East Asia and the Pacific

Macro Poverty Outlook

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

Annual Meetings 2021

WORLD BANK GROUP
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Poverty & Equity

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East Asia and the Pacific

Annual Meetings 2021

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Philippines
Solomon Islands
South Pacific Islands
Thailand
Timor-Leste
Vietnam

CAMBODIA

Table 1	2020
Population, million	16.7
GDP, current US$ billion	25.5
GDP per capita, current US$	1526.9
School enrollment, primary (% gross)[a]	106.5
Life expectancy at birth, years[a]	69.8
Total GHG Emissions (mtCO2e)	68.8

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent WDI value (2019).

Cambodia is experiencing a resurgence of COVID-19 cases which has slowed the recovery, especially of the service, construction, and real estate sectors. The growth projection for 2021 is now revised down to 2.2 percent, despite strong export performance supported by improved external demand conditions. Cambodia's outlook remains highly uncertain and risks are tilted to the downside. Despite accelerated vaccination progress, risks of a protracted outbreak and further disruption remain high, given continued high numbers of infections and deaths.

Key conditions and challenges

Cambodia is experiencing a resurgence of COVID-19 cases, caused by the more transmissible Delta variant. Infections and deaths have risen quickly. The outbreak which has lingered since the second quarter of 2021 has slowed the recovery, especially of the service, construction, and real estate sectors. The important travel and tourism sector, which was estimated to have provided about 2 million jobs and contributed a quarter of GDP during the pre-pandemic period has virtually collapsed. Job losses have been magnified by an increased number of migrant workers who have returned home from abroad.

According to a High Frequency Phone Survey of Households, employment and income had not recovered to their pre-pandemic levels even before the recent COVID-19 resurgence. About 69 percent of households' main earners were employed in March 2021, 13 percentage points lower than the level before the pandemic. About 45 percent of households continued to experience income losses in March 2021. Disruptions to economic activities due to stringent measures to curb the outbreak have led to job losses or decreased working hours, in turn reducing household incomes. School closures have disrupted education since late March 2021, especially for poor students who have limited access to digital technologies.

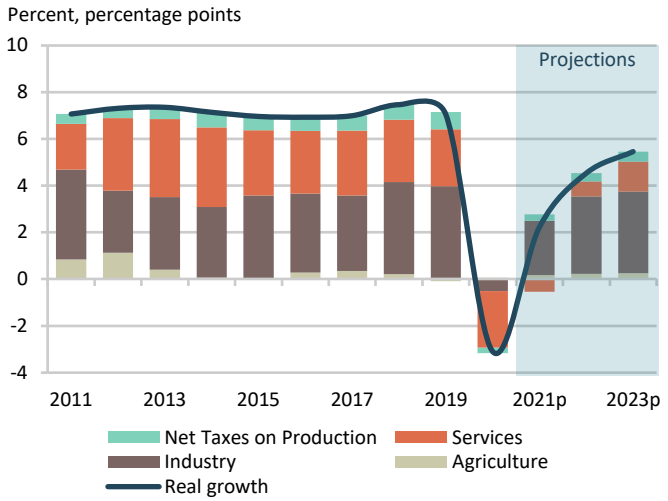
Risks are tilted to the downside and Cambodia's outlook remains highly uncertain. Despite accelerated vaccination progress, risks of further disruptions remain high, given continued high numbers of infections and deaths. In addition, high credit growth and concentration of domestic credit in the construction and real estate sector remains a key risk to Cambodia's financial stability.

Recent developments

Thanks to improved external demand conditions, merchandise (excluding gold) exports have strengthened further, expanding at 17 percent y/y during the first seven months of 2021 (figure 2), driven partly by a recovery of garment, footwear, and travel goods (GFT) exports which account for 63.1 percent of total exports. The United States remains the largest exports market, capturing 42.3 percent of Cambodia's total GFT exports. The trade deficit has widened, largely caused by rising imports of a few major items (fabric used as inputs for garment production and exports, gold used as a hedge against volatility, and petroleum products), resulting in a widening of the current account deficit (table 2), which was partly affected by a decline in services (travel and tourism) exports.

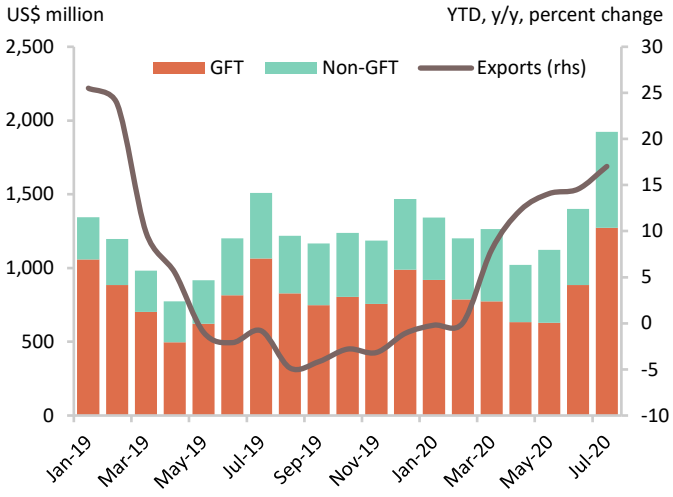
While remaining subdued, inflation has edged up, reaching 3.3 percent y/y in July 2021, compared to 3.1 percent at the end of 2019. Nominal exchange rate was broadly stable, hovering around riel 4,100

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



Sources: Cambodian authorities and World Bank staff projections.
Note: p = projection.

FIGURE 2 Cambodia / Cambodia's merchandise (excluding gold) exports



Source: Cambodian authorities.
Notes: GFT = garment, footwear, and travel goods; and rhs = right-hand scale.

per U.S. dollar during the first half of 2021. Gross international reserves declined marginally to US$20.7 billion (9 months of imports) in May 2021, down from US$21.2 billion at the end of 2020.

Monetary conditions remained accommodative. Broad money growth recovered, reaching its pre-pandemic growth rate of 18.1 percent y/y in May 2021, up from 15.3 percent in December 2020. Thanks to improved confidence in the banking system and continued capital inflows, deposit growth outpaced its pre-pandemic growth rate, increasing at 18 percent y/y in May 2021. Domestic credit grew at 19.1 percent y/y in May 2021, compared to 27.0 percent in December 2019.

The outbreak has hit Cambodia's fiscal revenues which primarily rely on construction and tourism. Slower revenue collection, along with the increased response program has resulted in a widening fiscal financing gap. The fiscal deficit is projected to widen to 6.5 percent of GDP in 2021. The government has adopted additional fiscal support, projected to increase to 5.4 percent of GDP in 2021, up from 3.3 percent of GDP in 2020, driven mainly by spending on COVID-19 prevention and treatment which accounts for 2.9 percent of GDP in 2021. Government deposits (fiscal reserves) eased, declining to 21.3 percent of GDP in May 2021, down from 24.1 percent of GDP at the end of 2020.

The authorities have extended the COVID-19 cash transfer program to September 2021 and introduced additional assistance, but the coverage may not fully mitigate negative impacts. The COVID -19 relief cash transfer program has thus far mitigated some of the negative impacts for the poor and vulnerable households, but its coverage remains relatively narrow, reaching only approximately 18 percent of households. In addition, the government has launched the one-off social assistance cash transfer for post-lockdown to support non-IDPoor households that had member(s) die from or infected with COVID-19 and having livelihood difficulties. As of August 2021, about 121,397 eligible non-IDPoor households countrywide had received government support.

While relying on social distancing measures to quell the current outbreak, the government has also stepped up its vaccination effort. As of end-August 2021, 8.5 million population aged 18 and above (representing 85 percent of Cambodian population in this age group) received two doses. Cambodia has begun vaccinating the population aged between 12 and 17, while administering third doses of COVID-19 vaccine.

Outlook

Economic growth is now expected to be 2.2 percent this year, a downward revision from the April 2021 Macroeconomic Poverty Outlook projection of 4.0 percent. While agriculture remains resilient and goods exports have recovered, supported by improved external demand conditions, other major growth drivers, namely tourism, construction and real estate continue to be hit hard by the pandemic. Investment, however, remains resilient. The slower economic recovery and the adoption of food consumption reduction as the main risk coping strategy will undermine the ability to recover from the pandemic which could reverse several years of progress against poverty reduction in Cambodia.

To accelerate the economic recovery and boost job creation, it is crucial that Cambodia takes necessary steps to strengthen external competitiveness to spur production and exports, taking advantage of the new investment law and Cambodia-China Free Trade Agreement. Specifically, addressing supply side bottlenecks by reducing costs of doing business, logistic, and energy, while eliminating rigidities in major employment-related regulations that prevent a robust recovery of the job market.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	7.5	7.1	-3.1	2.2	4.5	5.5
Private Consumption	3.0	7.0	-0.8	1.3	1.4	1.8
Government Consumption	5.1	10.0	12.5	-29.4	13.4	4.9
Gross Fixed Capital Investment	6.1	6.9	11.2	10.5	13.7	10.4
Exports, Goods and Services	5.3	7.8	1.1	14.9	13.5	13.2
Imports, Goods and Services	4.1	6.0	7.3	21.7	12.0	10.7
Real GDP growth, at constant factor prices	7.4	6.8	-3.1	2.1	4.5	5.4
Agriculture	1.1	-0.5	0.4	1.0	1.3	1.5
Industry	11.6	11.3	-1.4	6.2	8.5	8.7
Services	6.8	6.2	-6.2	-1.5	1.8	3.6
Inflation (Consumer Price Index)	3.1	3.2	2.9	3.2	3.5	3.7
Current Account Balance (% of GDP)	-8.9	-9.7	-9.9	-18.1	-12.6	-11.6
Net Foreign Direct Investment (% of GDP)	12.6	13.2	13.7	12.8	13.4	12.4
Fiscal Balance (% of GDP)	0.4	1.5	-4.7	-6.5	-4.9	-3.8
Debt (% of GDP)	28.3	28.1	36.4	36.4	35.2	34.1
Primary Balance (% of GDP)	0.8	1.9	-4.1	-6.0	-4.4	-3.2
GHG emissions growth (mtCO2e)	-2.3	-0.9	0.4	0.8	1.5	2.1
Energy related GHG emissions (% of total)	20.5	20.6	21.7	23.5	24.9	26.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

CENTRAL PACIFIC ISLANDS

Table 1	2020
Population, million	
Kiribati	0.12
Nauru	0.01
Tuvalu	0.01
GDP, US$, billion	
Kiribati	0.19
Nauru	0.11
Tuvalu	0.05
GDP per capita, current US$	
Kiribati	1671
Nauru	8867
Tuvalu	4713

Sources: WDI, World Bank staff estimates.

Kiribati's economy is estimated to have contracted by 2 percent in 2020, while Nauru and Tuvalu avoided a recession with about 1 percent growth. Looking forward, Kiribati faces fiscal sustainability challenges from rising public spending, while Nauru and Tuvalu will need to adjust to projected sharp declines in public revenues. All three Central Pacific countries face long-run challenges to growth and poverty reduction from their narrow economic base and vulnerability to climate change.

Key conditions and challenges

The Central Pacific countries have been spared from severe impacts due to the pandemic. Strict border controls have kept the three countries COVID-free and largely avoided the need for lockdowns, while the small size of the tourism sector has meant that the economic impact has not been as severe as elsewhere in the region. However, the Central Pacific faces major long-run challenges due to extreme vulnerability to climate change, small size, remoteness, heavily reliance on external grants, near-total dependence on imports for foods and fuel, and limited sources of revenue. All three countries have invested in trust funds in order to stabilize volatile revenues and provide long-term development financing.

Kiribati experienced a fourfold increase in public revenues from the fishing sector in the past decade, and now receives fishing license revenues worth 66 percent of GDP on average per year. These new revenues present an unprecedented opportunity to address the country's severe infrastructure deficit, promote climate resilience and reduce poverty. 21.9 percent of the population in Kiribati were poor in 2019/20 compared to national standards of living, and high shares of the population were deprived of non-monetary needs, such as access to clean water, sanitation, and electricity. Recurrent spending has grown rapidly to match the new fishing revenues, and with the available fiscal space now exhausted, Kiribati will need to increase the quality of spending in order to achieve further development gains and poverty reduction.

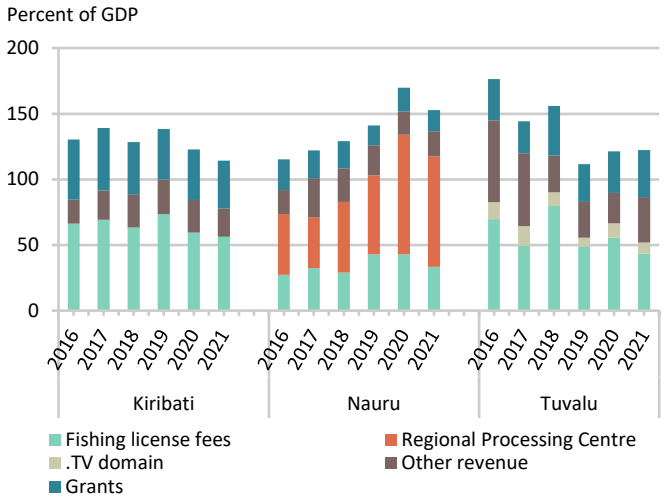
Nauru is also undergoing a significant economic transition. Economic growth and public revenues have been highly dependent on activity associated with Australia's Regional Processing Centre (RPC) for asylum-seekers, phosphate mining and fishing. However, phosphate resources have now been fully exploited, and the RPC is also expected to wind down by December 2021. Nauru now faces the challenge of adjusting to reduced fiscal revenues and finding new sources of economic growth over the medium term.

In Tuvalu, fishing license fees are projected to decline as the El Nino cycle wanes. Strengthening public financial management is a priority, in particular reining in the elevated fiscal costs of overseas health care and improving procurement procedures to ensure more cost-effective capital spending. Though no recent data on poverty is available, in 2010 an estimated 26 percent of the population lived below the national poverty line.

Recent developments

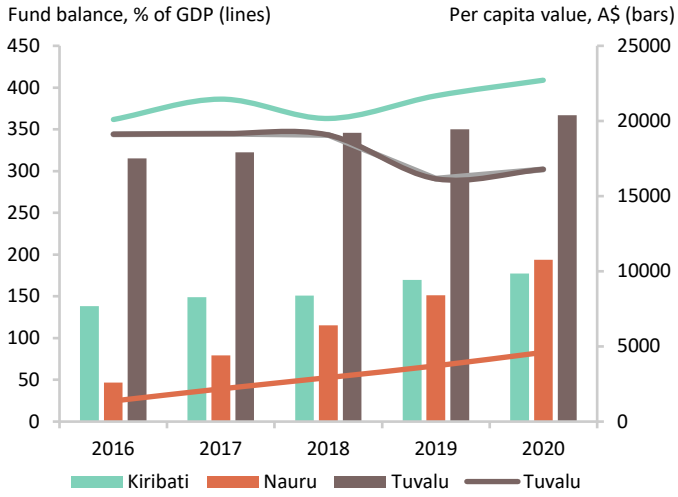
Kiribati's economy is expected to have contracted by about 2 percent in 2020, due mainly to the impact of border closures on donor-financed construction activity and fresh tuna exports, as well as lower public spending during a long election caretaker

FIGURE 1 Central Pacific Islands / Sources of revenue, 2016-2021



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

FIGURE 2 Central Pacific Islands / Sovereign wealth fund balances



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

period. Revised estimates suggest a fiscal surplus of around 3 percent of GDP in 2020, with total spending falling by 3 percent compared with 2019. Strong donor support limited additional spending needs for the COVID-19 response, and the elections meant that the implementation of new budget initiatives was delayed until the final quarter. There was a major shift in expenditure composition during 2020, with lower capital spending being offset by a more than 20 percent increase in recurrent spending on social benefits. This included a new unemployment benefit (unrelated to the pandemic) and an expansion of the old age pension. The new benefits are expected to help reduce poverty given that more than three quarters of Kiribati's adult population are eligible to receive support, but the broad coverage of the program dilutes the benefits to the Bottom 40. As of end-2020, the value of the sovereign wealth fund stood at 409 percent of GDP.

In Nauru, growth is projected to have reached 1.6 percent in FY21, due to stronger than expected activity related to the RPC and a major port redevelopment project. In FY21, the fiscal response to COVID-19 amounted to 5 percent of GDP, including funding for the vaccine rollout and subsidies to maintain vital air and sea freight links. However, with better-than-expected revenues from the RPC, Nauru was still able to achieve an estimated fiscal surplus of 11 percent of GDP in FY21. With this surplus and a drawdown on cash reserves, Nauru made a contribution worth 19 percent of GDP to its Intergenerational Trust Fund in FY21, bringing the fund balance to 109 percent of GDP.

