (2018).

The COVID-19 outbreak threatens to deepen and prolong the economic recession sparked by the sociopolitical crisis. The country faces a weakened external position despite boasting a current account surplus. Fiscal consolidation has been delayed to partially cushion the economic impact of the crisis. Large employment contractions in labor-intensive sectors threaten to continue reversing achievements in poverty reduction. The economic recovery is expected to be protracted amid modest global rebound, tight external financing conditions and policy uncertainty.

Recent developments

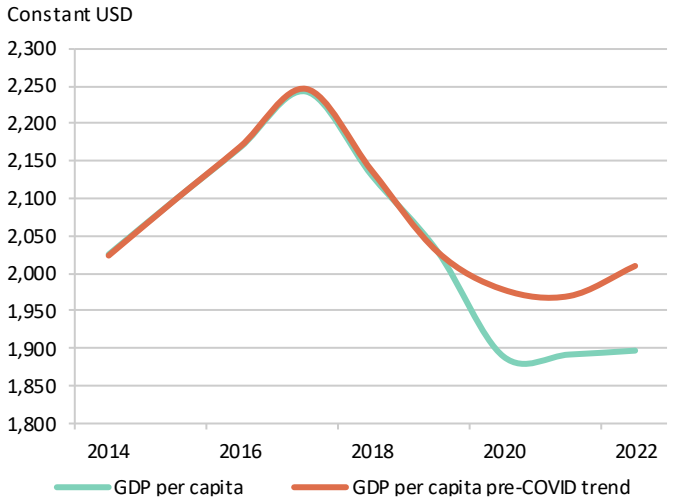
Nicaragua's economy had started to rebound in the first quarter of 2020, following two years of recession caused by a sociopolitical crisis, but the pandemic halted this trend. Real GDP grew 1.8 percent (y/y) in 2020Q1 driven by rebounds in consumption, investment, and exports. Sectors like agriculture, manufacturing, wholesale and retail trade led the rebound. However, COVID-19 disrupted Nicaragua's prospects of a recovery in 2020, as tourism and manufacturing reversed course. The Economic Activity Index fell 9.5 percent (y/y) in April 2020 while enrollment in the pension system declined between April and July, reflecting a bigger blow to overall employment and household incomes, both increasing poverty.

The current account turned into surplus as the sociopolitical crisis weakened import demand while exports and remittance flows remained resilient. Both these trends generated a current account surplus of an estimated 5.4 percent of GDP in 2019 and somewhat mitigated poverty increases. However, capital outflows of around 1.5 percent of GDP in 2019 and reduced FDI inflows weakened the financial account. The crawling exchange peg depreciated by 5.0 percent in 2019, and since then the allowable rate of crawl has been reduced to 3 percent. International reserves recovered to US$2.8 billion in July 2020, having bottomed out at US$2.1 billion, in 2019Q1.

Nicaragua's banking system experienced significant turbulence in early 2019, but a series of monetary and financial policies enhanced banking and private sector liquidity; namely, lowering reserve requirements and implementing forbearance for personal loans. These measures stabilized the banking sector: deposits remained stable between 2019Q4 and 2020Q1 and delinquency rates declined between September 2019 and February 2020. COVID-19 reversed these gains as weakening demand and rising uncertainty pressured markets (delinquency rates reversed previous gains between March and June 2020). Inflation dropped to an average 4.5 percent in the first six months of 2020, from 5.4 percent in 2019, as aggregate demand contracted, and authorities reduced using seigniorage to finance the deficit – the fall in oil prices reinforced this trend.

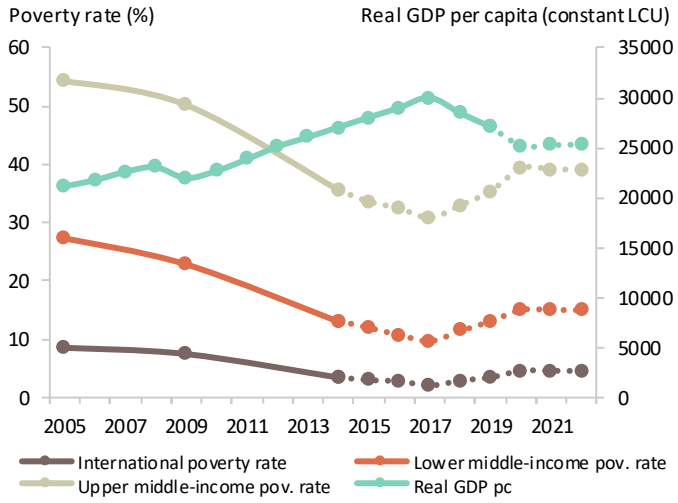
Despite the recession, fiscal policy had to be tightened in 2019 due to lack of financing, but was relaxed in the wake of the pandemic. Public spending is set to increase in 2020 to mitigate the socioeconomic impact of COVID-19, funded by financing from the Central American Bank for Integration, the Interamerican Development Bank and government deposits. Fiscal consolidation policies in 2019 improved the fiscal deficit and restrained the pace of public debt accumulation. The fiscal consolidation was driven by an increase in revenue from 26.7 percent of GDP in 2018 to an estimated 29.3 percent in 2019. Expenditures dropped slightly to an estimated 30.6 percent of GDP. As a result, the fiscal balance improved nearly 3 percentage points to -1.3 percent of GDP

FIGURE 1 Nicaragua / GDP level trajectory (Pre- and Post-COVID-19)



Source: The World Bank.

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



Sources: World Bank. Notes: see table 2.

in 2019 and debt levels reached 56.7 percent of GDP. COVID-related spending will provide some relief to vulnerable households, but together with a shrinking tax base, will increase the overall deficit and public debt.

Outlook

Real GDP is projected to contract 5.9 percent in 2020 as a result of COVID-19 and lingering effects of the sociopolitical crisis (bringing the cumulative loss of real output to 13.1 percent over the past three years). Political uncertainty is expected to keep private consumption and investment depressed in 2020. The spread of COVID-19 will additionally weigh on growth via decelerating remittance inflows, reduced export earnings, and self-imposed lockdowns by the private sector. Manufacturing, construction, retail and wholesale trade are expected to be affected the most, with agriculture and mining remaining resilient in 2020. Growth is projected to rebound slowly – averaging 1.1 percent in 2021-2022 – due to modest global recovery and supportive monetary policy. The current account surplus is projected to moderate to 3.8 percent of GDP in 2020 and equilibrate by 2022. Faster decline in export earnings relative to imports is expected to be partly offset by resilient remittance inflows. The economy is projected to regain pre-recession real GDP levels well into the medium term, signaling the high costs of the double crises. Furthermore, lower remittances are likely to result in higher poverty, as around 25 percent of households in the bottom 40 percent of the income distribution receive remittances, accounting for 20 percent of their household income.

The proportion of poor households living below the international poverty line of US$3.2/day (2011 PPP) is forecasted to increase from 13 percent in 2019 to 15 percent in 2020. This would add some 130,000 people into poverty. The projected increase in poverty comes on the heels of a forecasted upward trend in poverty since 2018. This negative outlook on poverty is attributable to lower employment in most sectors of the economy along with the deceleration in remittances and the limited application of countermeasures to contain the social impact of the crisis.

The fiscal deficit is projected to widen to 5.6 percent of GDP in 2020 as authorities implement COVID-related fiscal stimulus and the revenue base shrinks. The additional spending is anticipated to be financed through domestic bond issuance, non-concessional loans and, to a lesser extent, concessional loans from IFIs. A sizable fiscal consolidation will be necessary over the medium term – expected to bring the deficit down to 1.3 percent of GDP by 2022 – to stabilize debt levels. If such consolidation takes place, the public debt is expected to peak at 64.1 percent of GDP in 2021 and decline thereafter.

Risks and challenges

The evolution of the COVID-19 pandemic remains uncertain and risks to the economy are tilted towards the downside. A deeper economic contraction and worsened poverty rates could result from a more pervasive and prolonged pandemic, multiple waves of the outbreak, a deeper than anticipated global recession, intensification of the domestic political crisis ahead of the 2021 Presidential elections or a severe natural disaster. Some of the key challenges that lie ahead include preparing well-designed programs for supporting recovery of the most vulnerable thus reversing the increasing trend in poverty since 2017, promoting health and safety protocols for post-COVID-19 economic recovery, and providing sufficient liquidity to the financial system.

TABLE 2 Nicaragua / 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	4.6	-4.0	-3.9	-5.9	1.1	1.2
Private Consumption	2.7	-4.5	-2.5	-7.4	2.2	1.8
Government Consumption	1.6	-1.5	1.2	2.6	-1.4	-6.8
Gross Fixed Capital Investment	2.1	-20.1	-26.0	-20.1	0.9	7.8
Exports, Goods and Services	10.1	-1.0	5.3	-3.5	3.5	3.3
Imports, Goods and Services	3.3	-14.0	-5.4	-8.2	3.8	3.2
Real GDP growth, at constant factor prices	4.8	-3.2	-3.4	-5.9	1.1	1.2
Agriculture	9.1	1.0	2.3	1.0	1.3	1.4
Industry	2.3	-1.3	-3.7	-4.5	0.6	0.7
Services	4.7	-5.0	-4.8	-8.5	1.2	1.4
Inflation (Consumer Price Index)	3.9	4.9	5.4	3.9	3.1	3.0
Current Account Balance (% of GDP)	-4.9	0.6	5.4	3.8	1.8	0.2
Fiscal Balance (% of GDP)[a]	-2.0	-4.1	-1.3	-5.6	-4.0	-1.3
Debt (% of GDP)[b]	47.1	52.9	56.7	62.9	64.1	63.6
Primary Balance (% of GDP)[a]	-0.9	-2.9	0.1	-4.2	-2.1	0.5
International poverty rate ($1.9 in 2011 PPP)[c,d]	2.1	2.9	3.4	4.5	4.5	4.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	9.7	11.4	13.1	15.1	15.0	15.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	30.7	32.9	35.3	39.3	39.1	39.0

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

(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Calculations based on SEDLAC harmonization, using 2014-EMNV. Actual data: 2014. Nowcast: 2015-2019. Forecast are from 2020 to 2022.
(d) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.