In Tuvalu, the pandemic impacted travel and trade but the country avoided a recession. The economy grew an estimated 1 percent in 2020, down from the high rates of growth seen in recent years due to infrastructure project activity. The Government implemented a COVID response package equivalent to 30 percent of GDP to provide social protection, facilitate health care needs and support economic growth. Buoyant fishing license revenues, the country's main source of revenue, rose to an estimated 56 percent of GDP in 2020, much higher than expected. These revenues, together with budget support grants from development partners, equivalent to 32 percent of GDP, funded the response package and generated a fiscal surplus of 5 percent of GDP in 2020. As of end March 2021, the market value of the Tuvalu Trust Fund (TTF), an international donor trust fund, was equivalent to around 235 percent of GDP.

Outlook

With only about 7 percent of the Kiribati population fully vaccinated as of early September, the full reopening of borders is not expected till mid-2022. However, a bounce back in growth of around 3 percent is expected in 2021 despite the ongoing border closure, thanks to consumer demand from the new social benefits and a public sector pay rise. Over the medium term, there are significant risks to macroeconomic stability stemming from the fiscal sector. The 2021 budget includes new recurrent spending of 8 percent of GDP, with an additional 5 percent of GDP in new spending projected from 2022 onwards. The fiscal deficit is expected to reach over 15 percent of GDP in 2021 and will be financed with a drawdown from the sovereign wealth fund. If the deficit remains elevated in the coming years, Kiribati will quickly erode its available cash reserves and the sustainability of the sovereign wealth fund could also be put at risk.

Nauru's highly successful vaccination campaign, which has already seen the entire adult population fully vaccinated, is now facilitating the gradual return of international travel. Nonetheless, modest growth of only around 1 percent is expected over the medium term. The wind-down of the current RPC arrangements at the end of 2021 is expected to weigh heavily on the outlook and generate growing fiscal deficits. Staff project a balanced budget overall for FY22, but this is largely due to off-budget RPC income from previous years being recognized as revenues, cushioning the impact of the RPC wind-down. Growing outlays for state-owned enterprises pose a further downside risk to the fiscal outlook, including the risk of cost overruns for the state airline's loan-financed aircraft replacement program (worth 19 percent of GDP).

In Tuvalu, the vaccine rollout is nearly complete, and the easing of travel restrictions is expected by late 2021 in collaboration with key countries, such as Fiji (the main hub for Tuvalu). Growth is therefore forecast to rebound to 2.5 percent in 2021 and to climb steadily to 4 percent by 2024. A fiscal deficit of around 7 percent of GDP is expected in 2021 driven primarily by one-off expenditures related to the planned launch of a national airline and additional COVID-related spending. Fishing license fees are expected to fall by 18 percent in 2021 but revenues are expected to be sustained by grants and .tv domain license fees. The fiscal deficit is projected to contract to 2.9 percent of GDP in 2022 as expenditures fall back to pre-COVID levels. Similar to the other Central Pacific countries, risks to the outlook are substantial and include the unpredictability of the pandemic; volatility in revenue flows, including budget support from development partners; and the ever-present threat of climate-related natural disasters.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices						
Kiribati	3.8	3.9	-1.9	3.0	2.6	2.4
Nauru	5.7	1.0	0.7	1.6	0.9	0.8
Tuvalu	1.6	13.9	1.0	2.5	3.5	3.8

Sources: Country authorities and World Bank and IMF staff estimates.
Notes: f = forecast.
Nauru values correspond to their fiscal year ending June 30; Kiribati and Tuvalu are calendar years.

CHINA

Table 1	2020
Population, million	1410.9
GDP, current US$ billion	14722.7
GDP per capita, current US$	10435.0
International poverty rate ($ 1.9)[a]	0.5
Lower middle-income poverty rate ($ 3.2)[a]	5.4
Upper middle-income poverty rate ($ 5.5)[a]	23.9
Gini index[b]	38.5
School enrollment, primary (% gross)[c]	101.9
Life expectancy at birth, years[c]	76.9
Total GHG Emissions (mtCO2e)	12342.3

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent estimate (2016), based on grouped data.
(c) Most recent WDI value (2019).

Economic growth is projected to reach 8.5 percent in 2021, largely driven by base effects. Poverty is expected to return to the pre-COVID-19 trend amid improving labor market conditions. Near-term risks have shifted to the downside with the key risk being recurring outbreaks led by more transmissible COVID-19 variants which could lead to significant economic disruptions. Over the medium term, China's economy is facing structural headwinds given adverse demographics, tepid productivity growth, and the legacies of excessive borrowing and environmental pollution.

Key conditions and challenges

While China managed to quell the country's largest COVID-19 resurgence since the initial outbreak in Wuhan, the outbreak further delayed the recovery in consumption and service activities. Fresh COVID-19 flareups in southeastern Fujian province could risk more significant economic disruptions, despite efforts to suppress the spread of the virus.

With near-term risks clearly on the downside, the authorities will need to stay agile and proactively adjust the level and composition of macroeconomic policy support. While China recently reached its vaccination target of 70 percent of the population by 2021, continued progress toward achieving widespread immunization could lay a foundation for a gradual risk-based relaxation of remaining restrictions.

Over the medium term, China's economy is projected to experience a structural slowdown, putting breaks on achieving shared prosperity. Adverse demographics, tepid productivity growth, and the legacies of excessive borrowing and environmental pollution will continue to weigh on growth. Persistent policy uncertainty due to geopolitical and economic tensions could further exacerbate the ongoing structural slowdown and undermine growth prospects.

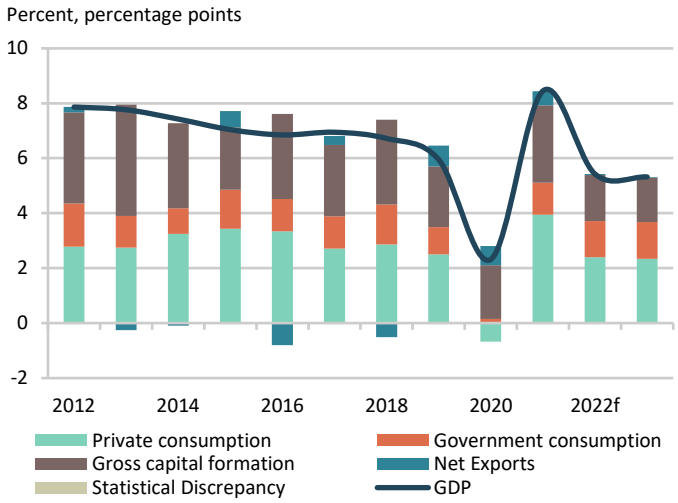
Recent developments

Economic activity in China continued to normalize in the first half of 2021. Real GDP growth moderated to 7.9 percent y/y in the second quarter from 18.3 percent y/y in the first quarter, as low base effects started to dissipate. On a sequential basis, GDP growth rose to 1.3 percent in the second quarter from 0.4 percent in the first quarter. Meanwhile, labor markets conditions continued to improve, and employment, including those of migrant workers, has fully returned to pre-COVID levels. Headline urban unemployment dropped to 5.0 percent by Q2 2021, the lowest rate since Q3 2019.

During the first half of 2021, both disposable income and household expenditure recovered strongly from the slowdown in 2020, particularly among rural households. Meanwhile, expenditure among urban households grew at a slower rate than incomes (2y/2y growth rates of 6.2 percent vis-à-vis 9.2 percent in the second quarter of 2021). While rural extreme poverty has been effectively eliminated, 16 percent of Chinese were expected to fall below the upper-middle income countries poverty line of $5.50/day per person (2011 PPP) by 2020, with a third of them residing in urban areas.

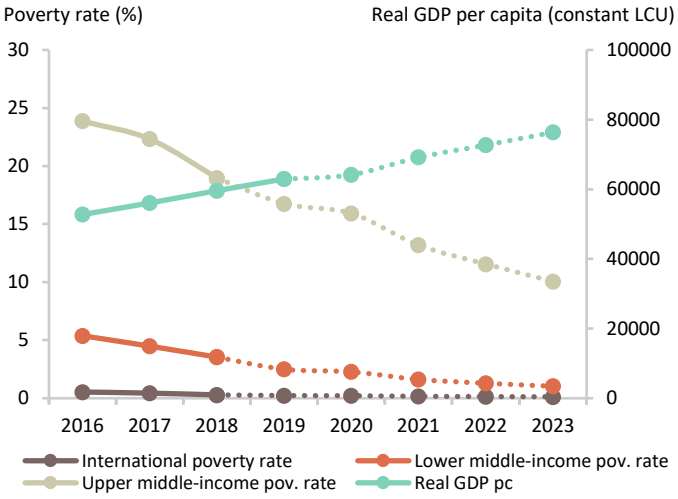
Economic activities have weakened during the third quarter of 2021 reflecting the lagged impact of policy and macroprudential tightening, heavy floods, and the Delta variant outbreak. Growth in both industrial production and fixed

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



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

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



Source: World Bank. Notes: see Table 2.

asset investment moderated. Retail sales, which have yet to return to the pre-pandemic trend, also decelerated in the third quarter. Meanwhile, export and import growth have remained robust and the surplus in the trade balance remains firmly positive.

The authorities have tightened fiscal policy while keeping monetary policy broadly flexible this year. Public investment in infrastructure has moderated further amid the government's control on local government financing vehicle (LGFV) risks and the slow pace of local government bond issuance. Credit growth has also moderated since end-2020 reflecting weaker growth in bank loans, softer bond financing and shrinking shadow bank activities. To ease liquidity amid weaker economic activity, the PBOC cut the reserve requirement ratio (RRR) by 50 basis points in July but has kept other key benchmark rates on hold for now 16 consecutive months.

Outlook

The baseline forecast envisions a rebound of growth to 8.5 percent in 2021, largely driven by base effects. Although lingering tighter restrictions and cautious sentiment due to the recent outbreak will weigh on the consumption recovery, its impact is expected to be partly offset by robust foreign demand and moderate policy support in the latter half of the year. On-budget spending and local government special bond issuances are expected to accelerate which should support infrastructure investment during the remainder of the year. GDP growth would stabilize slightly below its earlier trend rate by late 2022, as weaker global demand, the negative impact on activity from fiscal consolidation and deleveraging will weigh on growth and prevent it from returning to its pre-pandemic trajectory.

Given the projected economic growth for 2021, poverty reduction at $5.50 is expected to return to a pace similar to the one observed prior to COVID-19. Poverty is set to decline rapidly to 13.2 percent in 2021, representing 38 million fewer poor people than in 2020.

Risks to China's growth outlook are tilted towards the downside. The key downside risk relates to recurring widespread outbreaks driven by more transmissible variants leading to significant disruption in economic activity. Downside risks are further exacerbated by the ongoing wave of regularly tightening which could weigh on confidence in the short-run and stifle innovation and productivity growth over the medium-to-long run. In addition, the COVID-19 shock has brought to the fore weaknesses in corporate, bank and government balance sheets, posing risks to China's growth prospects.

With near-term risks tilted to the downside, the authorities will need to strike a balance between spurring economic activity and containing financial risk. Thanks to ample fiscal space at the central level and a current account surplus, China can provide more fiscal stimulus should downside risks to growth intensify.

The government recently highlighted achieving common prosperity as a key economic objective, reinforcing signals of a possible shift in policy priorities towards tackling income inequality. Over the medium term, policies to tackle high inequality through more progressive taxation and a strengthened social protection system will ensure lasting poverty reduction, a larger middle class and help boost private consumption as a driver of growth.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.7	6.0	2.3	8.5	5.4	5.3
Private Consumption	7.5	6.5	-1.7	10.6	6.3	6.1
Government Consumption	9.0	6.0	0.9	7.1	8.1	8.0
Gross Fixed Capital Investment	7.4	5.3	4.7	6.6	4.0	3.9
Exports, Goods and Services	4.0	2.2	1.8	11.2	3.1	3.1
Imports, Goods and Services	7.4	-1.7	-2.0	10.1	3.5	3.5
Real GDP growth, at constant factor prices	6.7	6.0	2.3	8.5	5.4	5.3
Agriculture	3.5	3.1	3.0	3.4	3.3	3.3
Industry	5.8	4.9	2.6	7.3	4.6	4.5
Services	8.0	7.2	2.1	10.1	6.3	6.2
Inflation (Consumer Price Index)	2.1	2.9	2.5	1.1	2.3	2.2
Current Account Balance (% of GDP)	0.2	0.7	1.9	1.8	1.3	0.8
Net Foreign Direct Investment (% of GDP)	0.7	0.4	0.7	0.7	0.9	0.9
Fiscal Balance (% of GDP)[a]	-3.3	-4.6	-8.9	-7.6	-7.0	-6.7
Debt (% of GDP)	36.5	38.5	45.4	49.3	53.6	57.4
Primary Balance (% of GDP)	-2.4	-3.6	-7.8	-6.4	-5.7	-5.3
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.3	0.2	0.2	0.2	0.1	0.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	3.5	2.5	2.3	1.6	1.3	1.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	19.0	16.8	15.9	13.2	11.5	10.1
GHG emissions growth (mtCO2e)	2.6	2.4	1.6	3.2	1.4	1.3
Energy related GHG emissions (% of total)	82.5	82.1	82.1	82.0	81.8	81.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

(a) The adjusted fiscal balance adds up the public finance budget, the government fund budget, the state capital management fund budget and the social security fund budget.
(b) Last grouped data available to calculate poverty is for 2018 provided by NBS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.
(c) Projections based on per capita GDP growth estimates, using a neutral distribution assumption with pass through 0.85 to per capita household consumption.

FIJI

Table 1	2020
Population, million	0.9
GDP, current US$ billion	4.6
GDP per capita, current US$	5111.1
International poverty rate ($ 19)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	7.5
Upper middle-income poverty rate ($5.5)[a]	35.8
School enrollment, primary (% gross)[b]	116.5
Life expectancy at birth, years[b]	67.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2013), 2011 PPPs.
(b) Most recent WDI value (2019).

Eighteen months after the onset of the pandemic, tourism, the life blood of the economy, is still at a virtual standstill, trade flows are disrupted, and business activities are curtailed. As a result, the economy is expected to contract by a further 4.1 percent in 2021. The impact on livelihoods is severe and exacerbated by the frequent severe tropical cyclones. Growth is projected to rebound in 2022 to 7.8 percent assuming that the borders will reopen by mid-2022.

Key conditions and challenges

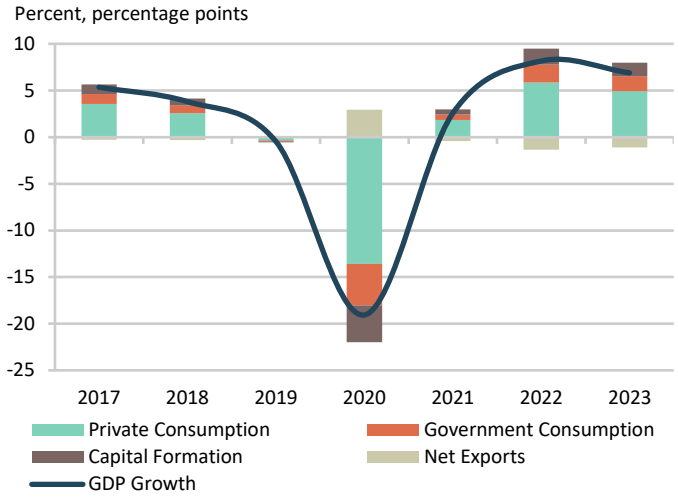
Fiji is a small island nation in the South Pacific Ocean with a population of about 900,000. Remoteness, natural hazards and climate change represent major obstacles to the country's development. Prior to COVID-19, tourism was the main driver of the economy and a major source of foreign exchange, contributing nearly 40 percent of GDP. Recent growth was underpinned by robust tourism, rising household consumption, and extensive reconstruction after Tropical Cyclone (TC) Winston in 2016, which caused damages of about 30 percent of GDP. Fiji's poverty rate measured against national standards of living was 29.9 percent in 2019/20, prior to the onset of COVID-19.

The Government's initial success in the fight against COVID-19 virus during the first wave of local transmission in March 2020 had largely prevented direct health impacts but the economic impact has been devastating. However, the second wave of infections since April 2021 is having a severe health impact while the lockdowns and restrictions are prolonging and deepening the economic crisis. Poverty has likely increased due to both the economic and health impacts of the past 18 months, not just for the 13 percent of people whose households depend on tourism income, but for the population overall. The Government is planning to vaccinate almost all of the adult population by October 2021 and reopen the borders by November 2021. However, protracted travel restrictions and uncertain economic outlook in Australia and New Zealand, Fiji's key tourism markets and trading partners, will slow the Fijian economy's pace of recovery. Natural disasters and related recovery costs have eroded fiscal space in the last five years, and undermined macroeconomic stability. The structural reform agenda includes building climate resilience and creating a more supportive environment for private-sector-led growth.