PANAMA

Table 1	2019
Population, million	4.2
GDP, current US$ billion	66.8
GDP per capita, current US$	15792.2
International poverty rate ($ 1.9)[a]	1.7
Lower middle-income poverty rate ($ 3.2)[a]	5.2
Upper middle-income poverty rate ($ 5.5)[a]	12.6
Gini index[a]	49.2
School enrollment, primary (% gross)[b]	94.4
Life expectancy at birth, years[b]	78.3

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

Panama is one of the most affected countries by the COVID-19 pandemic, both in health and economic terms, due to its exposure to international trade and reliance on pandemic-vulnerable growth drivers such as construction, mining, and tourism. Emergency social measures prevented a higher increase in poverty but contributed to a deterioration in fiscal accounts. Looking ahead, Panama needs to regain fiscal sustainability and increase productivity to unleash new growth drivers, while ensuring growth benefits to rural dwellers, Afro-descendants, and the Indigenous population.

Recent developments

Panama is a service-based, small open economy, highly integrated, and with high levels of investment, which led GDP to grow on average by 6.5 percent from 2010 to 2018. Over the same period, Panama's poverty reduction surpassed the region's, reducing the headcount of people living under US$ 5.5 (PPP) a day from 21.8 percent to 12.6 percent.

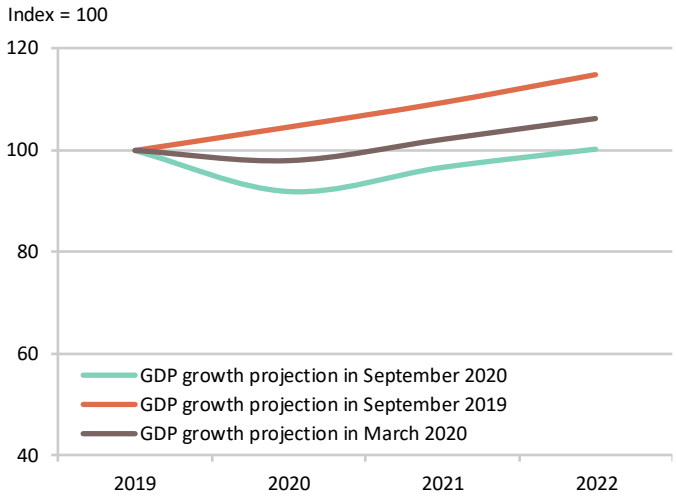
Panama has been one of the hardest hit countries in Latin America by the COVID-19 pandemic, with the highest per capita case count as of mid-September. The government quickly enacted severe restrictions on mobility and economic activity, while increasing health services and testing capacity (Panama has the second highest number of tests per capita in the region). Health measures were complemented by fiscal and credit policy and an enlargement of the social safety net. Nonetheless, the pandemic still spread in the country due to large number of informal workers, poor living conditions in the city slums, and significant exceptions made to the enforcement of restrictions.

The impact of the pandemic is expected to be significant, as containment measures affected the main growth drivers and important sources of urban employment. Panama suffered from the closure of all airports and reduced international trade, which affected the Panama Canal; workers in the transport and storage sector account for 7.5 percent of employment. Health measures interrupted most of mining, industrial and construction activities for several months - potentially affecting 16.9 percent of employment - with only gradual reopening allowed so far. Other important sources of employment, such as the retail sector (18.2 percent) have also been affected by the difficulty of operating under social distance measures. As a result, the monthly proxy for GDP declined by 14 percent up to May, and traffic in the Canal dropped 7.8 percent up to June. The government expects unemployment to increase from 7 percent in 2019 to up to 25 percent in 2020.

The pandemic severely impacted the fiscal accounts, which led the government to seek a waiver from the deficit limits set in the Social and Fiscal Responsibility Law. Reduced economic activity, postponed tax payments, and reduced revenues from the Canal brought current revenues down by 34.1 percent in the first half of the year. Despite higher health and social protection expenditures, the government managed to reduce current expenditures by 5 percent and finance it through budgetary reallocations and by tapping into the Panama Savings Fund (Fondo de Ahorro de Panamá). These resources, however, were not enough and the country tapped private and official creditors as well. As a result, public debt increased by 6.1 percentage points from 46.4 percent of GDP in 2019 to 52.5 percent of GDP in July 2020.

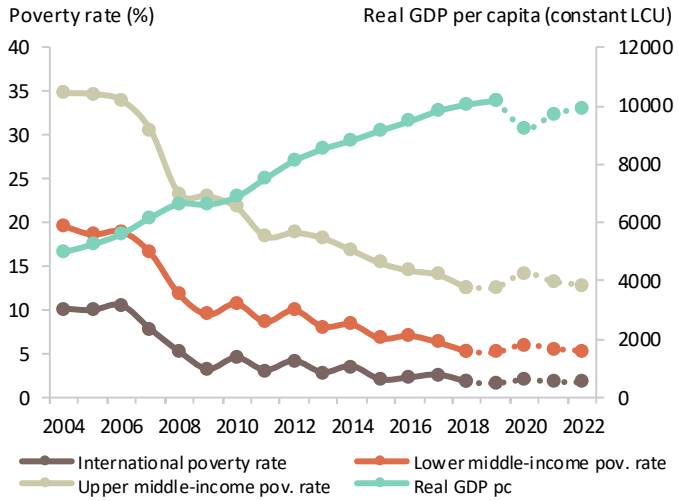
On the other hand, external accounts and inflation have been positively impacted. Although the pandemic has reduced the country's exports, affecting mainly the service exports, the decline in economic activity together with lower oil prices

FIGURE 1 Panama / GDP growth rates will take at least two years to rebound



Source: World Bank staff calculations.

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



Sources: World Bank. Notes: see table 2.

have brought imports down by a higher margin, reducing current account financing needs. Overall consumer and food prices declined by 0.8 percent as of April of 2020. The banking sector is solid with reserves above the minimum requirement and non-performing loans at less than 2 percent of outstanding loans.

Outlook

The COVID-19 pandemic will bring the first recession to Panama since 1988 with GDP expected to contract by 8.1 percent in 2020. Unemployment and income losses are expected to affect around two-thirds of the labor force. The recession reflects the country's exposure to international trade and reliance on growth drivers such as construction, mining, and tourism, which cannot function well in a socially distanced environment. The shock is expected to be stronger in urban areas. At the same time, had the government not reacted with an emergency response, approximately 161,000 people would have fallen below the poverty line of US$ 5.5 (PPP) a day in 2020 (an increase of 3.4 percentage points); the emergency measures are expected to limit the increase in poverty to 1.7 percentage point with respect to 2019.

As the pandemic is brought under control, Panama's economy is expected to recover with poverty rates getting closer to pre-crisis levels. Growth, however, will not return to its previous pace as the effects of large infrastructure projects and associated credit boom have waned. In order to sustainably accelerate its long-term growth, Panama will have to find new growth drivers, enact reforms to boost productivity and make sure growth is more inclusive, especially for rural dwellers, afro-descendants, and the indigenous population.

Fiscal accounts will be hit hard by the pandemic and outturns are expected to deteriorate for a couple years before being brought under control. Public deficit will balloon to 7.7 percent of GDP, while debt will peak near 60 percent of GDP in 2021. Deficits will be above the long-term cap of 2 percent of GDP for the medium term but will be on a declining path.

The current account deficit is expected to decline to 1.4 percent of GDP in 2020 due to lower economic activity and lower oil prices. As economic activity picks up, the deficit will widen but it should be financed by Foreign Direct Investment. Inflation is expected to remain below 2 percent in the medium term.

Risks and challenges

The pandemic continues to impose great uncertainty over the projections. A greater-than-expected impact of the pandemic on economic activity would deepen the recession in 2020 with a larger spillover into 2021. Moreover, the magnitude of the effects of the crisis on the poor and vulnerable depend on the government's ability to continue implementing emergency programs swiftly and ensuring their broad coverage: an additional 80,000 people risk falling below the poverty line of US$ 5.5 (PPP) a day in 2020.

In addition, the COVID-19 pandemic triggered a deterioration in fiscal accounts. The baseline scenario assumes that Panama will be able to finance its deficit with small increases in financing costs and pursue a gradual fiscal consolidation thereafter. However, higher financing needs and tighter financial markets could force the country into a more aggressive fiscal consolidation.