Recent developments

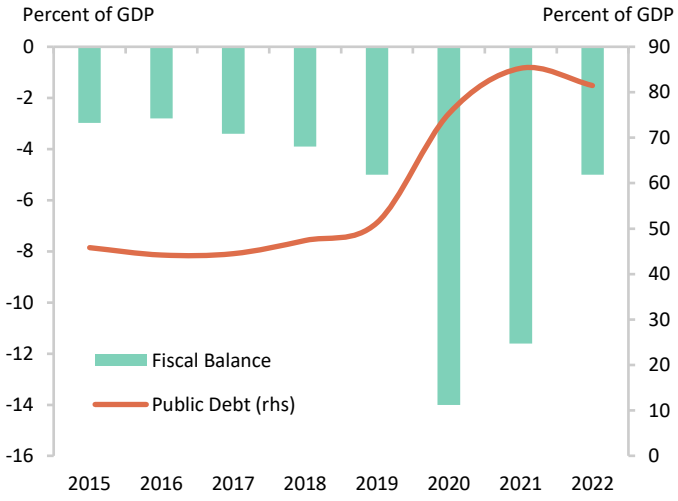
The COVID-19 pandemic presents Fiji with an economic crisis of unprecedented scale and an estimated contraction of 15.7 percent in 2020. International travel restrictions brought tourism to a virtual standstill. This caused a ripple effect on all segments of the economy, had a negative impact on related industries such as retail trade, transport and finance and spillover effect on consumption, finance and investment. Strict containment measures impaired economic activity, leading to 115,000 Fijians becoming unemployed or working on reduced hours. Fiji was also hit by three tropical storms since the beginning of the pandemic. The compound effect of lost livelihoods across sectors (tourism from COVID-19 and agriculture from the TCs) and asset damage from the multiple shocks exposes much of the population to increased poverty and vulnerability. The Government has introduced a

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



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

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



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

number of measures to mitigate these poverty impacts, including top-ups through existing social programs and the National Provident Fund.

The shocks depleted fiscal buffers and upended short-term fiscal policy goals. Prior to the shocks, tax revenue to GDP averaged 24 percent - and the Government was implementing an expenditure-based fiscal consolidation. The shocks reversed these trends pushing the fiscal deficit to 8.5 percent of GDP in 2020. Public debt increased from 47 percent of GDP in 2019 to 64 percent in 2020. The Central Bank cut the overnight policy rate from 0.50 to 0.25 percent in the first quarter of 2020 in response to the pandemic. Inflation has been negative since October 2019 and reached a historic low of -2.8 percent at end-December 2020 on account of lower food and fuel prices and the domestic slowdown. The current account deficit widened to 13.3 percent in 2020 due to an 80 percent drop in tourism receipts despite the narrowing trade deficit. Foreign reserves remained stable at US$2,410 million at end-August 2021, equivalent to 11.4 months of imports.

Outlook

Economic recovery hinges on reopening of international borders and renewed appetite for tourism. The economy is forecast to contract by a further 4.1 percent in 2021 on account of continued border closures particularly in Australia and New Zealand, Fiji's major trade partners and tourism markets. Growth is projected to rebound in 2022 to 7.8 percent assuming the borders reopen in mid-2022. The fiscal deficit is expected to widen to 13.8 percent of GDP in 2021 but to gradually decline thereafter to 4.4 percent of GDP by 2023, as the Government reverts to its fiscal consolidation strategy. The strategy combines targeted time-bound revenue and expenditure measures, and maximization of concessional financing to cover deficits.

The goal is to increase tax revenue from a projected 16.2 percent of GDP in FY2022 to 24 percent by FY2023 through widening of the tax base and implementation of more effective tax collection mechanisms. Over the same period, expenditures are projected to fall from 37.3 percent of GDP in FY2022 to around 31.1 percent of GDP by FY2023 though zero-based budgeting, freezing public sector hiring and wages, and limiting capital spending to high priority projects. The risk of debt distress has heightened with the debt-to-GDP ratio forecast to climb to 75.9 percent in 2021 reflecting borrowing to counter the impact of COVID-19 and the contraction in nominal GDP. Fiji's debt management policies remain prudent, and the authorities are committed to borrowing primarily on concessional terms. The most recent World Bank DSA (February 2021) assessed public debt to be sustainable over the medium-term assuming fiscal consolidation measures are fully implemented, growth resumes and tourism rebounds. The current account deficit is forecast to widen to 16.1 percent of GDP in 2021 due to the prolonged border closures halting tourism but to improve steadily to 4.1 percent of GDP by 2023 as international tourism receipts rebound.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.8	-0.4	-15.7	-4.1	7.8	6.9
Real GDP growth, at constant factor prices	2.7	0.5	-10.4	-3.0	8.4	7.2
Agriculture	3.7	4.4	2.8	1.4	4.2	3.8
Industry	5.5	-0.4	-6.5	-0.1	4.6	4.9
Services	1.7	0.2	-13.6	-4.7	10.5	8.6
Inflation (Consumer Price Index)	4.8	-0.9	-2.8	1.5	2.4	3.4
Current Account Balance (% of GDP)	-8.4	-12.6	-13.3	-16.1	-8.7	-4.1
Fiscal Balance (% of GDP)	-4.0	-4.3	-8.5	-13.8	-11.1	-4.4
Debt (% of GDP)[a]	42.8	46.5	64.0	75.9	80.9	81.0

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

(a) Ministry of Economy and World Bank staff estimates.

INDONESIA

Table 1	2020
Population, million	273.5
GDP, current US$ billion	1058.4
GDP per capita, current US$	3869.8
International poverty rate ($ 19)[a]	2.7
Lower middle-income poverty rate ($3.2)[a]	19.9
Upper middle-income poverty rate ($5.5)[a]	52.2
Gini index[a]	38.2
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2019), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

A surge in COVID cases in July-August has slowed a nascent economic rebound during Q2 2021. Although the COVID situation and vaccination are improving gradually, pandemic risks remain high. The authorities are maintaining a countercyclical fiscal and monetary policy stance to support the economy. Growth is projected to rebound to 3.7 percent in 2021 and 5.2 percent in 2022. International poverty rates are expected to decline, but at a slower pace. Risks to the outlook are tilted to the downside.

Key conditions and challenges

Indonesia's economy has diversified in past decades but suffers from weak competition, limited economic integration, human capital gaps, and under-developed financial markets.

Strong employment growth in the past decade was mostly in low productivity services. These sectors have been severely impacted by the COVID-19 crisis. They also host many informal workers that fall outside of the social assistance net. The impact of the pandemic on labor income is reversing some of the poverty reduction gains in the past decade.

The COVID-19 crisis heightens Indonesia's long-standing challenges of financing its development needs. Tax revenues, for instance, are low compared to peers at less than 11 percent of GDP over the past decade. Indonesia remains relatively dependent on portfolio and debt creating external flows.

Recent developments

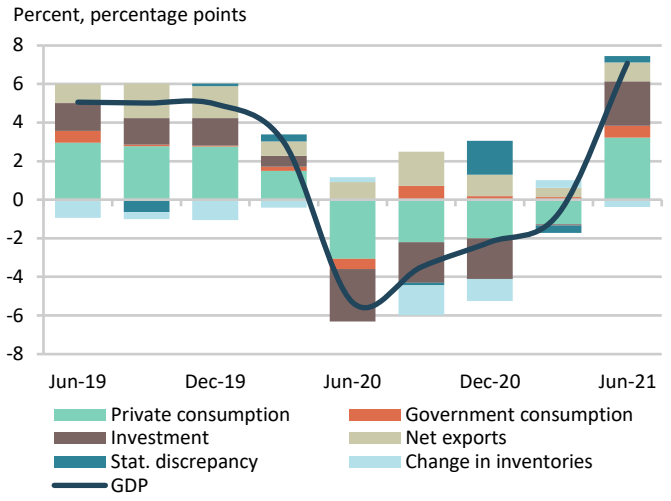
A surge in COVID cases in July-August driven by the Delta variant has slowed a nascent economic rebound. The economy expanded by 7.1 percent yoy during Q2 2021 after four quarters of recession. The expansion was driven by base effects and a pickup in domestic demand. With higher COVID cases and uncertainty in July-August, consumer sentiment and retail sales fell to some of their lowest levels during the pandemic. Manufacturing also contracted but appears less disrupted than in previous waves due to stronger external demand, commodity prices, and firm-level adjustments to health protocols.

The COVID situation is improving but pandemic risks remain high. Tighter mobility restrictions, improved patient treatment and accelerated vaccine rollout are helping flatten the curve. But the national vaccination rate is only 17 percent as of August 2021. Notwithstanding the national average, between 68 and 51 percent of the target population are fully vaccinated in the capital city Jakarta and tourism hub Bali.

The disruption in growth risks slowing improvements in the labor market and poverty. The unemployment rate dropped from 7.1 to 6.3 percent in August 2020-February 2021 as the labor force participation increased slightly. The poverty rate based on the national poverty line declined slightly to 10.1 percent in March 2021, after increasing from 9.2 to 10.2 percent in September 2019-2020.

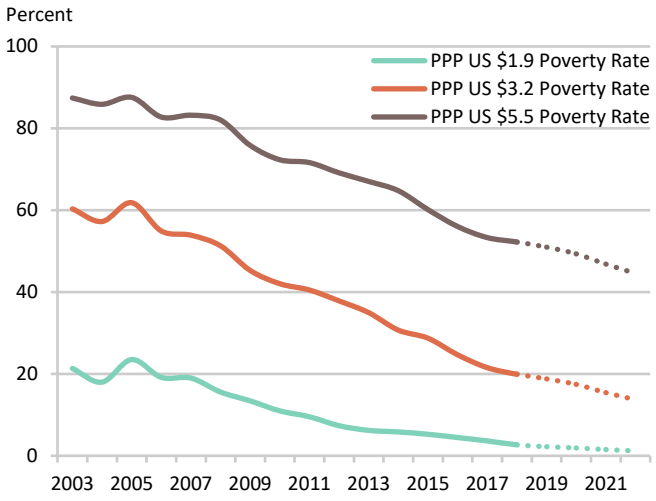
Fiscal and monetary authorities took several measures to support the economy. Bank Indonesia cut its benchmark interest rate by 150 basis points in February 2020-March 2021 to 3.5 percent, loosened macroprudential regulations, and helped finance the fiscal deficit. This policy stance was underpinned by large negative output gaps, low inflation (1.5 percent in H12021), and overall favorable external conditions. But credit growth has remained weak.

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



Sources: National Statistics Agency and World Bank.

FIGURE 2 Indonesia / International poverty rates expected to decline, but at much lower pace than pre-pandemic



Sources: National Statistics Agency and World Bank.
Note: Forecast is from 2021 onwards.

In July, the government increased the 2021 COVID fiscal package from 4.2 to 4.5 percent of GDP through budget reallocations. The additional spending is to improve patient treatment, and expand food assistance, cash transfers, and wage subsidies.

Tax revenue growth is limited by weak corporate and personal incomes while public spending remains strong. Government revenues reached 6.2 percent of GDP in January-July, higher than last year but still below pre-pandemic levels. With continued strong spending, the fiscal deficit narrowed slightly from 2.1 to 2.0 percent of GDP in 2020-2021. BI government bond purchases stood at 0.8 percent of GDP in January-July 2021.

Outlook

The economy is projected to rebound by 3.7 percent in 2021 driven by low base effects, improvements in consumer spending and investment, and stronger global growth and export commodity prices. Growth would slightly exceed 5 percent per year in 2022-23 assuming at least 70 percent of the targeted population in the economically largest regions is fully vaccinated by March 2022. Growth in contact-intensive services sectors is expected to remain muted while a stronger global economy would support growth in commodity and export-oriented manufacturing sectors.

Successful implementation of structural reforms is critical to mitigate potential COVID scars and improve medium-term prospects. The government is advancing structural reforms through the Omnibus Law on Job Creation, aimed at attracting more investment, and the draft General Tax Law, recently submitted to Parliament, which seeks to improve fiscal revenues by broadening the tax base.

External conditions are expected to improve in the near term with a narrowing current account deficit, improving FDI, and stable capital flows. The outlook assumes low inflation due to the large negative output gap. But external pressures could build up with monetary policy normalization in advanced economies.

The fiscal deficit is projected to narrow gradually to 3.0 percent of GDP in 2023 in line with government commitments. The BI budget financing has been extended until 2022 to meet the higher financing needs. Public debt is increasing but remains low relative to peers and the legal debt ceiling (60 percent of GDP). Higher interest payments could put pressure on fiscal space in the medium term absent revenue reforms.

The international poverty rate (based on US$3.2 per day threshold for lower-middle income countries) is projected to fall from 17.4 to 13.7 percent in 2021-2023. The pace of poverty reduction, according to the international poverty line, is expected to nearly halve between 2021-23 compared to the pre-COVID period whereby international poverty rate declined by 3 p.p. between 2015-19. Long-term efforts are crucial to reverse potential setbacks from lower human capital accumulation, asset depletion, and uneven economic recovery.

Risks to the outlook are tilted to the downside. Growth could reach only 2.0-3.3 percent in 2021-2022 in a downside scenario where the pandemic is not contained, and external conditions worsen. This could result from a slower than expected vaccine rollout and new COVID waves as well as sudden stops or reversals in capital flows.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.2	5.0	-2.1	3.7	5.2	5.1
Private Consumption	5.1	5.2	-2.7	3.7	5.2	5.1
Government Consumption	4.8	3.3	1.9	3.1	2.9	2.8
Gross Fixed Capital Investment	6.7	4.5	-4.9	4.0	5.5	5.4
Exports, Goods and Services	6.5	-0.9	-7.7	9.1	7.9	7.3
Imports, Goods and Services	12.1	-7.4	-14.7	9.0	8.0	7.6
Real GDP growth, at constant factor prices	4.9	5.0	-1.6	3.4	5.2	5.1
Agriculture	3.9	3.6	1.8	3.6	3.8	3.9
Industry	4.3	3.8	-2.8	5.2	4.3	4.4
Services	5.8	6.4	-1.4	1.8	6.4	6.0
Inflation (Consumer Price Index)	3.3	2.8	2.0	1.8	2.2	2.5
Current Account Balance (% of GDP)	-2.9	-2.7	-0.4	-0.8	-1.4	-1.6
Net Foreign Direct Investment (% of GDP)	1.2	1.8	1.3	1.4	1.5	1.7
Fiscal Balance (% of GDP)	-1.8	-2.2	-6.1	-5.6	-4.2	-3.0
Debt (% of GDP)	30.4	30.0	39.4	42.4	44.5	45.0
Primary Balance (% of GDP)	-0.1	-0.5	-4.1	-3.4	-2.1	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.6	2.7	2.3	1.9	1.5	1.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	21.6	19.9	18.8	17.4	15.5	13.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	53.3	52.2	51.0	49.3	46.8	44.5

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

(a) Calculations based on EAPPOV harmonization, using SUSENAS 2011-2020. Latest actual data: 2020. Forecast are from 2021to 2023.

(b) Projection using annualized elasticity (2011-2020) with pass-through = 1based on GDP per capita in constant LCU.

LAO PDR

Table 1	2020
Population, million	7.3
GDP, current US$ billion	18.1
GDP per capita, current US$	2479.5
National Official Poverty Rate[a]	18.3
International poverty rate ($1.9)[a]	10.0
Lower middle-income poverty rate ($3.2)[a]	37.4
Upper middle-income poverty rate ($5.5)[a]	38.8
School enrollment, primary (% gross)[b]	100.0
Life expectancy at birth, years[b]	67.9
Total GHG Emissions (mtCO2e)	39.8

Source: WDI, Macro Poverty Outlook, and official data.
(a) National Statistics Office. Most recent value (2018).
(b) Most recent WDI value (2019).

A new wave of COVID-19 cases is jeopardizing the economic recovery. GDP growth is forecast to reach 2.2 percent in 2021, as containment measures disrupt business activities. Income losses and rising inflation are negatively affecting living standards, while limited fiscal space has constrained the capacity to respond to shocks. Macroeconomic instability, fueled by a growing public debt burden, is also a key risk to the outlook. Structural reforms are needed to support a more inclusive growth pattern.

Key conditions and challenges

Over the past two decades, economic growth has been predominantly driven by large-scale investments in capital-intensive sectors – particularly mining and hydropower. However, these investments have failed to support sufficient job creation and have entailed considerable environmental costs. Moreover, public investment in the power sector has been mostly financed by external debt – often on commercial terms – gradually jeopardizing macroeconomic stability. The weak financial position of the power utility SOE compounds these concerns through its contingent liabilities. Meanwhile, revenue collection has been deteriorating – exacerbated by the pandemic. Despite reform efforts, fiscal and current account imbalances persist, partly due to growing public debt service. Coupled with limited reserve buffers, these imbalances are increasing depreciation pressures on the kip and widening the spread in the parallel market. Nonetheless, the country can leverage its strategic location and abundant natural capital to build back better. In order to sustainably accelerate economic growth, new greener and more inclusive sources of growth need to be found.

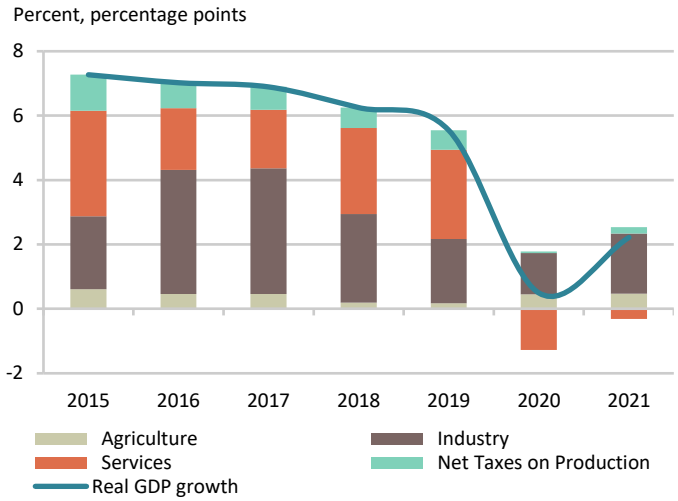
The COVID-19 pandemic and macroeconomic instability are the main risks to the outlook. A prolonged wave of COVID-19 infections will likely require extended containment measures to avert a significant loss of lives. These measures could then result in further job and livelihood losses, especially if not complemented by adequate policy responses to support households and businesses. In turn, this would amplify existing structural vulnerabilities. Low revenue collection, a growing debt service, heightened financial risks, and insufficient foreign exchange earnings will test the resilience of the economy.

Recent developments

Reported cases of COVID-19 increased in April-May 2021, triggering the implementation of strict containment measures. However, cases have risen considerably since July. Recent evidence of community transmission led the authorities to reintroduce some public health measures. While the vaccination rate has risen steadily – with 40 percent of adults fully vaccinated as of September 2021 – it remains significantly below the levels needed to avoid significant local outbreaks.

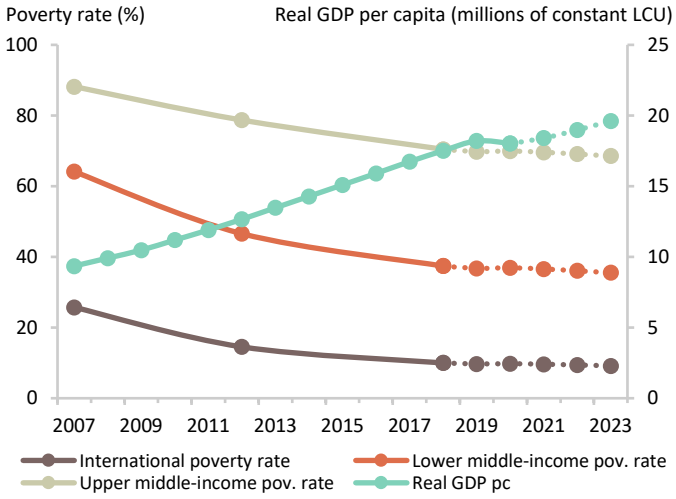
Fiscal revenue performance showed some signs of recovery in the first half of 2021, while public spending was broadly stable when compared to the same period in 2020. However, fiscal space remains limited, which restricts the ability to provide relief to affected businesses and households. Efforts to increase revenue collection and curtail non-essential spending are essential. Total public and publicly guaranteed (PPG) debt has reached critical levels – at about 72 percent of GDP in 2020. The share of non-concessional debt

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



Sources: Lao Statistics Bureau and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

has increased to almost 40 percent of total external PPG debt, with a considerable impact on debt service – due to higher interest rates and shorter maturities. Debt rescheduling has eased immediate debt service pressures, but further measures are required to secure debt sustainability.

Trade performance was relatively solid in January-July 2021. Merchandise exports grew by 38 percent, supported by agricultural and industrial output. Imports rose by 27 percent in the same period, driven by electrical machinery and equipment. Despite an improved merchandise trade performance, service exports lagged due to international travel restrictions. Current account imbalances remain a concern, partly owing to rising debt service payments and lower workers' remittances. Net foreign reserves are low, covering only 2 months of imports. High demand for foreign exchange – especially to service external debt – coupled with limited reserve buffers has contributed to widen the spread between the official and parallel exchange rates – currently at about 20 percent for the US dollar. This is the highest level on record.

A second and larger wave of COVID-19 cases has had a significant impact on employment levels. After rebounding to pre-pandemic levels in the first quarter of 2021, employment dropped by almost half in May 2021 amid lockdown measures. About 50 percent of households experienced a reduction in incomes when compared to the same period last year. Gradually increasing food prices are eroding consumer purchasing power, threatening food security – especially of the poor. Lower employment levels and rising consumer prices – partly owing to a weaker local currency – have weighed negatively on poverty reduction.

Outlook

GDP growth is projected to rebound to 2.2 percent in 2021, from 0.5 percent in 2020. This forecast has been revised downwards from the 4 percent growth projected in March 2021 due to the recent outbreak. The agriculture and industry sectors are expected to drive growth, supported by external demand – as key trading partners gradually recover. However, the sluggish recovery of services is expected to weigh on growth. The economy is expected to gradually recover in the medium-term, but growth will remain below pre-pandemic levels in 2022 reflecting the impact of both cyclical and structural factors on the economic outlook.

Total public external debt payments due are projected to average $1.3 billion a year over 2022-25, which is about half of expected domestic revenues. Hence, meeting debt service obligations will become increasingly challenging, and may lead to debt distress in the absence of significant debt restructuring and limits on new commercial borrowing. Financing options are limited, both domestically and abroad. Sovereign credit downgrades in 2020-21 and several unsuccessful attempts to issue bonds in international markets are a case in point. Foreign currency reserves are expected to remain inadequate in the absence of structural reforms to boost export performance.

Compared to a non-COVID-19 scenario, poverty is expected to increase by 2.5 percentage points in 2021 – as measured by the $3.2-a-day international poverty line. Extended lockdown measures may result in permanent job and livelihood losses, especially when response measures have been limited and do not target the most vulnerable population. Rising food prices further undermine recent achievements in poverty reduction.

The main risks to the outlook include a prolonged wave of COVID-19 cases, a deterioration of fiscal deficits and debt levels, growing current account imbalances, and a slower-than-projected recovery in key trading partners. It is key to accelerate COVID-19 vaccination rates to stem community transmission, and thus avoid the need for extended lockdown measures that undermine economic activity. Debt discussions with the largest creditors (namely, China) are vital to alleviate debt service pressures. Moreover, accelerating reforms in key state-owned enterprises – in the electricity, aviation and banking sectors – is crucial to reduce contingent liabilities and safeguard fiscal and debt sustainability. Improving bank surveillance is important to address financial sector vulnerabilities. An improved business environment and trade facilitation reforms would be key to enhance the benefits from better regional connectivity, such as the Lao-China railway.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	5.5	0.5	2.2	4.5	4.8
Real GDP growth, at constant factor prices	6.3	5.5	0.5	2.2	4.5	4.8
Agriculture	1.3	1.2	3.2	3.3	4.0	4.2
Industry	7.8	5.6	3.6	5.1	4.3	4.3
Services	6.8	7.0	-3.2	-0.8	4.8	5.6
Inflation (Consumer Price Index)	2.0	3.3	5.1	5.0	5.3	5.5
Current Account Balance (% of GDP)	-11.5	-7.7	-2.4	-4.0	-5.7	-6.0
Fiscal Balance (% of GDP)	-4.7	-3.2	-5.2	-4.7	-4.2	-3.8
Debt (% of GDP)	57.2	58.4	64.4	65.1	65.4	65.0
Primary Balance (% of GDP)	-3.0	-1.5	-3.5	-2.6	-2.2	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	10.0	9.7	9.8	9.7	9.5	9.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.4	36.8	36.9	36.8	36.3	35.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	70.4	69.8	70.0	69.8	69.3	68.8
GHG emissions growth (mtCO2e)	-0.4	2.7	0.2	1.3	2.4	2.6
Energy related GHG emissions (% of total)	47.6	48.5	48.2	48.5	49.3	50.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2012-LECS and 2018-LECS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.
(b) Projection using annualized elasticity (2012-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

MALAYSIA

Table 1	2020
Population, million	32.4
GDP, current US$ billion	335.7
GDP per capita, current US$	10361.1
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.3
Upper middle-income poverty rate ($5.5)[a]	2.9
Gini index[a]	41.1
School enrollment, primary (% gross)[b]	105.3
Life expectancy at birth, years[b]	76.2
Total GHG Emissions (mtCO2e)	392.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2019).

Malaysia is confronted with severe health and economic challenges. There has been a resurgence of COVID-19 cases, and the government has re-imposed strict movement restrictions. Businesses and vulnerable households have been negatively impacted. The World Bank projects the economy to grow by 3.3 percent in 2021, however recovery in employment and income tend to be disproportionate among the poor and vulnerable. While external demand may provide tailwinds for growth, ongoing movement restrictions are expected to weigh down on the economy.

Key conditions and challenges

Malaysia is currently facing challenges both on the health and economic front. There has been a dramatic resurgence of the COVID-19 pandemic. While it took almost one year to record the first 100,000 cases, the cumulative number of new cases between April and August 2021 amounted to more than 1.3 million. Similarly, the cumulative number of deaths exceeded 14,000 during this period.

The severity of the current wave has raised concerns regarding the overall capacity of the health system. Key containment measures, including mass testing and contact tracing, have not been effectively implemented.

To curb the spread of the pandemic and to ease the burden on the health system, the government has reimposed the movement control order (MCO), which saw most sectors of economy closed or operating in limited capacity from June 2021. The closure of most sectors has negatively impacted businesses, especially small firms and those operating in services-related sectors. On a more positive note, after a slow start, the pace of the vaccination program has picked up since June. As of 23rd September 2021, 58 percent of the population have been fully vaccinated. The government has gradually eased some of the movement restrictions in light of this development.

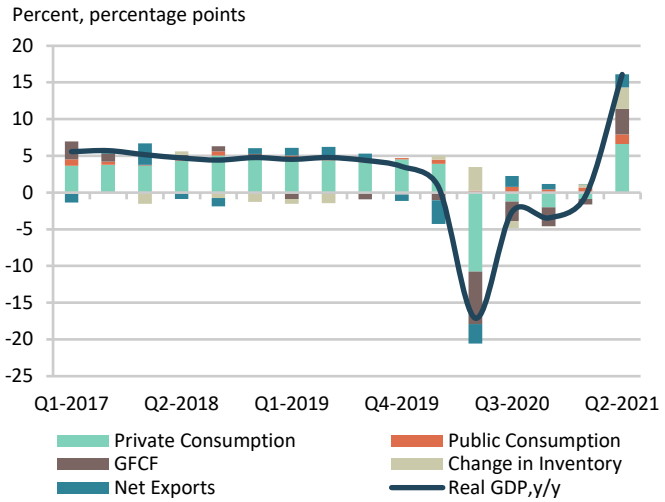
According to government statistics, the national poverty rate is estimated to have increased from 5.6 percent in 2019 to 8.4 percent in 2020. The largest increases were seen in less-developed states such as Kelantan, Terengganu, and Sabah. The pandemic and prolonged movement restrictions also led to an increase in unemployment and underemployment, disruptions in learning and unequal access to remote schooling, and rising mental health, especially among children and youth.

Recent developments

The economy grew at 16.1 percent in Q2 2021, supported mainly by the improvement in domestic demand and continued robust performance in exports. It also reflects the low base from the significant decline in economic activity in Q2 2020. However, on a quarterly basis, growth contracted by 2.0 percent (seasonally adjusted) following the reimposition of the MCO in May 2021. Headline inflation rose to 4.1 percent in Q2 2021 (Q1 2021: 0.5 percent), largely due to base effects from last year and lapse in the electricity tariff rebates. Meanwhile, core inflation remained stable at 0.7 percent during Q2 2021. The central bank expects the spike in inflation to be temporary, and it expects headline inflation to be between 2.0-3.0 percent in 2021. Despite cost pressures from global commodity prices and idiosyncratic supply disruptions, these pressures are assessed to be transitory.

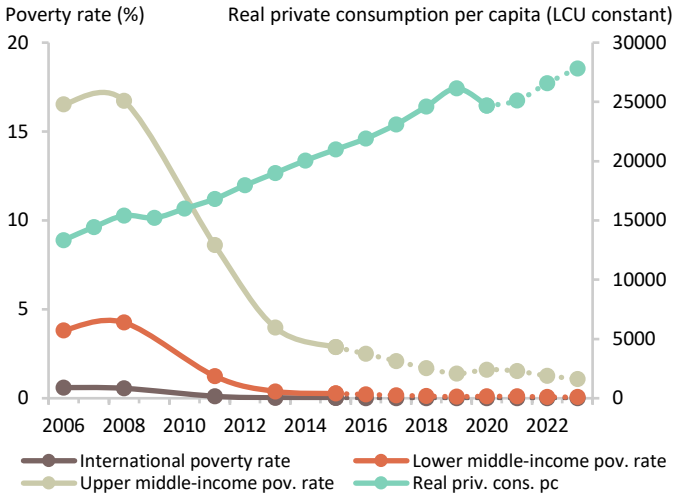
Monetary policy remained supportive of growth with the central bank keeping the overnight policy rate (OPR) at 1.75 percent

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



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

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



Source: World Bank. Notes: see Table 2.

in July. Domestic financial markets continued to be affected by concerns surrounding the global and domestic growth outlook following the rise in the spread of COVID-19. In the exchange rate market, the ringgit remains on a depreciating trend. As at end-August 2021, the ringgit has weakened 4.1 percent against the US dollar, in line with other regional currencies.

The government announced four stimulus packages this year amounting to about 15 percent of GDP, of which direct fiscal injection amounted to 2 percent of GDP. Partly reflecting the fiscal spending on the stimulus packages so far, the government revised its fiscal deficit target for 2021 from 6.0 percent of GDP to around 6.5 to 7.0 percent. The government is expected to announce its fiscal plan going forward when it presents its budget in Q4 2021.

Conditions in the labor market continue to remain soft. Although the unemployment rate has declined from its peak of 5.3 percent in May 2020, it remains elevated at 4.8 percent in June 2021. Preliminary findings from the World Bank COVID-19 household survey show that there was a churn in and out of employment, with 27 percent of working adults exiting and entering employment between March 2020 and April 2021. In addition, wage growth remains weak with private sector wages declining by 2.2 percent on a quarterly basis.

The survey also found that two-thirds of Malaysian households drew from their savings and more than half received government assistance to cope with crisis-related shocks. Yet, a significant share of lower-income households still did not receive any assistance, potentially due to exclusion errors. In contrast, many higher-income households reported receiving some form of assistance. This suggests scope for improvements in targeting and delivery of assistance to better reach those most in need.

Outlook

The economy is expected to grow at 3.3 percent in 2021. The latest projection is a downward revision by 1.2 percentage points since June 2021. The ongoing MCOs, increased precautionary behavior, and subdued labor market conditions are expected to weigh down further on private consumption and overall economic growth. This is especially so for services-related sectors, which have been heavily impacted by movement restrictions.

The external sector will continue to provide support to the economy, especially in the exports of electric and electronic (E&E) goods and medical rubber gloves. Nevertheless, the momentum is expected to moderate given the resurgence of COVID-19 cases in advanced economies and in China. The number of Malaysians living below the national poverty line of US$10/person/day (2011 PPP) is expected to decline gradually, and the poverty rate is expected to return to its pre-pandemic level by 2022. However, the pandemic has resulted in uneven employment and income shocks, particularly among low-skilled workers, informal workers, and those with lower income. The concern is that the recovery may also be uneven, with vulnerable population at risk of being affected disproportionately, posing a further threat to inequality.