TABLE 2 Panama / 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	5.6	3.7	3.0	-8.1	5.3	3.8
Private Consumption	5.6	3.7	3.0	-13.1	9.4	3.6
Government Consumption	12.1	11.8	-0.6	12.8	-0.8	-5.0
Gross Fixed Capital Investment	5.2	4.3	-0.9	-17.4	10.0	9.3
Exports, Goods and Services	7.7	3.7	3.0	-8.0	4.3	2.7
Imports, Goods and Services	9.4	5.4	-0.1	-14.2	8.7	4.0
Real GDP growth, at constant factor prices	5.7	3.7	3.2	-8.1	5.3	3.8
Agriculture	1.1	2.3	2.5	0.0	2.0	1.5
Industry	7.0	2.8	3.4	-13.3	6.2	6.2
Services	5.3	4.2	3.1	-6.2	5.1	2.9
Inflation (Consumer Price Index)	0.9	0.8	-0.4	-0.9	0.5	1.5
Current Account Balance (% of GDP)	-5.9	-8.2	-5.2	-1.4	-3.7	-4.4
Net Foreign Direct Investment (% of GDP)	6.9	7.9	6.3	1.9	3.9	4.2
Fiscal Balance (% of GDP)	-1.9	-2.9	-3.1	-7.7	-5.2	-3.0
Debt (% of GDP)	37.6	39.4	46.4	58.0	59.3	59.1
Primary Balance (% of GDP)	-0.1	-1.1	-1.3	-5.2	-2.6	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.5	1.7	1.7	2.0	1.8	1.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	6.3	5.2	5.1	6.0	5.5	5.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	14.1	12.6	12.5	14.2	13.2	12.8

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

(a) Calculations based on SEDLAC harmonization, using 2018-EH. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

PARAGUAY

Table 1	2019
Population, million	7.0
GDP, current US$ billion	37.2
GDP per capita, current US$	5330.2
International poverty rate ($1.9)[a]	1.4
Lower middle-income poverty rate ($3.2)[a]	5.8
Upper middle-income poverty rate ($5.5)[a]	15.9
Gini index[a]	46.2
School enrollment, primary (% gross)[b]	104.4
Life expectancy at birth, years[b]	74.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2012); Life expectancy (2018).

Well-enforced policies on social distancing led to one of the lowest levels of contagion and deaths from COVID in the Western Hemisphere in the first months of the pandemic. With a track-record of prudent macroeconomic policy over the last decade, the crisis response measures are expected to be effective in absorbing a part of the COVID-19 shock and supporting economic recovery. However, poverty is expected to increase in 2020 to the levels of 2015, and slowly reverse going forward.

Recent developments

The COVID-19 outbreak hit the Paraguay economy in a moment of economic recovery after registering a "zero" growth rate in 2019. In 2020Q1, Paraguay's economy grew 3.5 percent year-on-year driven by agriculture and construction (only the last 20 days of March were affected by anti-COVID-19 measures).

The authorities reacted swiftly to the outbreak of COVID-19 in March 2020 to mitigate the impact on economy and people. From the onset of the pandemic, the Government implemented social distancing measures and population movement controls. Well-enforced policies on social distancing led to one of the lowest levels of contagion and deaths from the pandemic in the Western Hemisphere in the first months of the pandemic. As a result, the monthly index of economic activity (IMAEP) dropped 13.9 percent, and the ECN (Estimador Cifras de Negocios) dropped 20.2 percent year-on-year in April. As restrictions eased, both indicators showed signs of recovery by June. Consistent with data from High-Frequency Surveys carried out by the World Bank in May and June 2020, official data from the labor force survey for 2020Q2 shows that more than sixty percent of households had at least one member with a drop on their incomes; at least 37.8 percent of households had a member who lost their jobs (mostly informal workers), and 27.7 percent had at least one member who was suspended from work without pay.

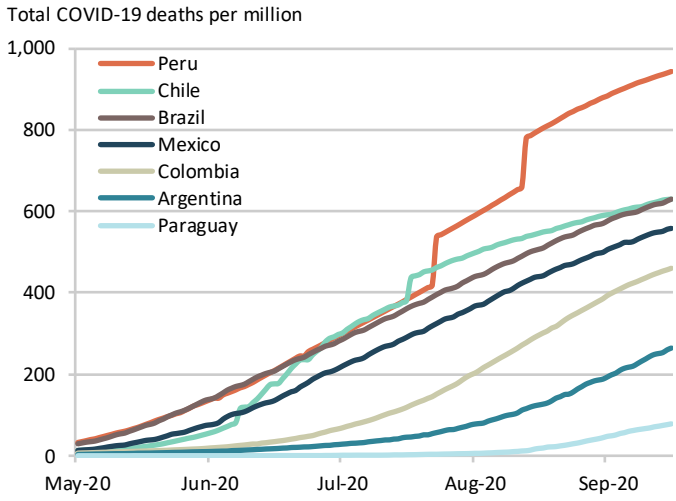
During March-June, the BCP reduced the policy interest rate by cumulative 325 bps to 0.75 percent (a record low) and temporarily relaxed provisioning rules not to penalize credit restructurings and prolongations. By June 2020, consumer inflation fell to 0.5 percent year-on-year, then marginally picked up to 1.6 percent year-on-year by August, still below the BCP's target range (4 +/- 2 percent).

While the original 2020 budget foresaw an annual deficit of 1.5 percent GDP, with the economic downturn and the emergency fiscal response to the crisis, the deficit reached 3.4 percent of GDP in Jan-Aug (5.1 percent GDP on a 12-month rolling basis). Tax revenue was down 11.7 percent, while spending on social benefits (including emergency social assistance programs) was up 53.2 percent. Public capital expenditure increased by 31 percent year-on-year, although from a low base. By end-June, public debt increased to 30.7 percent GDP, which remains one of the lowest levels in the region.

Outlook

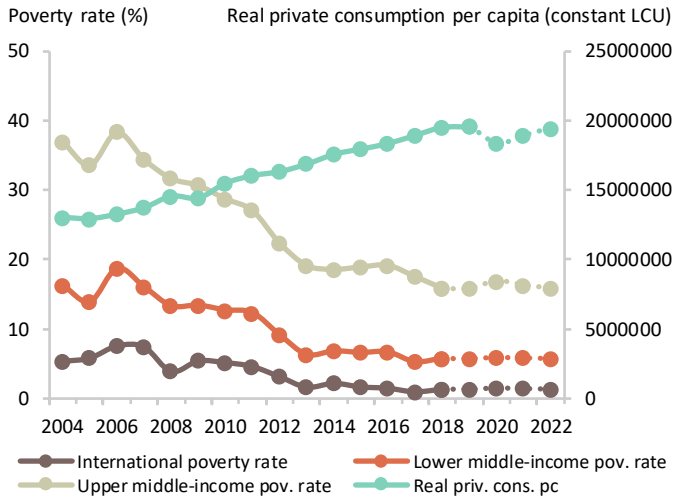
Economic dynamics in 2020 are expected to be severely affected by the global recession accentuated by the domestic response to the COVID-19 outbreak. After a strong 2020Q1, there is clear indication of a sharp economic contraction in 2020Q2. The downturn is driven by a decline in external demand and cross-border trade, and in domestic demand, especially in services, as a result of social distancing

FIGURE 1 **Paraguay** / Total COVID-19 deaths per million



Source: Our World in Data.

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



Sources: World Bank. Notes: see Table 2.

measures. The emergency package, which is expected to increase the fiscal deficit to 7 percent GDP in 2020, will soften the impact but not fully compensate for it. In 2021 and 2022, growth is expected to gradually return to 4 percent, as the global economy recovers, helped by coherent macroeconomic policies, and anchored in inflation targeting and a gradual return towards the FRL ceilings (the FRL was suspended by the Emergency Law). The debt level is expected to increase by 10 p.p. of GDP during 2020 due to a historically high fiscal deficit resulting from the concerted fiscal response to the crisis and GDP contraction. However, the authorities are committed to fiscal prudence. The amended FRL, which is under preparation, is expected to anchor the medium-term fiscal plan of preserving fiscal sustainability while allowing the needed flexibility to deal with volatility/shocks. Inflation is projected to return to the mid-point of the target range (4 percent) in 2021.

The trends of poverty reduction and the increase in shared prosperity that the country had experienced since the beginning of the century are expected to revert in 2020 and only catch up slowly going forward. Poverty, measured at US$ 5.5 PPP, is expected to reach the levels of 2016 at end-2020, implying a 2.5 p.p. increase from the pre-crisis projection 2020 and 1.1 p.p. increase from the 2019 poverty rate. With economic growth projected to remain below its trend, poverty is expected to fall only marginally over the medium term. The performance of family-based agriculture will be crucial for the protection of the most vulnerable in rural areas. Also, stronger labor income growth is needed in the services sector to improve the livelihoods of those at the bottom of the income distribution in urban areas to attenuate the effects of the pandemic.

Risks and challenges

Short-term risks to global growth relate to the availability of a vaccine that could affect the timing and strength of the global rebound. Paraguay is also vulnerable to a sharper and/or prolonged domestic economic slowdown that could result from an accelerated and extended spread of the pandemic and its effects (social distancing, more pronounced uncertainty, increased fiscal tensions). This will compound other pre-existing economic risks, such as the concentration of exports in a few agricultural products. Growth and poverty continue to be vulnerable to fluctuations in agriculture commodity markets and to weather-related shocks (as experienced in 2019), affecting especially the most vulnerable population. The main risks to the dynamics of poverty relate to a slower than expected recovery of labor incomes in sectors that have been affected by the crisis, specifically for those in the informal sector.

TABLE 2 Paraguay / 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	5.0	3.4	0.0	-3.2	3.5	3.7
Private Consumption	4.5	4.3	1.3	-5.8	4.5	4.2
Government Consumption	2.1	3.0	5.1	9.6	1.0	0.7
Gross Fixed Capital Investment	5.9	6.9	-6.6	-13.5	2.8	3.9
Exports, Goods and Services	8.3	1.8	-2.9	-2.8	3.7	4.5
Imports, Goods and Services	12.0	8.9	-0.9	-8.6	3.8	4.0
Real GDP growth, at constant factor prices	4.7	3.4	0.0	-3.1	3.5	3.8
Agriculture	6.0	4.3	-3.1	8.2	3.9	3.6
Industry	3.5	1.5	-0.7	-1.2	3.8	3.9
Services	5.3	4.5	1.2	-7.1	3.1	3.7
Inflation (Consumer Price Index)	3.6	4.0	3.2	1.8	3.5	4.0
Current Account Balance (% of GDP)	3.1	-0.2	-1.2	0.7	0.7	0.9
Net Foreign Direct Investment (% of GDP)	1.3	1.2	1.1	1.2	1.4	1.4
Fiscal Balance (% of GDP)	-0.5	-1.0	-2.4	-7.0	-4.0	-2.8
Debt (% of GDP)	19.3	21.0	24.5	35.3	37.0	36.9
Primary Balance (% of GDP)	0.4	0.1	-1.4	-5.8	-2.5	-1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.0	1.4	1.4	1.6	1.6	1.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.2	5.8	5.8	6.3	6.2	6.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.5	15.9	15.8	17.9	17.3	16.8

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

(a) Calculations based on SEDLAC harmonization, using 2013-EPH and 2018-EPH.Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using average elasticity (2013-2018) with pass-through = 1based on private consumption per capita in constant LCU.

PERU

Table 1	2019
Population, million	32.9
GDP, current US$ billion	228.5
GDP per capita, current US$	6939.4
International poverty rate ($1.9)[a]	2.7
Lower middle-income poverty rate ($3.2)[a]	8.5
Upper middle-income poverty rate ($5.5)[a]	22.3
Gini index[a]	42.8
School enrollment, primary (% gross)[b]	106.9
Life expectancy at birth, years[b]	76.5

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

Peru's economic landscape has deteriorated drastically as a result of the COVID-19 pandemic, with a heavy toll on firms, workers and households. Despite large fiscal and foreign exchange buffers, crisis response was constrained by structural weaknesses and poor implementation capacity, leading to loss of lives and livelihoods, and a steep recession. The speed and extent of recovery will depend on the timing of the availability of a vaccine as well as on the steadiness of policies in the context of upcoming elections.

Recent developments

Peru has been severely affected by the COVID-19 pandemic, resulting in extensive loss of lives and one of the deepest recessions globally, consequences that are deeply rooted in Peru's structural weaknesses. A strict generalized quarantine, harsher than in other parts of LAC, implemented against the background of widespread informality, severe income inequality, and weak state capacity led to a GDP decline of 17.4% in the first half of the year. Supply side constraints led to a collapse in production, including in the mining and labor-intensive services sectors. Total employment fell by 40.1% (about 7.1 million workers) in the first half of 2020, while earnings and hours worked declined substantially for those who remained employed. Labor market indicators started improving gradually since June, but household income has not yet returned to 2019 levels. According to the World Bank High Frequency Surveys, Peruvian households experienced the largest employment and income losses among 13 countries in LAC. To limit the socio-economic fallout, the authorities announced a package of measures equivalent to around 20% of GDP, aimed at supporting companies, households, and economic recovery.

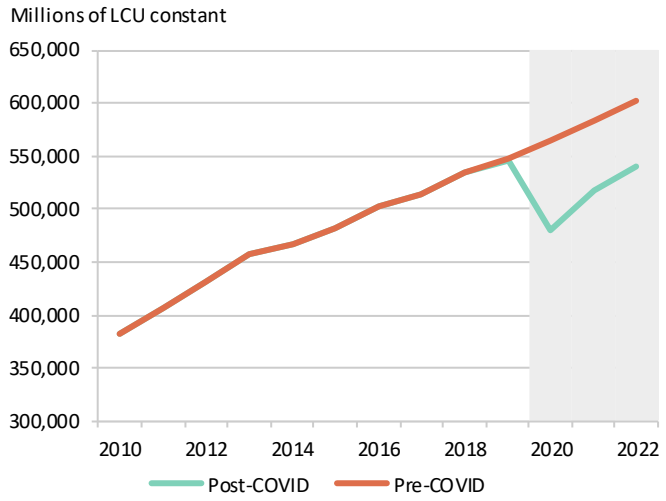
On the external side, the current account deficit narrowed in the first half of 2020 reflecting a decline in the outflow of investment income amid contractions in imports and even stronger collapse in exports. The year-on-year inflation rate remained stable in the first half of the year at 1.8%, despite expansionary monetary stimulus, in the form of interest rate reductions and unprecedented liquidity support by the Central Bank through a publicly guaranteed credit scheme for the enterprise sector. The increased exchange-rate volatility in EMEs in the first months of the pandemic was managed effectively through Central Bank interventions. As a result, the Peruvian sol remained relatively stable, with the lowest depreciation of any currency in the region.

The annualized NFPS deficit increased to around 5% of GDP by June 2020 from 1.6% of GDP last year. The collapse of revenues and new discretionary expenditure measures were driving the increase in fiscal deficit. In addition to fiscal and monetary measures aimed at supporting liquidity (equivalent to around 6.9% and 10.7% of GDP respectively), the authorities allowed the early withdrawals of deposits from private pension funds and individual unemployment schemes—measures that benefited mostly formal sector employees.

Outlook

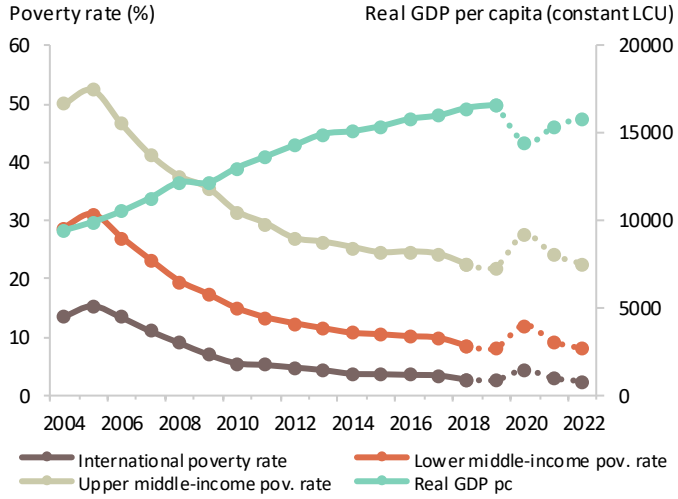
Peru's GDP is expected to contract around 12% this year in the context of the COVID-19 pandemic. Peru has moved from having one of the best growth prospects in the LAC region six months ago to having the sharpest contraction. Despite the gradual reopening of the economy, annual growth

FIGURE 1 **Peru** / Estimated output level pre-and post-COVID



Sources: Central Bank of Peru, World Bank. Notes: Pre-COVID refers to GDP forecast as of September 2019 MPO, Post-COVID refers to the current forecast.

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



Sources: World Bank. Notes: see Table 2.

rates will remain negative during the rest of the year, mainly due to demand factors. Employment losses and risk aversion will affect consumption, while uncertainty will continue to hamper the recovery of private investment. Given the depth of recession in 2020, a strong rebound is expected in 2021, assuming accelerated execution of public investment and improved global conditions with the roll out of a COVID-19 vaccine. Under such scenario, by early 2023, the economy is projected to return to the pre-COVID output level, albeit with cumulative pandemic-related output losses by end 2022 that could reach at 36% of 2020's GDP.

After narrowing marginally in 2020 on the back of lower profit transfers abroad, the current account deficit is projected to widen in the medium term, mirroring domestic demand recovery. Inflation is expected to remain in the lower half of Central Bank's target range, despite temporary price pressures in specific markets and an expansionary monetary stance. Due to weak demand, a gradual recovery will slowly close the negative output gap, maintaining prices in check in the medium term.

Budget execution is likely to accelerate in the second half of 2020 due to increased investments and cash transfers to households. Combined with the collapse in revenues, this could widen the fiscal deficit to over 9% of GDP in 2020. Consequently, public debt is projected to rise sharply, despite being partially financed by the Fiscal Stabilization Fund. Economic recovery in 2021-22 should bring increased revenues, which combined with the closing of pandemic-related spending programs, should reduce the fiscal gap. Achieving the Government's target of a 1% of GDP deficit in 2026 may require additional measures on the revenue side. The debt-to-GDP ratio is likely to remain above the debt target of 30% of GDP throughout the projection period.

The slowdown in economic activity will lead to a substantial increase in monetary poverty, which is projected to reach pre-2012 levels. The poverty impact, however, would have been more severe if not for emergency cash transfers programs. Inequality is likely to increase as well since those with lower levels of education and with jobs that cannot be done from home are being hit the most. Gender gaps are likely to widen as women disproportionately suffered job losses. Poverty and inequality will trend upwards for close to a million Venezuelan migrants and refugees due to limited access to social protection.