The pace and trajectory of recovery going forward will depend on several factors namely, the pace of the national vaccination program and the effectiveness of pandemic containment measures. The positive progress of the vaccination program should alleviate the strain on healthcare system and would allow for the relaxation of containment measures. At the same time, it needs to be complemented with robust testing and tracing mechanisms to help minimize the risks of future resurgence.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	4.7	3.9	-5.6	3.3	5.8	4.5
Private Consumption	8.0	7.6	-4.3	3.0	7.2	5.9
Government Consumption	3.1	1.8	4.1	2.9	2.4	0.9
Gross Fixed Capital Investment	1.4	-2.2	-14.5	2.5	4.6	2.9
Exports, Goods and Services	1.8	-1.8	-8.8	12.8	4.5	4.4
Imports, Goods and Services	1.5	-2.5	-8.4	13.4	4.8	4.2
Real GDP growth, at constant factor prices	4.9	4.0	-5.6	3.3	5.8	4.5
Agriculture	0.1	1.9	-2.2	4.1	2.8	2.7
Industry	3.3	2.1	-6.1	6.2	3.6	3.6
Services	6.7	5.6	-5.7	1.2	7.7	5.3
Inflation (Consumer Price Index)	0.9	0.5	-1.3	2.1	2.1	1.5
Current Account Balance (% of GDP)	2.3	3.1	4.1	3.2	2.3	2.2
Net Foreign Direct Investment (% of GDP)	2.3	2.5	1.2	1.8	2.1	2.3
Fiscal Balance (% of GDP)	-3.8	-3.4	-6.2	-6.4	-5.0	-4.3
Debt (% of GDP)	51.2	52.8	62.5	65.1	66.2	66.5
Primary Balance (% of GDP)	-1.7	-1.2	-3.8	-4.5	-3.3	-2.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.1	0.1	0.1	0.1	0.1	0.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.7	1.4	1.6	1.5	1.3	1.1
GHG emissions growth (mtCO2e)	6.3	4.1	-2.8	6.6	5.2	4.3
Energy related GHG emissions (% of total)	59.6	60.7	60.4	61.7	63.1	64.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using annualized elasticity (2011-2015) with pass-through = 0.7 based on private consumption per capita in constant LCU.

MONGOLIA

Table 1	2020
Population, million	3.3
GDP, current US$ billion	13.3
GDP per capita, current US$	4030.3
National Official Poverty Rate[a]	28.4
Gini index[a]	32.7
School enrollment, primary (% gross)[b]	104.0
Life expectancy at birth, years[b]	69.9
Total GHG Emissions (mtCO2e)	59.0

Source: WDI, Macro Poverty Outlook, and official data.
(a) National Statistics Office. Most recent value (2018).
(b) WDI for School enrollment (2018); Life expectancy (2019).

Following last year's contraction, the Mongolian economy is expected to grow by 4.5 percent supported by the Government's stimulus packages, the global economic recovery, and a successful vaccine rollout. Near-term risks remain high as a new outbreak of the delta variant threatens the ongoing economic recovery. The immediate challenge is to contain the pandemic and secure the economic rebound, while decelerating quasi-fiscal support that could contribute to a further build-up of contingent liabilities, renewed external imbalances, and financial sector fragility.

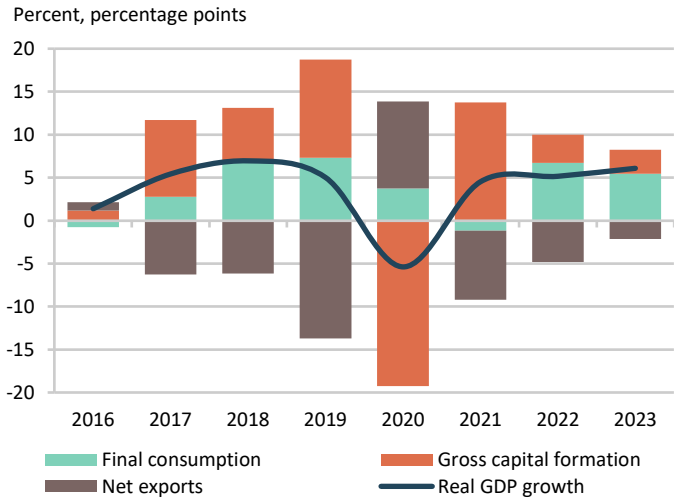
Key conditions and challenges

Prompted by the COVID-19 pandemic, the Mongolian economy contracted by 5.4 percent in 2020, its worst recession since the 1990s. To contain the health and economic crisis, the authorities implemented strict mobility restrictions, initiated the rollout of vaccines, and announced a follow-up recovery package (US$3.5 billion for 2021-23) in March 2021, complementing the ongoing fiscal and quasi-fiscal support to firms and households. While the rapid vaccination and generous stimulus have supported the economic rebound, the recovery remains fragile as containment measures in the wake of the recent outbreak continue to weigh on the services sector. Externally, the global economic recovery supported growth, however, border disruptions have dampened the recovery in exports of major commodities (e.g., coal) and imports of critical inputs for domestic firms. An immediate challenge for Mongolia is to contain the current outbreak while securing the economic rebound under a limited fiscal space. In the medium term, Mongolia faces structural challenges reflecting the over-reliance on natural capital, and underutilization of human capital due to its inability to create adequate well-paying jobs. Strengthening the quality of institutions and escaping the procyclicality trap will be critical to secure a sustainable and resilient structural transformation.

Recent developments

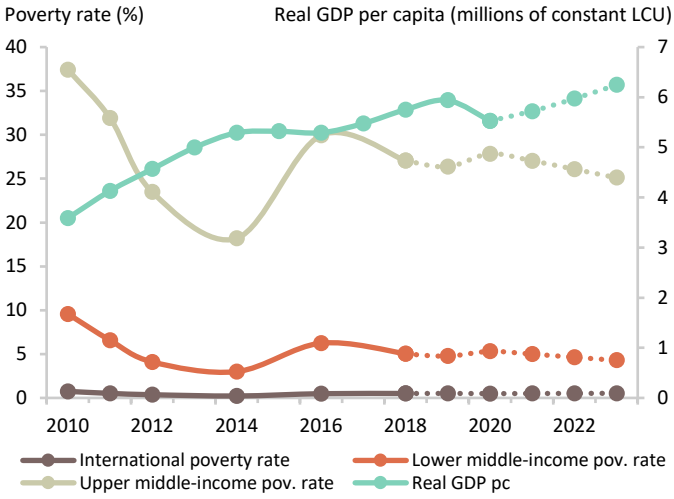
Mongolia's economic growth rebounded in the first half of 2021 to 6.1 percent (y/y) on the back of robust exports and a surge in private investment, mainly in the mining sector. In addition to a temporary improvement in the ore grade of a major mine, stronger Chinese demand for commodities and higher commodity prices were among the main factors supporting the mining-driven growth, especially during Q1 2021. The government's relief and stimulus measures during the pandemic translated into higher credit growth which in turn led to increased investment and supported domestic demand. The strong economic recovery lost steam in Q2 following mobility restrictions in May and temporary border closures. Moreover, the strong rebound observed in the mining, manufacturing, trade and other services sectors largely dissipated in Q2 due to disruptions in the supply of imported inputs and commodity exports. Despite government support, the employment rate dropped markedly in Q1 and private consumption contracted for the first time since 2016. This is mainly explained by the stagnation of household labor income amid the widespread impact of the pandemic on the labor market and elevated food prices, mainly due to sluggish agriculture output and disruption of food imports exacerbated by higher fuel prices. The June 2021 household survey revealed rising food insecurity among the poor, raising

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



Sources: National Statistics Office and World Bank.

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



Source: World Bank. Notes: see Table 2.

concerns of adverse coping strategies (e.g., increased household indebtedness) and long-term consequences on child nutrition and family health. Despite sizable spending from fiscal and quasi-fiscal sources, the budget deficit narrowed in H1 2021, reflecting the clearance of disputed tax arrears from Oyu Tolgoi (OT). Meanwhile, the external position improved slightly as of July 2021 helped by a larger surplus of the financial account (partly explained by base effects following a sizable private sector external debt repayment in 2020) which offset the widening current account deficit. The current account deficit deteriorated amid higher oil prices, rising imports, disruption in key commodities exports, and large repayments to foreign investors. The central bank has limited exchange rate flexibility by increasing FX intervention, mostly in the last three months. The financial sector benefitted from subsidized loans including the housing mortgage program, increased lending and improved liquidity as a result of the Government's stimulus package.

Outlook

Real GDP is projected to grow by 4.5 percent in 2021, supported by a rebound in exports and private sector investments on the back of improved FDI and subsidized loans. The government's recent decision to extend income support until end-2021 would further support domestic demand in 2021. Although the contribution of the mining sector is likely to decline in 2022 when temporary improvements in ore grade of the OT mine dissipate, growth would accelerate to about 5.6 percent in 2022-23 mainly driven by non-mining industries and services sectors, supported by the rapid implementation of the stimulus program, improved trade facilitation and digitalization. While the pandemic-induced household welfare loss might linger into 2021, the extension of the government income support would fully or partially offset income loss among poor households. Poverty is projected to slightly decline in 2021 but a full recovery to pre-pandemic levels will not be realized until 2022. While the economic recovery and clearance of tax arrears from OT would further narrow the fiscal deficit, the government debt ratio is projected to increase this year with the rising cost of the pandemic, before gradually declining on the back of an improving primary deficit. A key risk is containing the pandemic to avoid a further disruption in economic activity while decelerating quasi-fiscal support. Given limited fiscal room, further unchecked stimulus to support the economy runs the risk of heightened inflationary pressures, growing contingent liabilities, widening external imbalances, and increased financial sector fragility. Moreover, external buffers may deteriorate if the US$1.8 billion swap agreement between the Bank of Mongolia and People's Bank of China is not extended when it expires in 2023. Exchange rate flexibility could help cushion additional external shocks and thereby preserve the limited domestic policy room.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	7.0	5.0	-5.4	4.5	5.2	6.1
Private Consumption	12.4	9.9	2.7	-1.8	9.8	8.4
Government Consumption	-0.8	11.5	15.9	0.2	3.3	-0.3
Gross Fixed Capital Investment	21.3	23.5	-11.8	5.0	10.3	7.0
Exports, Goods and Services	24.0	9.1	-0.1	8.9	14.7	13.9
Imports, Goods and Services	30.9	22.3	-8.9	15.3	16.4	13.2
Real GDP growth, at constant factor prices	7.2	5.2	-5.3	4.5	5.2	6.1
Agriculture	4.5	8.4	6.2	4.3	4.9	5.0
Industry	7.9	3.1	-6.2	6.4	4.3	5.3
Services	7.5	5.9	-8.3	2.9	6.1	7.2
Inflation (Consumer Price Index)	6.8	7.3	3.7	6.6	7.5	7.0
Current Account Balance (% of GDP)	-16.8	-15.4	-4.3	-10.4	-11.9	-10.7
Net Foreign Direct Investment (% of GDP)	16.3	16.5	12.4	12.7	13.3	12.4
Fiscal Balance (% of GDP)	2.6	1.4	-9.5	-6.6	-3.4	-3.0
Debt (% of GDP)	72.7	69.2	78.4	82.5	82.7	72.4
Primary Balance (% of GDP)	5.8	3.6	-6.9	-4.4	-1.5	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.5	0.5	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.0	4.8	5.3	5.0	4.6	4.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	27.1	26.4	27.8	27.0	26.1	25.1
GHG emissions growth (mtCO2e)	3.2	5.7	0.1	-1.0	1.0	1.0
Energy related GHG emissions (% of total)	39.0	38.0	34.9	35.0	33.4	32.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2016-HSES and 2018-HSES.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Projection using annualized elasticity (2016-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

MYANMAR

Table 1	2020
Population, million	54.8
GDP, current US$ billion	62.7
GDP per capita, current US$	1144.2
Lower middle-income poverty rate ($3.2)[a]	15.0
Upper middle-income poverty rate ($5.5)[a]	54.3
School enrollment, primary (% gross)[b]	112.3
Life expectancy at birth, years[b]	67.1
Total GHG Emissions (mtCO2e)	245.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

The military takeover in February 2021 and a subsequent surge in COVID-19 cases have severely impacted Myanmar's economy, with GDP projected to fall by 18 percent in FY2021 and poverty expected to rise sharply. Economic activity has been heavily affected by reductions in mobility, incomes, and employment, ongoing security concerns, and the disruption of banking, transport, and telecommunications services. The deterioration in the business environment and the impacts of these dual shocks on human and physical capital accumulation are likely to undermine Myanmar's longer-term growth potential.

Key conditions and challenges

The rapid rise in COVID-19 cases in June and July 2021 has had severe public health impacts, while at the same time exacerbating many of the most damaging economic impacts of the February coup. Despite limited testing, reported case numbers peaked at over 5000 per day in the second half of July, and the test positivity rate rose to over a third, suggesting widespread community transmission. The capacity of the health system to provide treatment has been constrained by shortages of oxygen and other medical supplies, price increases, and a lack of medical personnel, in part due to participation in the Civil Disobedience Movement (CDM). Although case numbers and positivity rates have declined since July, stay-at-home directives and other restrictions have remained in place through August and September. Together with precautionary behavior and ongoing security concerns, these have constrained mobility and led to additional disruptions to businesses' operations and the supply of labor and inputs.

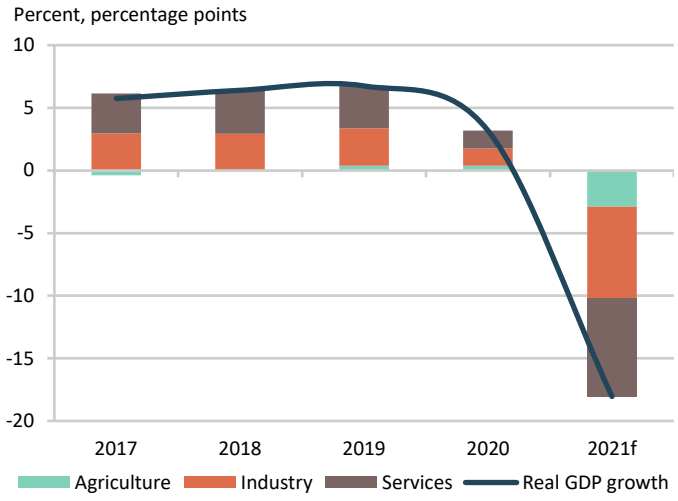
Financial sector disruptions and cash shortages have made it more difficult for businesses to access credit and pay employees and suppliers. Despite interventions from the Central Bank of Myanmar (CBM), including a resumption in the printing of kyat banknotes, physical currency remains in short supply and trust in the banking system has deteriorated. In response, informal systems have emerged to allow customers to withdraw bank deposits and make and receive payments. US dollars have also become increasingly difficult to access, due in part to increased precautionary demand for safer assets and a reduction in foreign financing. The CBM has sold US dollars into the market and deployed various other measures to manage the exchange rate and alleviate foreign currency shortages. Nevertheless, as of mid-September the official kyat reference rate had depreciated by around 24 percent against the US dollar since the end of January, and the spread between official and unofficial market rates has widened and become more volatile.

Tax and non-tax revenue collection have fallen due to the shrinking economic base and the CDM-related non-payment of taxes and electricity bills. With limited deficit financing options, the reduction in revenues will limit fiscal space for spending on critical public services, unless the government reverts to large-scale CBM financing which could undermine macroeconomic stability.

Recent developments

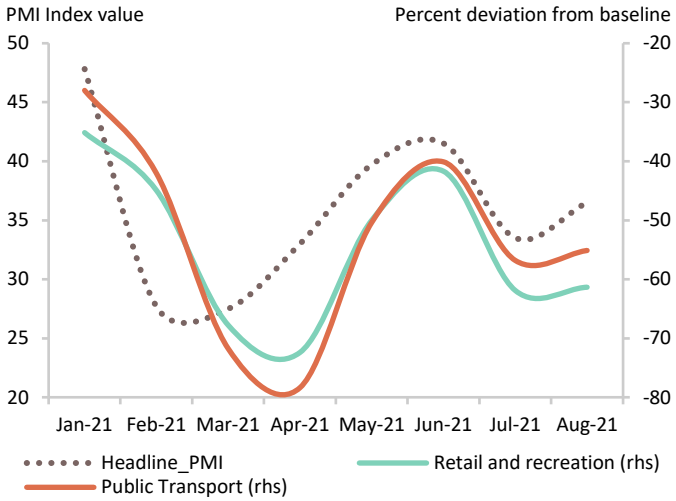
GDP is estimated to have fallen by 18 percent in FY2021, a sharp contrast to the 3.2 percent growth reported in FY2020. Despite some signs of improving conditions in May and June, overall economic activity has remained weak throughout the period since the February coup, and the

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



Sources: Ministry of Planning and Finance and World Bank staff estimates.