Risks and challenges

The economic outlook is subject to large uncertainty. The worsening of the pandemic, delays in the vaccine development and effective treatments, or a further slowdown in global economic activity represent the most important risks. The impact on the poor and vulnerable from a more protracted crisis would be significant, mainly due to disruptions in labor markets and limited access to health services. The crisis may affect inter-generational mobility since access to remote education is more limited among vulnerable households. The economy is also vulnerable to declines in commodity prices, capital outflows, or confidence effects. Domestically, political risks relate to further tensions between the executive and the Congress. Risks also stem from disruptions to mining as a result of social conflict and environmental issues. The implementation and expansion of rapid and targeted income protection measures will continue to be challenged by the high levels of informality in the labor market as well as by the low access to digital payment systems among the unemployed and those working in the informal sector.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.5	4.0	2.2	-12.0	7.6	4.5
Private Consumption	2.6	3.7	3.0	-10.8	6.0	3.8
Government Consumption	3.3	2.7	4.2	3.9	4.0	4.4
Gross Fixed Capital Investment	1.3	4.7	2.3	-24.3	15.4	7.1
Exports, Goods and Services	8.8	3.9	0.6	-12.5	9.5	5.0
Imports, Goods and Services	7.1	3.3	1.3	-12.0	9.0	5.0
Real GDP growth, at constant factor prices	2.6	4.0	2.2	-12.0	7.6	4.5
Agriculture	3.0	9.6	0.9	-3.0	4.0	2.2
Industry	2.1	2.9	-0.2	-11.0	6.0	3.2
Services	3.0	4.1	3.9	-13.6	9.0	5.6
Inflation (Consumer Price Index)	2.8	1.3	2.1	1.5	1.8	2.0
Current Account Balance (% of GDP)	-1.3	-1.7	-1.5	-1.1	-1.5	-2.2
Net Foreign Direct Investment (% of GDP)	3.1	3.1	4.3	2.2	3.6	4.0
Fiscal Balance (% of GDP)	-3.0	-2.3	-1.6	-9.6	-5.5	-4.0
Debt (% of GDP)	25.8	26.6	26.8	37.0	39.4	40.8
Primary Balance (% of GDP)	-1.8	-0.9	-0.2	-8.5	-4.2	-2.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.4	2.7	2.6	4.3	2.9	2.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.9	8.5	8.2	12.0	9.2	8.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	24.2	22.3	21.9	27.6	24.1	22.4

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

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

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

SAINT LUCIA

Table 1	2019
Population, million	0.2
GDP, current US$ billion	2.1
GDP per capita, current US$	11791.4
School enrollment, primary (% gross)[a]	102.6
Life expectancy at birth, years[a]	76.1

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

GDP is expected to contract by 18 percent in 2020 due to the halted tourism from the COVID-19 crisis. Income losses are widespread, with the poor having been impacted to a larger degree. Significant revenue losses and increased expenditures have led to a surge in indebtedness. The economic outlook remains highly uncertain due to COVID-19 and the vulnerabilities to natural disasters. It is critical for the Government to implement fiscal reforms early to rebuild fiscal resilience to cushion future shocks.

Recent developments

The COVID-19 pandemic hit Saint Lucia (SLU) when the economy was growing steadily and on track to a strong performance in 2020, supported by solid tourism and tourism-related construction. With significant increase in airlifts to SLU, total visitor expenditure rose 9.8 percent on average over 2016-19. The strong momentum in tourism continued into early 2020 prior to the COVID-19 shock, with visitor arrivals growing 11.1 percent year-on-year over January-February. After having experienced major delays, large infrastructure projects[1] started to pick up in late 2019 and GDP was expected to pick up to 3.4 percent in 2020 from 1.7 percent in 2019. It is expected that the positive growth performance in recent years, has reduced poverty continuously from 19.9 percent in 2016 to a projected 18.4 percent in 2019, although still at high level with almost 40,000 people living on less than $5.50 dollars a day.

The primary balance registered a small deficit of 0.4 percent of GDP in 2019. The slight increase in deficit in 2019 was due to two reasons. First, the pick-up of major public construction works towards the end of the year. Second, the wage negotiation, which included a one-time retrospective payment of 0.5 percent of GDP. Overall, the public debt to GDP had broadly stabilized at 60 percent in recent years, reflecting relatively prudent fiscal policies and revenues from the citizenship-by-investment program (CIP).

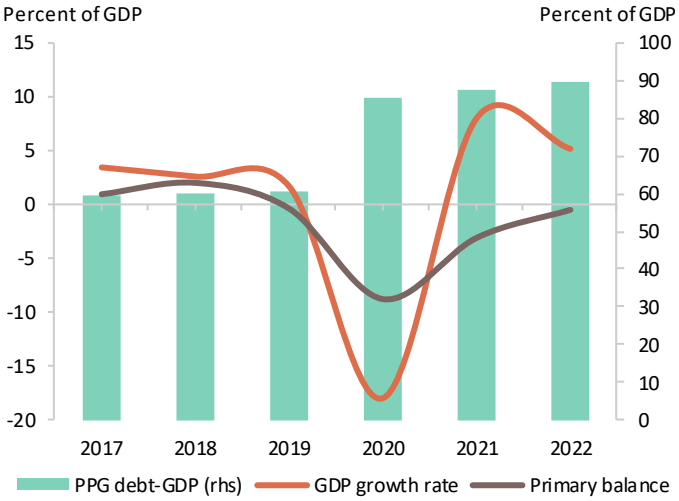
The current account balance reached a surplus of 4.6 percent of GDP in 2019, up from 2.2 percent in 2018. The buoyant performance in tourism translated into strong tourism-related exports, while delayed commencement of the airport and road rehabilitation projects discouraged related imports. Remittances remained an important source of external financing, despite the slight decline from 3.7 percent of GDP in 2018 to 3.5 percent in 2019.

Outlook

As of September 10, 2020, the direct health-related impacts of COVID-19 have been limited.[2] However, the economy was hit hard indirectly through the tourism channel. GDP is projected to contract by 18 percent in 2020, due to the almost complete halt of tourism. The preliminary data indicates a decline in tourism arrivals by 50 percent in 2020. Consequently, the services sector will bear the brunt of the crisis with a contraction of around 20 percent. The early resumption of the airport and road rehabilitation projects is expected to partially offset the fallout in tourism. A slow recovery is expected over the medium-term, with construction projects resuming full operations by 2021 and tourism returning to the 2019 level by 2023.

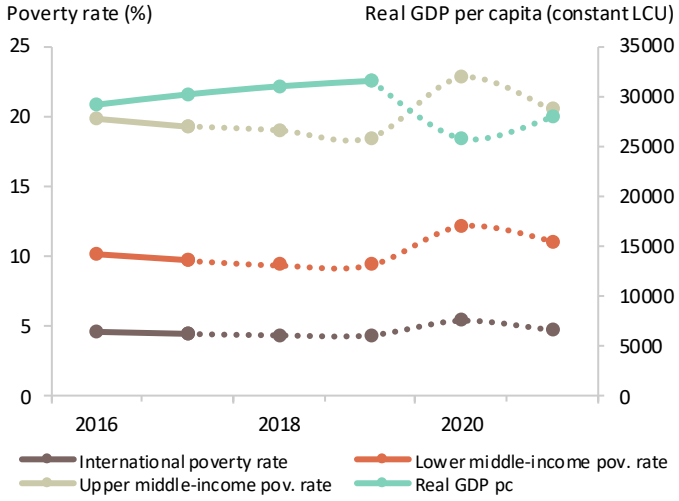
The GDP contraction led to a sharp increase of the fiscal deficit and the balance of payment financing needs. The standstill in tourism and shutdown of domestic economy led to a significant drop in tax revenues of around 35 percent compared

FIGURE 1 Saint Lucia / The evolution of main macro variables



Sources: IMF; World Bank staff estimates; ECCB.

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



Sources: World Bank. Notes: see table 2.

to 2019. COVID-19 related mitigation measures contributed to a surge in public expenditures, including additional expenditure on the health sector and income support to the poor and vulnerable groups of around 3 percent of GDP under the Social Stabilization Programme. Public construction, aimed at boosting economic activity and saving jobs, also contributed to the widening deficit. The fiscal deficit is expected to increase to 12.2 percent of GDP in 2020 and public debt is projected to peak at 89.4 percent of GDP in 2022 from 60.4 percent in 2019. The sharp decline in tourism exports and a loss of almost half of remittances will contribute to a current account deficit of 14.9 percent of GDP in 2020, from a surplus of 4.6 percent in 2019.

Poverty is expected to increase in 2020 as a result of income and job losses, though mitigated by the measures implemented by the government. The pandemic has had severe negative impacts on the job market and livelihoods, disproportionately affecting the poor. Over 70 percent of households saw their incomes decrease since the beginning of the pandemic. Especially poor households had limited access to basic services and goods, also facing difficulties to ensure sufficient food security. Based on the current growth projections including mitigation measures implemented by the Government, the poverty rate is expected to increase to 22.8 percent in 2020, implying 8,000 St. Lucians falling into poverty. It is expected that this will be alleviated in 2021 as the economy recovers and international travel resumes with the introduction of a vaccine.

Risks and challenges

The evolution of the COVID-19 pandemic poses the highest risk to the nation's welfare and the economic outlook, both in the short term and the medium term. There remains significant uncertainty around the duration and severity of the pandemic. An extended shutdown of tourism into the next tourism season between late 2020 and early 2021 would delay the recovery for another year and cause severely impact livelihoods. Over the medium term, the economic recovery largely depends on the outlook of major economies, their ability to contain the spread of the virus and the restrictions on traveling they would impose, especially in the US and Europe.

Natural disasters remain an ongoing risk. The current crisis and narrowed fiscal space constrain the Government's capacity to respond to natural disasters. The negative impacts on the poor and most vulnerable groups will be further aggravated in the case of a natural disaster. These shocks, in turn, would also further exacerbate the challenges to recover from the COVID-19 crisis.

Slippage in fiscal policies imposes risks to macroeconomic sustainability and economic resilience. With public debt around 90 percent of GDP, a rules-based Fiscal Responsibility Framework (FRF), with a fiscal strategy focusing on increasing revenue and expenditure containment, is critical to guide fiscal policy and anchor market confidence. The Government has committed to an FRF once the crisis abates. A delay in adopting it could result in accentuating debt vulnerabilities and lower creditworthiness.

1/ Including the US$175 million Hewanorra International Airport (HIA) Redevelopment Project (9 percent of GDP), funded through government-guaranteed loans from Taiwan Province of China and from local and regional banks. Since January 2018 the government has been collecting a US$35 airport development tax per airport arrival (estimated to yield revenue of 0.7 percent of GDP annually) to repay these loans.

2/ As of August 31, 2020, Saint Lucia reports the lowest recorded COVID-19 infection rates in the Caribbean. (http://health.govt.lc/news/saint-lucia-reports-the-lowest-recorded-covid-19-infection-rates-in-the-caribbean).