FIGURE 2 Myanmar / Manufacturing purchasing managers' index (PMI) / Mobility (month average)



Sources: Google COVID-19 Community Mobility Reports and IHS Markit.

third wave of COVID-19 has had severe additional economic impacts in the September quarter. Mobility to retail and recreation outlets and public transport venues had recovered to around 40 percent below pre-COVID baselines by the end of June, but subsequently dipped to around 70 percent below baseline levels in July. The manufacturing Purchasing Managers' Index (PMI) indicates that output, new orders and employment contracted for the twelfth consecutive month in August 2021, with the third wave of COVID-19 forcing factory closures and further weakening demand.

Logistics and trade constraints – including those associated with COVID-19 related land border closures – have restricted exports, and together with the exchange rate depreciation have raised the prices of imported inputs. Fuel prices are up by around two thirds since the end of January. But weaker demand, particularly for discretionary purchases, is likely to have partly offset these inflationary pressures. International trade has been disrupted, with exports and imports declining by 16 percent and 25 percent respectively in the first ten months of FY21, while FDI commitments have also fallen.

The economic consequences of these dual shocks – the military coup and COVID-19 – will be hugely damaging to livelihoods, which for many were already under severe strain. Many households are experiencing declines in income due to loss of employment or reduced work hours and wages, while the prices of some food staples and fuel have risen substantially. Even in October 2020, around half of all households had reported reducing their consumption in response to the second wave of COVID-19: with savings now drained even further, additional declines in household consumption are expected, with corresponding impacts on nutrition and food security.

Outlook

While the outlook remains extremely uncertain, the impacts of these dual shocks are likely to persist well into 2022, and any subsequent economic recovery is expected to be slow. Firm surveys indicate that private sector confidence is extremely weak. In a nationally representative survey of five hundred Myanmar firms conducted in June, only 57 percent were confident of remaining in business over the next month, and only 28 percent expected to recover to pre-coup levels by the end of the year. In the near-term, the outlook will depend on the evolution of COVID-19 cases and containment measures, the actions of the military authorities, developments in the political and security situation, and the responses of the private sector, external investors and trading partners.

Welfare impacts will be particularly severe. Increased poverty is anticipated as the labor market impacts of the shrinking economy channel through to households. The predicted poverty rates (based on international poverty lines) come with a high degree of uncertainty – if inequality were to rise, the rates could be considerably higher. Inflation and credit/liquidity constraints will further compound food security risks, particularly for the poor who rely on limited savings. Moreover, COVID-19 remains a significant health risk, with only around 5 percent of the population fully vaccinated as of early September, and treatment options still difficult to access. The compounded welfare challenges will likely result in Myanmar's poorest being forced into deeper destitution.

Over the longer term, recent events may also limit Myanmar's longer-term growth potential. Most indicators suggest that private investment has fallen markedly, and firms are devoting scarce resources to dealing with operating constraints and security concerns, reducing their productivity. Lost months of education due to school closures are also likely to have substantial longer-term impacts on human capital and productive capacity.

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

	2016	2017	2018	2019	2020 e	2021 f
Real GDP growth, at constant market prices	7.0	5.8	6.4	6.8	3.2	-18.0
Real GDP growth, at constant factor prices	7.0	5.8	6.4	6.8	3.2	-18.0
Agriculture	3.4	-1.5	0.1	1.6	1.7	-13.2
Industry	8.3	8.7	8.3	8.4	3.8	-20.2
Services	8.4	8.1	8.7	8.3	3.4	-18.7
Inflation (Consumer Price Index)	10.0	4.7	5.9	8.5	5.8	6.0
Current Account Balance (% of GDP)	-3.7	-6.8	-4.7	-2.8	-3.4	-1.0
Fiscal Balance (% of GDP)[a]	-4.2	-2.6	-2.9	-3.8	-6.5	-8.5
Primary Balance (% of GDP)[a]	-3.1	-1.3	-1.4	-2.3	-4.8	-6.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]		15.0	13.1	11.4	10.7	17.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]		54.3	51.1	47.7	46.5	58.4
GHG emissions growth (mtCO2e)	-2.5	5.1	0.8	1.0	0.2	-9.3
Energy related GHG emissions (% of total)	13.9	18.4	18.9	20.0	20.6	14.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.

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

(b) Calculations based on EAPPOV harmonization, using 2017-MLCS.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

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

NORTH PACIFIC ISLANDS

Table 1	2020
Population, million	
Federated States of Micronesia	0.12
Republic of the Marshall Island	0.06
Palau	0.02
North Pacific	0.19
GDP, US$, billion	
Federated States of Micronesia	0.41
Republic of the Marshall Island	0.24
Palau	0.25
North Pacific	0.90
GDP per capita, current US$	
Federated States of Micronesia	3566
Republic of the Marshall Island	4047
Palau	13945
North Pacific	4691

Sources: WDI, World Bank staff estimates.

COVID-19 has led to recessions in the Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI) and Palau in FY21. A rebound is projected in FY22 assuming there is an easing of restrictive international arrivals policies. In the short term, fiscal surpluses are projected for FSM and RMI, while Palau's deficit will remain large. Fiscal risks are substantial over the medium term, including due to the scheduled expiry of Compact-related fiscal transfers from the US in 2023-2024.

Key conditions and challenges

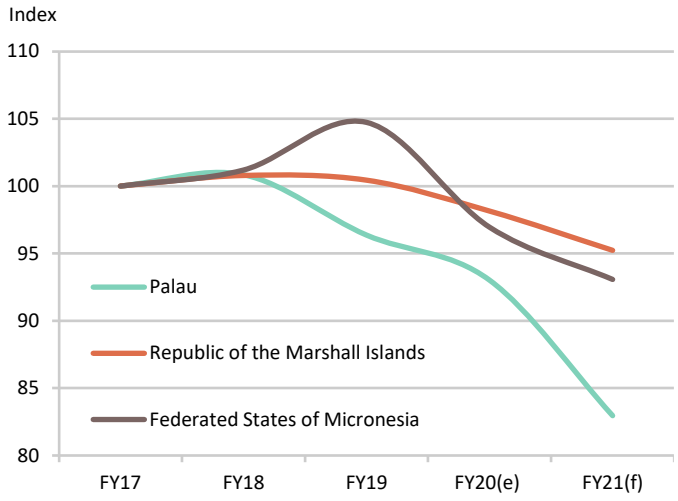
Remoteness has helped the North Pacific avoid a COVID-19 outbreak, but the prevention strategies have had severe economic consequences. Strict international border restrictions have been in place since early 2020. A fledgling quarantine-free travel bubble between Palau and Taiwan opened in April 2021, only to be closed within weeks due to surging Delta-variant cases in Taiwan. Formal sector employment is estimated to have contracted by 5 to 14 percent relative to pre-crisis levels, although temporary social protection measures mitigated the impacts on household incomes. Supported by the US, all three nations began their national vaccination programs in December 2020/ January 2021. By early September, over 90 percent, 67 percent and 60 percent of adults in Palau, RMI and FSM were fully vaccinated. In the short term, the key challenges facing the North Pacific are: (i) the ongoing roll out of the COVID-19 vaccines, thus allowing for strict border restrictions to be relaxed; and (ii) to support a sustainable and inclusive economic recovery while managing acute fiscal pressures (particularly for Palau).

Over the medium term, the key challenge is the scheduled expiry of Compact-related grants and programs in 2023-2024. This poses a key structural risk to the long-term fiscal sustainability, considering the limited space for additional debt. This is exacerbated by the fact that the projected annual distributions from the nations' Compact-related trust funds are not sufficient to fully offset the expiring fiscal transfers. In 2020, all three countries began negotiations with the US on amending their Compact agreements, but the details of the scope, size and duration of any amendment remain uncertain. Natural disasters pose another constant threat to livelihoods, economic growth, and fiscal sustainability. Sea level rise threatens the physical viability of numerous islands, particularly in RMI. Enhancing resilience to climate change and natural disasters is crucial to achieving sustainable improvements in living standards and poverty reduction. Finally, the lack of recent household data in FSM and Palau makes it challenging to monitor development progress and impacts of shocks on the poor and limits the potential for evidence-based policy. In RMI, the pre-crisis poverty rate is estimated to be 7.2 percent, based on recently released 2019-20 HIES data and a national cost of basic needs poverty line.

Recent developments

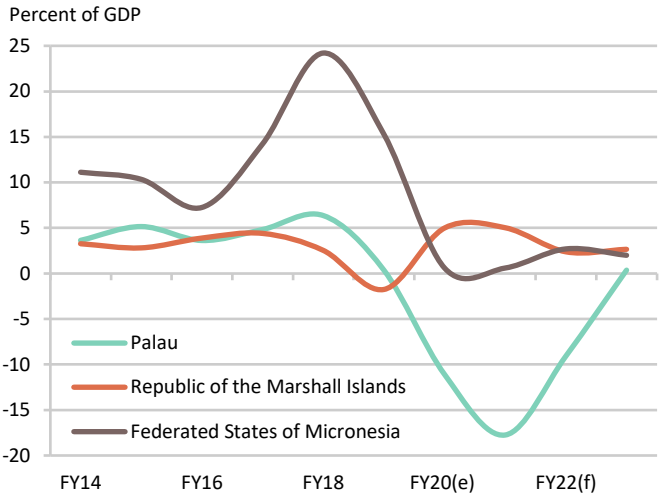
Prior to the pandemic, **FSM** and **RMI** had each registered five consecutive years of positive growth, and the longest period of sustained economic expansion since 2003. However, the economic impact of the pandemic drove both economies into recession in FY20. Output is expected to contract by a further 3.2 percent in FSM and

FIGURE 1 North Pacific Islands / Formal sector employment (Index, 2017=100)



Sources: National sources via EconMap and World Bank projections.

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



Sources: National sources via EconMap and World Bank projections.

2.5 percent in RMI in FY21, as ongoing strict border closures and related trade disruptions have curtailed construction activity, transport and domestic consumption. Large parts of FSM and RMI government revenues have been relatively protected from the downturn in domestic activity—particularly donor grants and fishing revenues, which remained relatively strong in FY20 and FY21. Grants from the ADB and the U.S. (along with other partners, including the World Bank)—combined with substantial fiscal buffers in FSM—provided the fiscal space for economic and social stimulus packages of 12 and 19 percent of GDP, which have been rolled out during FY20 and FY21. Despite the large stimulus, FSM and RMI registered fiscal surpluses of 0.6 percent and 5 percent of GDP in FY20, respectively, and are expected to register surpluses of similar magnitudes in FY21.

In **Palau,** the pandemic represents an economic shock of unprecedented scale. The tourism industry (40 percent of GDP) is at standstill, trade flows are severely disrupted, and business activities have been curtailed. The collapse in tourist arrivals is estimated to have resulted in an 8 percent GDP contraction in FY20, and a further 16 percent contraction in FY21. A substantial fall in tax receipts, combined with required spending for the health sector and to support businesses and households, led to a deficit of over 11 percent of GDP in FY20. A deficit of almost 18 percent of GDP is expected in FY21. The deficits have been financed by external borrowing, which is estimated to have raised public external debt to GDP to around 80 percent.

Outlook

The timing and shape of the economic recovery in the North Pacific depends on when border restrictions can be safely eased, and whether the countries remain free of the virus. Both factors depend on the rollout of the COVID-19 vaccines. Conditional on a recovery in the global economy and the easing of restrictive arrivals and customs policies in early 2022, an economic rebound is projected in FY22. The economies of the **FSM** and **RMI** are projected to rebound by 1.0 percent and 3.5 percent, owing to a pick-up in construction activity and visitor arrivals, as easing border restrictions facilitate the entry of foreign workers, merchandise imports and business travel. The **Palauan** economy is expected to grow by 12 percent, as tourist arrivals recover to around two-thirds of pre-crisis levels. Fiscal surpluses of 2 – 3 percent of GDP are projected in FSM and RMI, as tax revenues recover in line with economic activity and stimulus spending is unwound, partially offset by a normalization in foreign grants from their high levels in FY20 and FY21. However, another large deficit is projected in Palau, as revenues remain around 17 percent below pre-crisis levels. This is expected to be financed from cash reserves that were built up through external borrowing in FY21.

Poverty in the North Pacific is expected to rise relative to pre-crisis levels. The sharp economic contraction in FY20 and FY21 led to formal-sector job losses and lower demand for goods in the informal economy. While the projected gradual economic rebound is likely to reverse some of the adverse impacts on livelihoods, GDP is not expected to recover to pre-crisis levels until FY23 in FSM and RMI, and FY24 in Palau. The severe impacts on economic activity and jobs have led to increased vulnerability for many Palauan households—particularly for the substantial non-resident population that predominantly work in the tourism sector. The RMI and FSM receive annual remittance inflows of around 13 percent and 6 percent of GDP, respectively. These flows are projected to have declined in FY21 and to remain depressed due to the impacts of the pandemic on US labor market conditions—particularly for low-skilled labor, which represents the majority of FSM and RMI migrants.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices						
Republic of the Marshall Islands	3.3	6.6	-2.2	-2.5	3.5	2.5
Federated States of Micronesia	0.2	1.2	-1.8	-3.2	1.0	3.0
Palau	5.8	-1.8	-8.0	-16.0	12.0	14.0

Sources: EconMAP, IMF, and World Bank.
e = estimate; f = forecast.
Note: Values for each country correspond to their fiscal years ending September 30.

PAPUA NEW GUINEA

Table 1	2020
Population, million	8.9
GDP, current US$ billion	23.6
GDP per capita, current US$	2651.7
National Poverty Rate[a]	39.9
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	108.5
Life expectancy at birth, years[b]	64.5
Total GHG Emissions (mtCO2e)	65.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2009/10). National values.
(b) WDI for School enrollment (2016); Life expectancy (2019).

The COVID-19 pandemic has induced severe economic and social cost in Papua New Guinea (PNG), exacerbated by the structural economic challenges and low fiscal space. A new wave of infections, low vaccination rate, and lower output in the resource sector slow down the economic recovery in 2021. For a faster and more inclusive growth the authorities would need to strengthen the macroeconomic policy framework, ensure that health services continue to deliver during the crisis, and accelerate structural reforms.

Key conditions and challenges

The COVID-19 crisis has come on top of PNG's structural economic challenges, notably the boom-and-bust cycles driven by swings in natural resource sector exports. These cycles have been exacerbated by sub-optimal fiscal and public expenditure management as expenditure goes up during booms, followed by spending cuts when the boom ends. Pandemic-related global and domestic travel restrictions have weakened external and domestic demand. In 2020, this has led to an economic contraction, a sizable fiscal deficit, and higher unemployment and poverty, especially among women and the youth.

PNG has a highly dispersed and fragmented population, low level of urbanization, significant gender disparities, high exposure to natural disasters, high degree of resource dependence, and intercommunal violence in some regions. Weak governance, which yields frequent changes of government and which limits the development of state capability, severely constrains PNG's ability to effectively manage this challenging context. PNG's fragility-related risks are exacerbated by the socio-economic impact of exogenous shocks, such as earthquakes and the current COVID-19 pandemic.

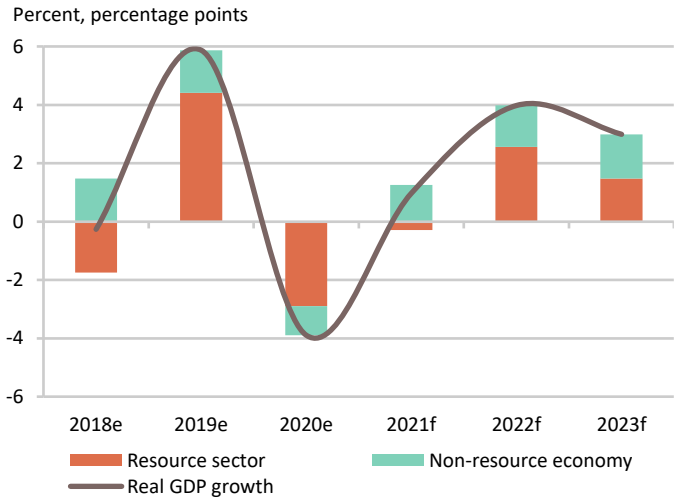
From global as well as regional perspectives, prevalence of extreme poverty in PNG is high. About 38 percent of the population in 2010 (the latest household budget survey available) lived under the international extreme poverty line of US$1.90 per day (2011 PPP terms). The national poverty rate was estimated at 39.9 percent of the population. This incidence of poverty is one of the highest rates in the East Asia and Pacific region. It is also higher than in many lower middle-income, resource-rich peer countries. Broadly consistent with the high proportion (87 percent) of the population living in rural areas, almost 90 percent of the country's poor are in rural PNG and are more likely to be engaged in agricultural activities.

Recent developments

As a result of pandemic-related restrictions and weaker demand the economy contracted by 3.9 percent in 2020. The fiscal deficit widened to 8.9 percent of GDP, with revenue underperformance, rather than a sharp increase in spending, being the main driver. Consequently, the debt-to-GDP ratio surged to an estimated 49.2 percent. To accommodate temporary fiscal imbalances caused by the COVID-19 pandemic, the amended Fiscal Responsibility Act has temporarily (for a 5-year period) increased the public debt ceiling from 45 to 60 percent of GDP, targeting a return to below 40 percent of GDP within 10 years.

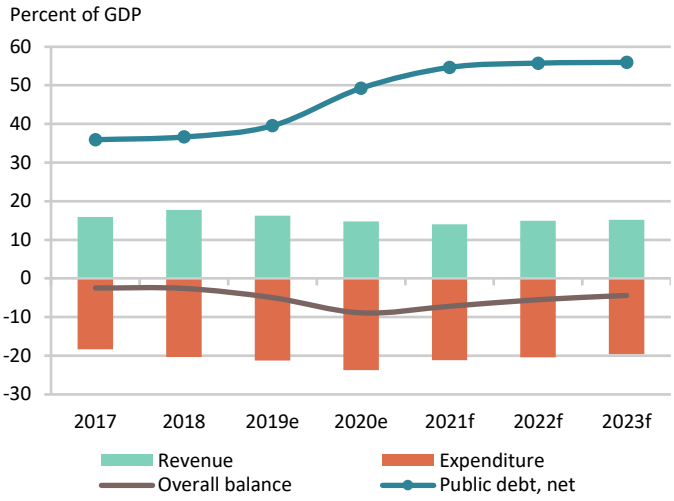
In 2021, economic recovery has been dragged by falling gold and LNG production and the reintroduction of Covid-19 restrictions. In the first half of 2021, gold output fell in the Lihir, Simbiri and Hidden Valley mines, while Porgera mine

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



Source: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Source: World Bank staff estimates and forecast.

remained closed. Scheduled maintenance at the PNGLNG project has led to lower gas production. Meanwhile, new waves of Covid-19 infections (of the 18,000 total cases, 95 percent have been registered since February 2021), slow vaccination roll-out (only 0.4 percent fully vaccinated) and related restrictions have impacted mobility, dampening activity in the non-resource economy. Inflation decelerated to 3.3 percent year-on-year in mid-2021. The Bank of PNG kept the interest rate at 3 percent.

The impact of COVID-19 on livelihoods of the poor and vulnerable households was severe, according to three rounds of a World Bank mobile phone survey conducted in June 2020, December 2020 and May 2021. More than one-quarter of those working in January 2020 were estimated to have stopped working by December 2020. The largest employment losses were in the agricultural sector. Despite some recovery in the second half of 2020, there remained a 28 percent loss in total employment between January and December 2020. Preliminary analysis from the May 2021 survey shows that employment did not change significantly since the beginning of 2021. While most households in the May 2021 survey reported no change in income since January 2021, more than a quarter reported that their income had either reduced or stopped entirely. Most households were anxious about their finances in the next month. Overall, the survey results are consistent with a stall in economic recovery.

Outlook

Economic performance is projected to remain subdued in 2021 and rebound in 2022. The 2021 projection reflects a decline in gold mining and LNG production, and the impact of lockdown measures to counter the COVID-19 waves in March and May. Contingent on mining output returning to pre-pandemic levels, growth is projected to accelerate to 4.0 percent in 2022. Therefore, the economy will reach the pre-COVID level of 2019 only in 2022.

The outlook is subject to a high level of uncertainty. It will depend on export demand, the implementation of new resource projects, government efforts to improve economic and fiscal resilience to external shocks, and the speed of domestic and international vaccine rollouts. Currently, the vaccination rate in PNG is the lowest in the region and expected to reach only 17 percent by end-2021. Political risks to the outlook are also high. Motions of no-confidence are relatively frequent, and the political situation remains fluid. Political uncertainty will remain until next elections to be held in June 2022, with risks to the negotiation process with current and potential investors and the overall business sentiment.

To achieve a more inclusive and sustainable development path over the medium term, the authorities could concentrate on several priorities. First, strengthen the macroeconomic policy framework, including a renewed focus on fiscal consolidation. Second, ensure that frontline health services continue to deliver during the crisis. Third, introduce safety nets for the poor and vulnerable. Finally, support firms and employment in the informal sector.

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

	2018e	2019 e	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-0.3	5.9	-3.9	1.0	4.0	3.0
Resource sector[a]	-3.7	9.3	-6.1	-0.6	5.4	3.1
Non-resource economy	2.7	2.4	-1.9	2.4	2.7	2.9
Inflation (Consumer Price Index), period average	4.6	3.7	4.9	3.7	4.5	4.2
Current Account Balance (% of GDP)	23.5	22.2	23.8	21.1	18.6	16.4
Resource sector[a]	25.9	28.0	27.0	25.6	23.8	22.2
Non-resource economy	-2.4	-5.7	-3.2	-4.5	-5.2	-5.8
Overall Fiscal Balance (% of GDP)	-2.6	-5.0	-8.9	-7.2	-5.5	-4.4
Non-resource primary balance (% of non-extractive GDP)	-2.7	-5.5	-9.4	-7.6	-5.9	-4.8
Public Debt, net (% of GDP)	36.6	39.5	49.2	54.6	55.7	55.9

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

PHILIPPINES

Table 1	2020
Population, million	109.6
GDP, current US$ billion	361.7
GDP per capita, current US$	3300.2
International poverty rate ($ 19)[a]	2.7
Lower middle-income poverty rate ($ 3.2)[a]	17.0
Upper middle-income poverty rate ($ 5.5)[a]	46.9
Gini index[a]	42.3
School enrollment, primary (% gross)[b]	101.9
Life expectancy at birth, years[b]	71.2
Total GHG Emissions (mtCO2e)	221.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

The economy expanded in the second quarter of 2021 albeit from a low base. Growth was supported by an acceleration in public investment. The authorities have been supportive of the economic recovery, but policy space is narrowing. Household incomes remain depressed, despite improvements in employment conditions. The economy is projected to grow over the medium term, anchored on the global economic rebound and recovery in domestic activities. However, the prospects are subject to downside risks from the ongoing pandemic.

Key conditions and challenges

COVID-19 continues to weigh heavily on medium-term inclusive growth prospects. It has led to a deterioration in macroeconomic buffers amid the worst recession in the country's post-war history, dampening the prospect of additional policy support. The crisis has eroded human capital, causing potential long-term economic scarring through loss of lives, disruption in education, and hunger and malnutrition, especially among the poor. The primary challenge remains to manage the impact of the COVID-19 pandemic as infection surges may overwhelm the healthcare system and weaken the economic recovery. To reduce the spread of infections, public health protocol measures must remain in place alongside scaled-up efforts to test, trace, treat and isolate, and measures to address vaccine hesitancy. While vaccination effort has gained pace, the number of fully vaccinated remained at 16 percent of the population in mid-September.

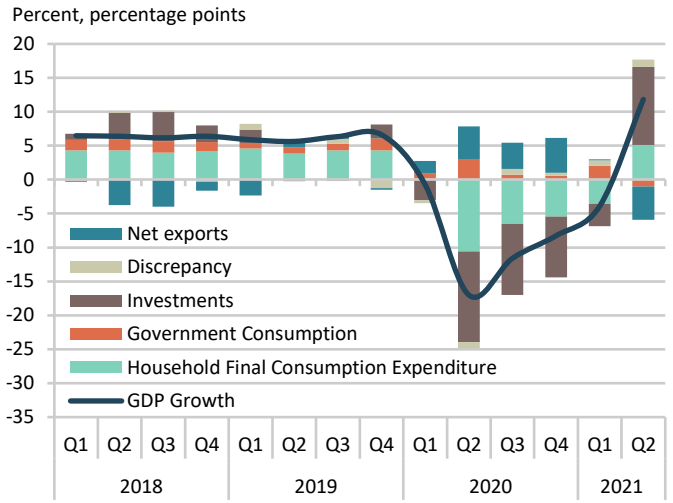
The government must pursue a well-timed and structured fiscal consolidation to support and safeguard the country's inclusive growth agenda. A strategy for consolidation may consider measures to improve tax policy and administration, and spending efficiencies. Preserving long-term economic recovery requires continued commitment to structural reforms that enhance market competition, encourage investments, and boost productivity and competitiveness. Sustained investments in human capital development, especially in health and education, and in sectors that create quality employment are needed to support inclusive growth and mitigate the economic scarring due to the pandemic.

Recent developments

The Philippines posted its first expansion in six quarters at 11.8 percent year-on-year in Q2 2021, albeit from a low base. Growth was buoyed by investments as the government ramped up infrastructure spending. Private consumption remained below pre-pandemic levels due to income losses, elevated inflation and unemployment, and repeated reversions to strict containment measures. Public consumption fell in the second quarter, due to base effects from the disbursement of fiscal support last year. Goods exports benefitted from a supportive external environment. On the supply side, strong external demand and public investment acceleration drove robust growth in manufacturing and construction. Meanwhile, more relaxed containment measures supported services sector growth, while agriculture contracted due to the slump in livestock and fisheries output.

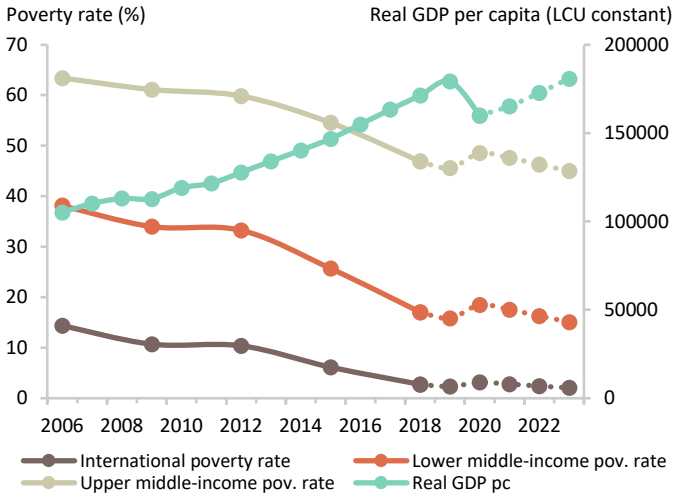
The fiscal deficit increased to 7.9 percent of GDP in H1 2021 fueled by an acceleration in public spending amid tepid revenue generation. Public spending increased

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



Source: Philippines Statistics Authority.

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



Source: World Bank. Notes: see Table 2.

by 2.1 percent of GDP, anchored on robust public investments, and additional fiscal stimulus. Central government debt increased to 60.4 percent of GDP in H1 2021, the highest since 2005.

The central bank maintained its key policy rate at 2 percent despite above-target headline inflation throughout 2021. Elevated inflation was driven by rising global oil prices and food supply challenges, which have disproportionately hurt the poor. The authorities are addressing food inflation through non-monetary measures including easing of importation.

Unemployment inched down from 8.7 percent in January to 6.9 percent in July. Though employment levels recovered, more precarious jobs at lower earnings have emerged while underemployment remained high at 20.9 percent in July. Based on the May High Frequency Household Survey, households continued to report lower incomes compared to pre-pandemic incomes. Unlike the wider coverage of the Social Amelioration Program in 2020, fewer households reported receiving assistance from the government in the first half of 2021 as assistance was limited to households affected by containment measures in selected areas.

Outlook

The economy is projected to grow over the medium term, anchored on a global rebound that will contribute to higher exports and manufacturing growth. Domestic activities have gained pace but faced repeated weaknesses with community lockdowns. Private consumption will be tempered due to quarantine measures and elevated inflation, while supported by remittances and recovering confidence as mass vaccination progresses. Vaccination is expected to accelerate towards the end of 2021 along with the arrival of more vaccine supplies. Investments will be driven by the rollout of public infrastructure projects. The global recovery will benefit manufacturing and some services sectors, but agriculture is expected to grow modestly as structural weaknesses persist. Base effects will prop up growth in 2021, while election-related spending will support domestic activities towards 2022. The prolonged pandemic is giving rise to scarring effects on long-term growth prospects.

With the economy starting to recover, poverty incidence is projected to decline to 18.9 percent this year (based on the lower middle-income poverty line of 3.2 dollars a day, 2011 PPP). If growth forecasts hold and household incomes recover with stable inflation, the poverty rate will likely continue a downward trend through 2023. However, the reimposition of stricter community quarantines over extended periods risks slowing down the pace of poverty reduction.

The balance of risks is tilted to the downside. Failure to contain surges in infections will result in recurring episodes of lockdowns, which could lead to jobs and incomes losses. This, in turn, may suppress public revenue generation and further limit fiscal space. The country's mass vaccination program faces the risk of delay due to limited global vaccine supply, further complicated by the decision of some developed economies to implement booster shots. Other risks include a slower-than-expected global recovery, disruptions in international logistics, and trade protectionism. Institutional changes such as the national election may result in policy discontinuity. Moreover, a significant increase in unconditional block grant transfers to subnational governments could lead to disruptions in program delivery during the transition to re-devolution.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	6.1	-9.6	4.3	5.8	5.5
Private Consumption	5.8	5.9	-7.9	3.4	5.6	5.2
Government Consumption	13.4	9.1	10.5	7.0	9.0	7.0
Gross Fixed Capital Investment	12.9	3.9	-27.5	18.6	14.3	11.1
Exports, Goods and Services	11.8	2.6	-16.3	13.8	10.6	9.2
Imports, Goods and Services	14.6	2.3	-21.6	19.8	15.6	11.7
Real GDP growth, at constant factor prices	6.3	6.1	-9.6	4.3	5.8	5.5
Agriculture	1.1	1.2	-0.2	1.1	1.4	1.3
Industry	7.3	5.5	-13.2	6.2	6.5	6.3
Services	6.7	7.2	-9.2	3.9	6.2	5.8
Inflation (Consumer Price Index)	5.2	2.5	2.6	4.3	3.4	3.2
Current Account Balance (% of GDP)	-2.6	-0.8	3.6	1.3	-0.9	-1.4
Net Foreign Direct Investment (% of GDP)	2.9	2.3	1.8	2.0	2.1	2.6
Fiscal Balance (% of GDP)	-3.1	-3.4	-7.6	-7.6	-7.2	-6.5
General Government Debt (% of GDP)	34.4	34.1	49.1	53.4	55.2	56.8
Primary Balance (% of GDP)	-1.1	-1.6	-5.5	-4.8	-4.2	-3.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.7	2.2	3.7	3.3	2.7	2.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	17.0	15.0	20.4	18.9	16.9	15.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	46.9	44.2	50.8	49.2	46.7	44.2
GHG emissions growth (mtCO2e)	2.8	2.9	-8.1	1.9	2.4	2.4
Energy related GHG emissions (% of total)	58.8	58.9	57.1	59.5	59.7	59.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2018-FIES.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

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

SOLOMON ISLANDS

Table 1	2020
Population, million	0.7
GDP, current US$ billion	1.6
GDP per capita, current US$	2285.7
National Basic Needs Poverty Rate[a]	12.7
School enrollment, primary (% gross)[b]	106.2
Life expectancy at birth, years[b]	73.0
Total GHG Emissions (mtCO2e)	46.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Solomon Islands National Statistics Office.
Most recent value (2013).
(b) WDI for School enrollment (2018); Life expectancy (2019).

While uncertainty remains, the economy is expected to grow with 2 percent in 2021. Strengthened external demand, the economic stimulus package, construction activity and timid rebound in retail should contribute to economic growth. A full, post-pandemic recovery is only expected in the medium term. Several downside risks threaten the growth outlook, including a local COVID-19 outbreak, prolonged travel restrictions and investment delays. Sound fiscal management is needed to support economic recovery and macro-fiscal stability.

Key conditions and challenges

Solomon Islands is a small, remote archipelago that faces a unique set of development challenges, characterized by economic geography and state fragility. A population dispersed across a vast territory complicates access to basic public services. Relatedly, the smallness and dispersion make public service delivery and the provision of infrastructure disproportionally costly. A small domestic economy, internal division and remoteness from large export markets limit private sector development and international trade. Furthermore, natural disasters and the impacts from climate change pose a continuous threat to sustainable development. Limited state capacity and political economy dynamics tend to constrain the design and implementation of effective public policies. Finally, the country's dependence on the logging industry points to the need for economic diversification. The Solomon Islands' unique geographic and institutional features, however, limit the possibilities to diversify its economy.