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.5	2.6	1.7	-18.0	8.1	5.2
Real GDP growth, at constant factor prices	3.6	2.8	2.8	-18.0	8.1	5.2
Agriculture	-2.9	1.7	-0.8	3.9	3.3	2.5
Industry	4.3	-3.4	3.0	-3.7	3.8	3.2
Services	3.7	3.8	2.8	-20.4	8.9	5.6
Inflation (Consumer Price Index)	-0.5	2.5	0.6	1.7	1.4	1.3
Current Account Balance (% of GDP)	-1.0	2.2	4.6	-14.9	-8.7	-1.7
Fiscal Balance (% of GDP)[a]	-2.1	-1.0	-3.4	-12.2	-6.8	-4.3
Debt (% of GDP)[a]	59.5	60.1	60.4	85.3	87.7	89.4
Primary Balance (% of GDP)[a]	0.9	1.9	-0.4	-8.7	-3.1	-0.5
International poverty rate ($1.9 in 2011 PPP)[b,c]	4.5	4.4	4.4	5.4	4.7	4.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	9.7	9.4	9.4	12.1	11.1	10.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	19.3	19.0	18.4	22.8	20.5	19.6

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

(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).

(b) Calculations based on 2016 SLC-HBS.Actual data: 2016. Nowcast: 2017-2019. Forecast are from 2020 to 2022.

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

ST. VINCENT AND THE GRENADINES

Table 1	2019
Population, million	0.1
GDP, current US$ billion	0.8
GDP per capita, current US$	7449.4
School enrollment, primary (% gross)[a]	113.4
Life expectancy at birth, years[a]	72.4

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

GDP is expected to contract by 7.0 percent in 2020 as the COVID-19 pandemic continues. After several years of minimal budget deficits and primary surpluses, the new port investment, the COVID-19 response and the sudden stop in tourism will exert significant pressure on public finances as public expenditures increase and revenues plummet. Further downside risk exists as the pandemic shows few signs of abating and tourism and travel remains seriously constrained.

Recent developments

The Government responded rapidly to the pandemic, both in terms of an effective health and control response, and in terms of a fiscal stimulus package to limit potential livelihood losses and increases in poverty. The sudden stop in tourism is the primary factor behind an expected decline in GDP of approximately 7.0 percent in 2020. The mitigation measures adopted under the Recovery & Stimulus Package should support household consumption, livelihoods, and jobs. However, poverty is expected to increase as tourism and economic activity contracts. The Government completed a new household budget survey in 2019 but has not yet published new poverty estimates. Based on the last available data from 2008, the poverty rate was 30.2 percent using the national poverty line of EC$5,523.

Through 2019, St. Vincent and the Grenadines (SVG) had continued to consolidate spending, achieve primary budget surpluses and record a declining debt trajectory. However, with public debt at 75.2 percent of GDP at end-2019 and forecast to reach 85.8 percent at end-2020, SVG remains at a high risk of debt distress. Inflation remains well-controlled and is forecast to remain at 2.0 percent or less over the medium term, in line with Eastern Caribbean Central Bank (ECCB) targets, the fixed exchange rate regime and currency board arrangements.

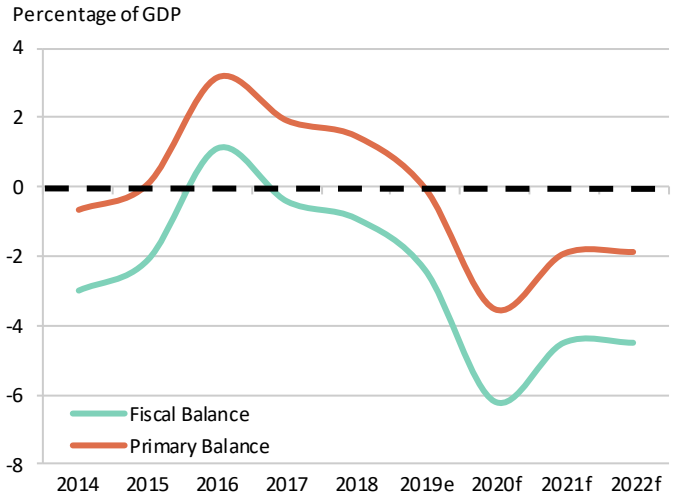
The COVID-19 pandemic has created fiscal pressures. The 2020 pre-COVID overall fiscal deficit was originally projected at 2.0 percent of GDP with a primary surplus. A 2020 overall deficit of 6.2 percent is now projected, driven by pandemic related expenses and lower revenues. Additional COVID-19 related public expenditures are estimated at EC$65 million and revenues losses at EC$10 million. With limited fiscal space to immediately reallocate current expenditures, contraction in the public investment portfolio accommodates to some extent the increased COVID-19 related expenditures, though the fiscal deficit widens. In addition, the planned public investment pipeline, particularly the port modernization project at a cost of 22 percent of GDP, presents a short-term fiscal challenge, but is expected to have medium-to longer-term growth, employment and trade efficiency benefits.

SVG has registered large but moderating current account deficits, primarily financed by FDI. Although it has declined since 2014, it is estimated at 17.5 percent of GDP in 2020 and has widened largely due to the fall in tourist receipts. Tourism receipts exceed 25 percent of GDP in a typical year. Remittances, at about 4 percent of GDP, also help finance the trade imbalance and appear to have been only marginally affected by the pandemic and global economic slowdown. Finally, net FDI typically totals around 12.5 percent of GDP, though given the small size of the economy it can fluctuate significantly.

Outlook

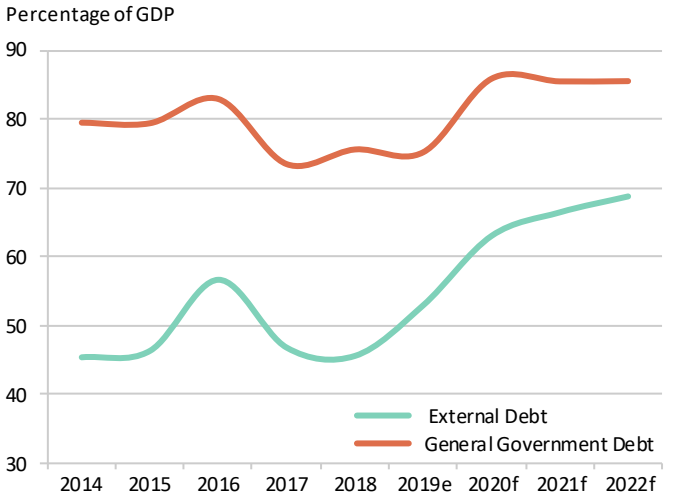
Real GDP growth in recent years had been driven largely by increased tourist arrivals,

FIGURE 1 St. Vincent and the Grenadines / Real GDP and fiscal balance



Sources: SVG Ministry of Finance (2020), World Bank staff estimates.

FIGURE 2 St. Vincent and the Grenadines / Public debt



Sources: SVG Ministry of Finance (2020), World Bank staff estimates.

facilitated by the new airport. The impact of COVID-19 will dampen growth forecasts significantly: GDP growth for 2020 is now forecast at -7.0 percent. Tourism revenue is expected to recover only slowly, depressing growth prospects into 2021 and 2022. Rehabilitation and construction of new port facilities planned over 2020-25 (US$185 million) could support growth in the medium term, as should new hotels and geothermal energy generation projects. Price pressures are expected to remain muted at less than 2.0 percent.

Furthermore, an increase in the unemployment rate is expected. Within the formal private sector, data from the National Insurance Services (NIS) indicate that 395 businesses (representing over 16 percent of total employers registered at NIS) have partially or completely shut down between March and June 2020. Over 3,000 claims have been filed with the NIS for employment benefits and Displacement Supplementary Income. This suggests that an additional six percent of the labor force is now unemployed. The Recovery & Stimulus Package offers workers, including those in the informal sector, Interim Assistance Benefits of EC$300 per month for three months. It is expected that those benefits will help mitigate the impacts on poverty.

Continued fiscal reform is necessary to build fiscal buffers and to ensure public debt returns to a downward trajectory. The government is taking steps to improve tax administration, foster resilience, strengthen SOE governance, and is exploring measures to reform the government workers' pension system. Balances in the contingency fund are growing, which bodes well for future fiscal resilience. Envisaged fiscal consolidation to accommodate the port investment is expected to lead to primary surpluses approaching 3.0 percent of GDP once the port modernization is completed and to facilitate a reduction in public debt levels. To accommodate the port investment, the non-port investment portfolio has been reprioritized and current expenditure and wage bill reductions are planned. This is supported by a recent Parliament-approved Fiscal Responsibility Resolution, which sets targets for the primary surplus, current expenditure growth and wage bill ceilings.

Risks and challenges

COVID-19 is impacting SVG through several channels, including: the sudden halt in tourism; lower FDI, as plans for several hotel/resort projects are reconsidered; and rising health care and social protection expenditures. Natural disasters remain a key risk and the authorities need to continue to strengthen fiscal and environmental resilience as implementing fiscal cushions would allow for the smoothing of domestic demand. The primary macro/fiscal challenge, in addition to the challenges posed by COVID-19, is the planned public investment pipeline, since sizeable public investments, such as the port project, can negatively impact fiscal and debt outcomes in the short term. Prudent fiscal management will be required over the short to medium term to maintain debt sustainability. An extreme weather shock combined with the impact of COVID-19 on tourism could push many of SVG citizens into extreme poverty. This may require an even larger expansion of the country's social protection system.

TABLE 2 St. Vincent and the Grenadines / 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	1.0	2.2	0.4	-7.0	3.7	3.0
Real GDP growth, at constant factor prices	1.0	2.2	0.4	-7.0	3.7	3.0
Agriculture	4.5	2.8	0.9	0.3	5.0	5.1
Industry	3.5	2.9	0.6	-2.8	4.0	3.0
Services	0.2	2.0	0.3	-8.6	3.5	2.8
Inflation (Consumer Price Index)	2.2	2.3	0.9	1.5	2.0	2.0
Current Account Balance (% of GDP)	-11.6	-12.0	-10.0	-17.5	-12.1	-12.7
Fiscal Balance (% of GDP)[a]	-0.4	-0.9	-2.4	-6.2	-4.5	-4.5
Debt (% of GDP)[a]	73.5	75.6	75.2	85.8	85.4	85.4
Primary Balance (% of GDP)[a]	1.9	1.5	0.0	-3.6	-2.0	-1.8

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

(a) Budget balances and public debt are for the central government.

SURINAME

Table 1	2019
Population, million	0.6
GDP, current US$ billion	3.7
GDP per capita, current US$	6525.6
School enrollment, primary (% gross)[a]	108.8
Life expectancy at birth, years[a]	71.6

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

The economic situation deteriorated rapidly as the pandemic exacerbates existing domestic weaknesses. The government has started to put together an adjustment program to deal with large macroeconomic imbalances including a long-awaited unification of the exchange rate. The discovery of offshore oil may enable consolidation of a stable medium-term growth outlook even though higher oil production will take several years. In the near term, the ability to obtain enough external finance and fiscal consolidation are critical for macroeconomic stabilization.

Recent developments

The macroeconomic situation in Suriname has deteriorated rapidly over the past few months as the effects of the global pandemic exacerbate existing domestic weaknesses. Large macroeconomic imbalances, as evidenced by high and increasing external and public finance deficits, were financed by rapidly increasing domestic and foreign borrowing as well as significant monetary financing in the run-up to the parliamentary elections on May 25, 2020. This led to a substantial increase in public debt and, more importantly, an urgent shortage of foreign exchange.

A new government assumed office mid-July and has started to put together an adjustment program to deal with debt sustainability issues and a balance-of-payments crisis. A long-awaited unification of the exchange rate took place mid-September when the Central Bank of Suriname announced a new fixed exchange rate at SDR 14.3/USD instead of the previous preferential rate at SDR 7.5/USD and a parallel market rate hovering around SDR14-16/USD.

Scarcity of foreign exchange at the preferential exchange rate led to increasing imports of goods and services being traded against the parallel market rate prior to the unification of the exchange rate. This resulted in an increase in consumer price inflation already even before the formal unification. Sharp price increases were observed in March and April and annual consumer price inflation increased to 40.0 percent in August compared to only 4.2 percent as recent as December 2019.

The government obtained a consent from international investors to reschedule a minor debt service payment that was missed end-June on a 3-year bond, issued in December 2019. Broader restructuring of external public debt may be needed in view of the high public debt burden and limited foreign exchange availability.

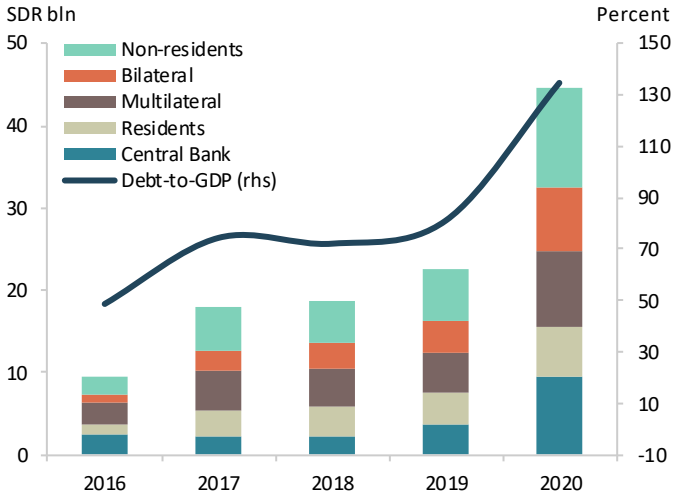
In September, the government announced a fiscal adjustment plan. In addition to the unification of the exchange rate, the plan includes several revenue-enhancing and expenditure-containment measures including a gradual reduction of energy subsidies, a temporary solidarity charge on the highest income tax brackets and, eventually, the introduction of a value added tax instead of the current turnover tax. To mitigate the impact on lower income households, the plan also includes an increase in the main transfers of the social safety net.

In 2017, 29 percent of the population lived in poverty (at the US$5.5 PPP per person per day poverty line). Growth in 2018 and 2019 is likely to have had positive impacts on poverty reduction.

Outlook

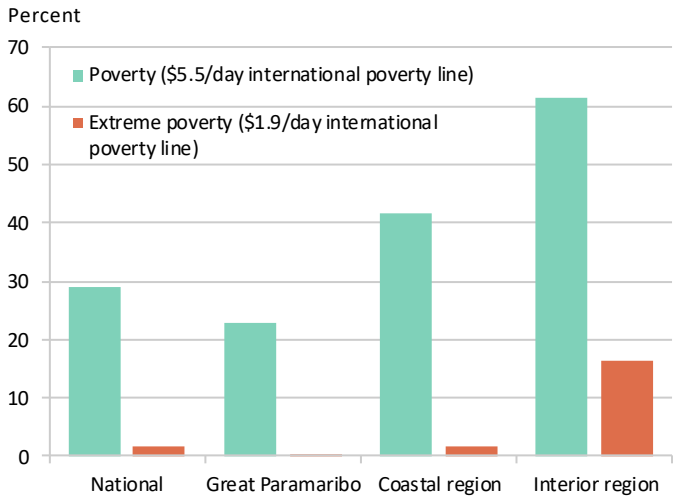
In addition to the impact of the COVID-19 pandemic, the much-needed macroeconomic stabilization is leading to a sharp contraction of output in 2020. Growth is projected to rebound modestly in the years thereafter contingent on the

FIGURE 1 Suriname / Public debt, 2016-2020



Sources: SDMO, CBVS, and Bank staff estimates.

FIGURE 2 Suriname / Consumption poverty rates 2016



Source: Suriname Survey of Living Conditions 2016/17.

government's ability to undertake gradual fiscal consolidation, to keep the increase of inflation as a result of recent currency devaluation in check, and to obtain sufficient external finance through a restructuring or refinancing of its external debt service obligations. Inflation will peak in 2020 due to the pass-through of currency devaluation to domestic consumer prices, though the severe contraction in domestic demand and a huge output gap should contain inflation pressures going forward. Reduced import demand and higher gold prices will reduce and contain the current account deficit.

With nearly three-quarters of public debt denominated in foreign currency, currency devaluation, continued deficit financing, and the contraction of GDP rapidly raises public debt as a share of GDP to nearly 140 percent in 2020. Fiscal consolidation, a modest rebound of GDP and a gradual stabilization of the exchange rate and domestic prices are anticipated to bring the public debt-to-GDP ratio nearer to 100 percent in 2022.

Suriname´s growth remains closely tied to mining and natural resource activity and its ability to attract foreign investment to develop its natural resources. Gold production increased significantly as of 2017 and foreign investment in the gold mining industry will further increase the volume of production. Prospects of oil production have improved following potentially large offshore oil discoveries announced early January by Apache Corporation and Total. The discoveries could support the economy and public finances even though it may take at least five years to bring the production on stream.

Poverty is expected to increase in 2020 due to the contraction of output, especially driven by the impact on the services sector, which employs more than half of the Surinamese poor. The sharp increase in inflation projected for 2020 and 2021 is also expected to have a negative impact on the most vulnerable. A resumption of growth in the medium-term is likely to mitigate and reduce part of the increased poverty.

Risks and challenges

The discovery of offshore oil may enable consolidation of a stable medium-term growth outlook. Even though oil production and the related fiscal revenue stream may be several years down the road, the discovery may ease the country's access to external finance. Looser global financial conditions may improve terms of access to external financing and make debt service less burdensome, thereby reducing pressures on the exchange rate.

In unifying the exchange rate, the authorities opted for a fixed exchange rate regime. Despite the much-needed devaluation of the previous preferential rate, the monetary authorities face a huge challenge to contain domestic price increases and further exchange rate pressures. The ability of the government to obtain enough external finance and reduce the public sector deficits are critical for the credibility of the stabilization program.

TABLE 2 Suriname / 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	1.8	2.6	0.3	-13.0	1.5	2.0
Real GDP growth, at constant factor prices	1.8	2.6	0.3	-13.0	1.5	2.0
Agriculture	12.1	-1.8	-2.0	-5.0	3.0	3.0
Industry	20.8	5.8	-2.4	-14.0	1.0	2.0
Services	-14.8	0.9	3.9	-14.7	1.4	1.6
Inflation (Consumer Price Index)	22.0	6.9	4.5	40.0	30.0	8.0
Current Account Balance (% of GDP)	1.9	-3.4	-11.2	-8.0	-6.2	-4.7
Net Foreign Direct Investment (% of GDP)	3.1	3.5	-0.5	1.5	1.7	1.4
Fiscal Balance (% of GDP)[a]	-9.3	-11.4	-9.0	-13.9	-8.8	-6.9
Debt (% of GDP)[a]	74.7	72.5	81.4	136.5	112.9	103.3
Primary Balance (% of GDP)[a]	-6.5	-7.9	-5.1	-10.2	-2.3	-1.7

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

(a) Budget balances and public debt are for the central government.

URUGUAY

Table 1	2019
Population, million	3.5
GDP, current US$ billion	53.4
GDP per capita, current US$	15336.4
International poverty rate ($1.9)[a]	0.1
Lower middle-income poverty rate ($3.2)[a]	0.4
Upper middle-income poverty rate ($5.5)[a]	3.0
Gini index[a]	39.7
School enrollment, primary (% gross)[b]	108.5
Life expectancy at birth, years[b]	77.8

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

Voluntary social distancing and extensive testing and tracing have so far been effective in controlling the pandemic, but the country could not avoid its first recession since 2002. The effects of deteriorating labor markets were mitigated by well-targeted social safety programs, coupled with emergency measures. Absent a COVID-19 flare-up or a new round of negative external developments, the economy is expected to recover swiftly, but the potential need to extend mitigation measures could clash with the ambitious fiscal consolidation targets.

Recent developments

The COVID-19 shock hit Uruguay at a time of decelerating growth. Real GDP growth was 0.2 percent in 2019, the lowest level recorded in 17 years. The pandemic affected exports in 2020Q1, which fell 12 percent (yoy), resulting in a second consecutive quarter with negative growth. In contrast to other countries in the region, the Government of Uruguay (GoU) appealed in March to voluntary social distancing and adopted extensive testing and tracing. This has so far been effective in containing the pandemic, and the economy is returning to a relatively normal functioning. GDP still took a hit in 2020Q2, mostly due to sectors sensitive to social distancing and a further fall in exports.

Labor markets were also deteriorating heading into the pandemic, with unemployment increasing from 8.3 percent in 2018 to 8.9 percent and employment falling from 57.2 to 56.7 percent in 2019. Poverty, however, remained stable at 3 percent (as measured by the international upper middle-income line). The COVID-19 shock worsened labor market conditions: unemployment claims went from an average of 12,000 per month in 2019, to an average of 76,000 in March-May 2020. The most affected sector was trade and retail, with 23 percent of total unemployment claims. Women have been disproportionately affected: 48 percent of people with unemployment insurance were women, up from 37 percent in April 2019.

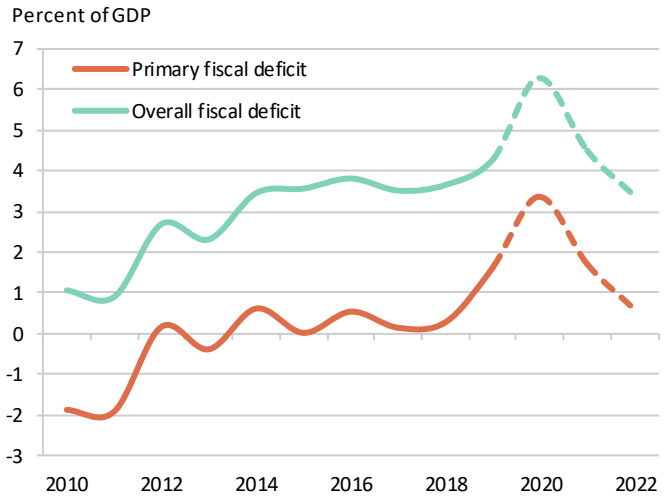
The current account deteriorated in 2020H1 due to the negative demand shock to exports and a more muted import response. The shock triggered an initial depreciation of the Peso - in line with the region - fueling inflation to a peak of 11.1 percent in May (yoy). The Peso has however appreciated since, partially offsetting the initial spike for an overall loss of 12 percent since the beginning of the year. Inflation is decelerating (9.8 percent in September, yoy), despite an emergency reduction in reserve requirements by the Central Bank to increase bank lending by US$330mn in the midst of the crisis. Inflation has remained above the 3-7 percent target range since May 2018.

The fiscal deficit deteriorated from 4.3 percent of GDP at end-2019 to 5.4 percent of GDP in July, due to lower revenues (-4.6 percent for the year in real terms), the endogenous response of the social safety net, and additional emergency measures to protect the vulnerable and provide liquidity. This added to the continuous deterioration of fiscal accounts since 2011, which put public debt onto an increasing trajectory. The GoU was however able to finance the fiscal costs of the pandemic in international credit markets, issuing US$2bn in in June at low rates, and with additional IFI financing.

Outlook

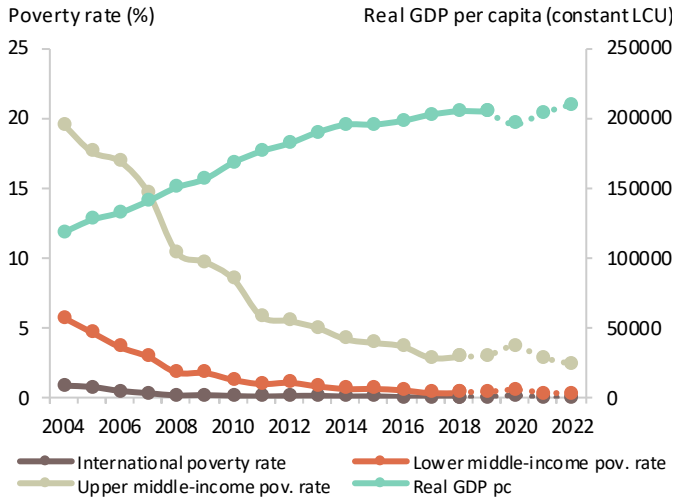
Even though GDP is expected to contract 4 percent in 2020 due to the pandemic, the ongoing recovery is anticipated to

FIGURE 1 **Uruguay** / Fiscal deficit



Source: Ministry of Economy and Finance.

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



Sources: World Bank. Notes: see table 2.

continue into 2021 based on a rebound in domestic absorption and external demand. The speed of the recovery will be closely related to external developments and the scarring effects of the COVID-19 shock in the domestic economy. Private investment is expected to play a leading role, as the US$3bn project for a new paper mill remains on track for implementation through 2022.

Poverty is expected to increase to 3.8 percent in 2020 mostly due to the consequences of COVID-19, although it was contained by the existing social protection system. High formality rates and a comprehensive unemployment insurance scheme - expanded to respond to the crisis – alleviated the impact on formal workers. In addition, the GoU announced a US$120 monthly tax credit per worker for a period of three months, for companies that hire or rehire employees. This was complemented by timely measures to mitigate the fall in incomes of informal workers and the poor.

The current account deficit is expected to deteriorate in 2020 to 1 percent of GDP, following an average 13 percent fall in exports that outweigh a 4.7 percent fall in imports. The deficit is expected to widen to 1.5 percent in 2021 despite a recovery of exports, as the bulk of import demand from the UPM pulp mill project is expected to kick-in, and add on to the growing demand for imported consumption goods.

Average inflation is expected to decelerate gradually from 9.5 percent in 2020 to 6.9 percent in 2022, in line with the anti-inflationary stance of the new Central Bank administration. The Central Bank shifted its policy instrument from monetary aggregates to the interest rate to improve transparency and better anchor inflation expectations. It announced a tighter policy stance once growth resumes and a lower inflation target range of 3-6 percent from September 2022.

The overall fiscal deficit is expected to increase to 6.3 percent this year, but the GoU is committed to curbing the deterioration of fiscal accounts to retain its investment grade status, as reflected in its multi-year budget. Fiscal consolidation going forward is expected to rely on the phase-out of emergency social spending and across-the-board expenditure cuts in the short term, and a pension reform in the longer term. The fiscal deficit is expected to fall by half in the forecast horizon.

Risks and challenges

There are substantial risks to the outlook related to the pandemic, both on domestic and external fronts. Domestically, a tightening of confinement measures in response to a potential flare-up in virus spread would send the economy back into recession, with fiscal accounts already strained and most exposed firms running out of buffers in an economy with limited credit access. UPM-related projects could be delayed in this context. On the external side, negative economic and public health developments in trading partner countries could hamper the expected rebound in exports. In addition, adverse financial conditions in international markets could put pressure on the exchange rate and inflation, increasing risks premia in the context of large public financing needs. Finally, high inflation would shift more people from the middle class to the vulnerable group and is a downside risk for poverty, as increases in food prices could disproportionately affect the most vulnerable, notably in a context of weak labor markets.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	2.6	1.6	0.2	-4.0	4.2	3.1
Private Consumption	4.6	1.5	0.5	-2.6	3.7	2.3
Government Consumption	-0.7	0.8	-0.5	3.4	0.7	-0.3
Gross Fixed Capital Investment	-15.8	-2.5	2.3	-1.2	6.4	5.6
Exports, Goods and Services	7.0	-4.9	1.2	-13.0	14.7	7.9
Imports, Goods and Services	0.5	-2.0	0.2	-4.7	11.8	5.6
Real GDP growth, at constant factor prices	2.1	2.0	0.2	-4.0	4.2	3.1
Agriculture	-5.7	6.0	-3.8	-1.5	4.0	3.1
Industry	-2.8	0.7	-0.5	-3.5	4.5	3.9
Services	4.8	2.0	0.9	-4.5	4.1	2.8
Inflation (Consumer Price Index)	6.2	7.6	7.9	9.5	8.0	6.9
Current Account Balance (% of GDP)	0.7	0.0	0.6	-1.0	-1.5	-1.2
Net Foreign Direct Investment (% of GDP)	2.4	4.8	5.2	5.9	5.4	5.3
Fiscal Balance (% of GDP)[a]	-3.5	-3.7	-4.3	-6.3	-4.5	-3.4
Debt (% of GDP)	60.7	60.1	62.3	71.5	72.1	71.6
Primary Balance (% of GDP)[a]	-0.1	-0.3	-1.6	-3.4	-1.7	-0.6
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.1	0.1	0.1	0.1	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.4	0.4	0.5	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	2.9	3.0	3.0	3.8	2.9	2.4

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

(a) Non-Financial Public Sector. Excluding revenues associated with the "cincuentones".

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

(c) Projection using point-to-point elasticity (2014-2018) with pass-through = 1based on GDP per capita in constant LCU.

Macro Poverty Outlook

10/
2020

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