The more immediate risk factors and challenges relate to COVID-19 and the need to support economic recovery. Further enhancing health sector preparedness and preventing community transmission of COVID-19 are of crucial importance. While a domestic outbreak would have substantial implications, the recent tightening of travel restrictions continues to constrain economic activity and affect livelihoods. Relaxing the current prevention measures will depend on the vaccination roll-out. At the start of the vaccination campaign, less than 2,000 doses were administered per week. The vaccination rate has increased substantially, however, with close to 10,000 doses per week in August 2021. As of half September 2021, 9 percent of the population was vaccinated with at least one dose.

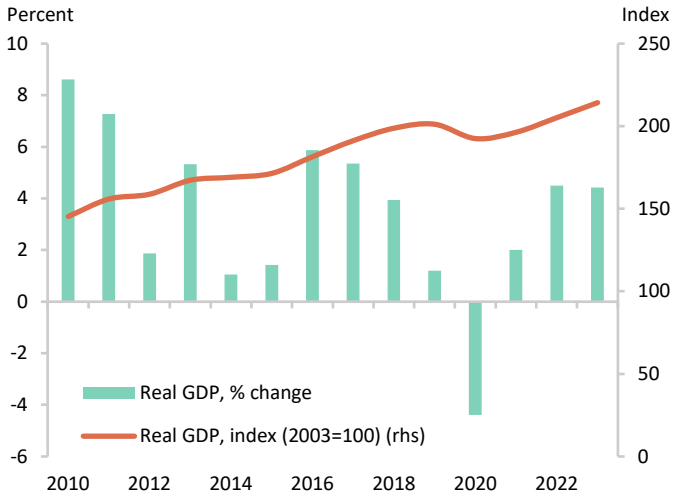
A concerted effort is required to support economic recovery and poverty reduction. Effective policy measures, strong social protection programs and labor-intensive public investment projects are important components to stimulate growth. At the same time there is a need to maintain macroeconomic and fiscal sustainability, guarantee sound public financial management while taking into account the country's fragile context.

A rise in export commodity prices, strong external demand from main trading partners and construction activity may support economic recovery.

Recent developments

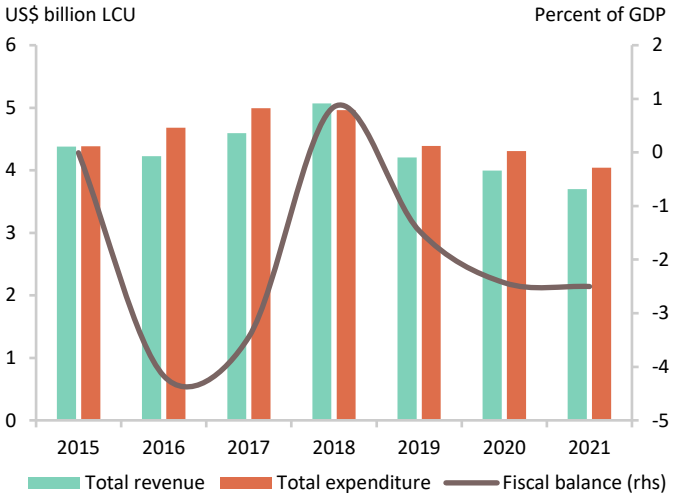
The economy contracted by 4.3 percent in 2020 due to COVID-19. Border disruptions, weak external demand and social distancing measures led to a significant drop in economic activity. Primary sector output dropped across the board. The industrial sector contracted deeply by 13 percent as key infrastructure projects were delayed due to travel restrictions. In the

FIGURE 1 Solomon Islands / Real GDP



Source: World Bank staff estimates.

FIGURE 2 Solomon Islands / Fiscal balance



Source: World Bank staff estimates.

services sector, the lack of international visitor arrivals reduced restaurant, accommodation, and transport activity. Declining income also impacted the wholesale and retail sector. The Central Bank's Production Index rose with 13 percent in the first quarter of 2021, suggesting a pick-up in economic activity.

The current account deficit declined in 2020 as imports compressed more than exports. Imports declined in fuel, machinery and transport equipment, while exports fell in fish and minerals, resulting in a trade deficit of 8.4 percent of GDP. The current account deficit was contained to 1.6 percent of GDP due to a positive balance on current transfers. In the first quarter of 2021, the current account reached a deficit 0.8 percent of GDP.

The fiscal deficit was contained to 2.4 percent of GDP in 2020, but domestic arrears reached 0.9 percent of GDP. The deficit was financed by budget support, a complete drawdown on the narrow cash balances and the issuance of domestic development bonds. However, the government also built up payment arrears, mostly due to SMEs. For 2021, The government aims to contain the fiscal deficit to 2.5 percent of GDP.

A mobile phone survey – with data collected from December 2020 to January 2021 – indicates a partial recovery in employment, driven by the formal sector. In contrast, the recovery has been slow in rural areas, where poorer people tend to work. Around two out of five households reported lower than usual income in the survey. While reducing consumption has been a common coping strategy, half of households purchased items on credit, and the majority spent from savings, reducing financial security and resilience to falling into poverty.

Outlook

A return to pre-COVID-19 levels of economic activity is expected over the medium term, with growth averaging 3.5 percent over 2021-2023. Large infrastructure projects in roads, air transport, telecommunications and energy sectors are anticipated to drive growth. Furthermore, the projected moderation in logging is expected to be offset by increased mining activity. As the government is targeting the construction of a new tuna cannery by 2023, fisheries also offer some potential for growth. Finally, a gradual return of tourism, the organization of the 2023 Pacific Games and a recovery in retail are expected to boost the services sector. There are, however, several downside risks to the outlook. A local COVID-19 outbreak, social unrest, investment delays, financial sector stress, waning external demand, prolonged travel restrictions or a severe natural disaster could all hurt economic growth.

The current account deficit is expected to remain elevated over the medium-term, as the recovery in primary exports is offset by higher imports for infrastructure projects once COVID-related restrictions are eased. The deficit will be financed through current and capital transfers, foreign direct investment and highly concessional project lending. As a result, foreign reserves are expected to cover more than 8 months of prospective imports by 2023.

The fiscal deficit is expected to widen over the medium term – from 2.5 percent of GDP in 2021 to 5 percent of GDP in 2023 – to support economic recovery and medium-term growth. Expenditures are expected to increase, driven by the large infrastructure pipeline. In line with the expected economic recovery, revenues are projected to grow over the medium term. The projected decrease in logging taxes is expected to be compensated by reforms in tax administration, the introduction of new taxes and a recovery in income and corporate taxes. While public debt remains sustainable –reaching 24.1 percent of GDP in 2023, it will need to be anchored in a prudent fiscal strategy combined with continued efforts to strengthen debt management. Downside risks to the fiscal outlook include delays in policy implementation, limited expenditure control and disappointing growth outcomes.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	3.9	1.2	-4.3	2.0	4.5	4.4
Real GDP growth, at constant factor prices	4.0	1.3	-4.3	2.0	4.5	4.3
Agriculture	2.7	-4.4	-2.3	0.3	3.0	1.8
Industry	7.9	6.3	-12.7	4.5	6.5	7.7
Services	3.6	2.8	-2.7	2.2	4.6	4.5
Inflation (Consumer Price Index)	3.5	1.6	3.4	2.6	3.2	3.3
Current Account Balance (% of GDP)	-3.1	-9.8	-1.6	-10.0	-15.0	-13.7
Net Foreign Direct Investment (% of GDP)	-1.0	-1.8	-0.4	-2.7	-3.4	-3.2
Fiscal Balance (% of GDP)	0.9	-1.5	-2.4	-2.5	-5.0	-5.0
Debt (% of GDP)	7.8	8.1	10.9	14.1	19.1	24.1
Primary Balance (% of GDP)	1.0	-1.3	-2.3	-2.3	-4.7	-4.7
GHG emissions growth (mtCO2e)	0.1	0.0	0.0	0.4	0.2	0.2
Energy related GHG emissions (% of total)	0.8	0.8	0.8	0.9	0.9	1.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.

SOUTH PACIFIC ISLANDS

Table 1	2020
Population, million	
Samoa	0.20
Tonga	0.11
Vanuatu	0.30
GDP, US$, billion	
Samoa	0.81
Tonga	0.49
Vanuatu	0.93
GDP per capita, current US$	
Samoa	4068
Tonga	4605
Vanuatu	3089

Sources: WDI, World Bank staff estimates.

The economies of Samoa, Tonga and Vanuatu have been impacted by natural disasters and the COVID-19 pandemic. While COVID-19 outbreaks were avoided, strict travel restrictions have hit tourism-related activity with negative spillovers to the rest of the economy. Governments need to expedite the COVID-19 vaccine rollout, continue to support households and businesses, and embark on structural reforms to support the post-pandemic recovery. Risks include a domestic outbreak of COVID-19 and a slower-than-expected vaccine rollout, causing a delay in border reopening.

Key conditions and challenges

Natural disasters and external shocks pose a constant threat to livelihoods, economic growth, and fiscal sustainability. Enhancing resilience to external shocks is crucial to supporting long-run growth and achieving sustainable improvements in living standards and poverty reduction. A domestic outbreak of COVID-19 would have severe ramifications, but economic activity will be constrained for as long as international travel restrictions remain in place. Based on the current pace of vaccine rollout and the expected recovery in international travel, economic activity may remain depressed for another six to nine months. This creates significant potential for scarring effects in the longer term—particularly in the tourism sector—as lost firms and jobs create adverse structural changes to the economy that are not reversed when aggregate demand recovers. These changes would disproportionately affect the poor and lower educated, whose skills may not be as transferable to other sectors. The economic shocks and slow recovery also greatly increase the risk of poverty, particularly as households deplete savings and assets to cope with lost incomes.

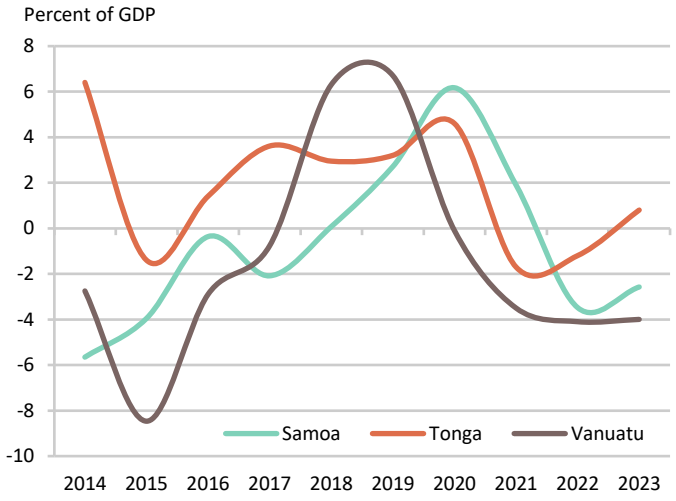
The main immediate challenges are to accelerate the rate of COVID-19 vaccine uptake and remain free of COVID-19. The near-term challenge will be to strike an appropriate balance between catalyzing a sustainable and inclusive economic recovery and maintaining macroeconomic sustainability in the face of several competing pressures. With limited fiscal space and low capacity to carry debt, governments need to prioritize strategic measures that lay the foundation for the economic recovery, while also supporting livelihoods for the Bottom 40 percent of households. In Tonga and Vanuatu, governments should carefully prioritize cyclone reconstruction and development spending while being mindful of fiscal and local capacity constraints.

Recent developments

While border closures and containment measures affected economic activity, various fiscal stimulus packages helped avoid a severe economic downturn in FY20. Substantial donor funding inflows helped cushion the negative impact on fiscal and external balances. While the COVID-19 vaccination roll-out has been progressing well in Samoa and Tonga, it has been relatively slow in Vanuatu. As of early September 2021, 37 percent and 43 percent of the adult population are fully vaccinated in Samoa and Tonga, respectively. Vanuatu has fully vaccinated only 6 percent the adult population.

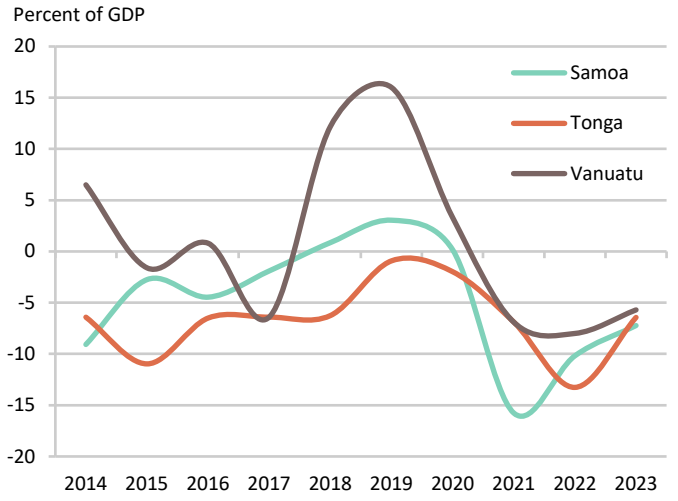
The **Samoan** economy is estimated to have contracted by 8 percent in FY21. While movement restrictions kept the pandemic at bay, tourism plummeted and generated knock-on effects on other sectors. The measures taken have saved lives

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and WB projections.

FIGURE 2 South Pacific Islands / Current account balance



Sources: National sources and WB projections.

but hurt household income, increased unemployment, and weighed on household balance sheets. Extreme poverty is likely to have risen from the latest pre-pandemic rate of 8.2 percent (2018), with urban areas affected more due to the higher concentration of jobs in the services sector. Substantial development partner grants and favorable tax revenue outturn, reflecting improved tax compliance from the phased rollout of the Tax Invoice Monitoring System (TIMS) cushioned the impact on fiscal account. On balance, the dormant tourism sector dominated the impact on the current account, which recorded a substantial deficit.

The **Tongan** economy is estimated to have contracted by 3.2 percent in FY21, due to the impacts of COVID-19 and Tropical Cyclone (TC) Harold—a category 5 cyclone that struck the country in April 2020. The dual shocks have resulted in a significant slowdown in the tourism, retail, construction and agriculture sectors. Households have felt the full impact of the shocks, with the poorest and vulnerable among the most severely affected due to a combination of increased unemployment and loss or damage of assets. The sharp economic slowdown has put pressure on both the fiscal accounts and balance of payments. However, these pressures have been offset to a large degree by substantial additional development partner grants to support crisis recovery.

In **Vanuatu,** growth is expected to reach 1.2 percent in 2021, supported by the economic effects of the stimulus packages and construction activity in the wake of TC Harold and COVID-19. The dual shocks nevertheless have disrupted the tourism sector, in which large shares of jobs are informal. According to a pre-crisis household income and expenditure survey (2019-20), the national poverty rate was 15.9 percent, which has likely risen since. After a balanced budget in 2020, reduced domestic revenue due to a fall in the country's Economic Citizenship Program (ECP) receipts and increased infrastructure spending are expected to lead to a fiscal deficit of 3.5 percent of GDP in 2021. Continued border restrictions negatively impact the current account, resulting in a deficit of 6.9 percent.

Outlook

The near-term outlook remains dependent on the pace of vaccine rollout and the duration of COVID-19 related travel restrictions. Achieving herd immunity through vaccination is the primary trigger for border reopening. Most of the adult population are expected to be fully vaccinated by December 2021 in Samoa and Tonga while Vanuatu is expected to take longer. Tourism activity is expected to be sluggish in the near-term and gain momentum over the medium-term. While premature withdrawal of economic stimulus could impede the pace and durability of economic recovery, governments also need to ensure fiscal sustainability.

In **Samoa**, growth is projected to recover in FY22 and FY23, averaging 2.2 percent. The recovery is expected to be driven by a gradual resumption of tourist activity, spillovers to other sectors and ramping up of capital projects. The fiscal balance is projected to record a deficit of 3.5 percent of GDP in FY22 as development partner grants normalizes and capital expenditure picks up pace. The current account deficit is projected to persist in FY22. From FY23, the twin deficits are expected to narrow as the economy recovers and the fiscal stimulus is gradually withdrawn.

In **Tonga,** growth is projected to rebound to around 3 percent in FY22 and FY23 as tourist arrivals gradually recover to around three-quarters of pre-pandemic levels, combined with a recovery in agriculture production and construction activity. The fiscal balance is projected to register a deficit of 1.2 percent of GDP in FY22 before returning to a surplus by FY23, as tax revenues rebound in line with the economic recovery, while current spending declines as fiscal stimulus spending is unwound. The current account deficit is expected to widen in FY22 due to higher imports for the health sector and reconstruction activities, before narrowing over the medium term.

In Vanuatu, GDP is projected to grow around 3-4 percent in 2022 and 2023. This return to pre-COVID-19 economic growth is projected based on a gradual easing of border restrictions and full implementation of reconstruction efforts from the damages caused by TC Harold. The fiscal deficit is projected to widen to around 4 percent of GDP in 2022 and 2023 as total revenue drops, given reduced ECP revenues and development grants falling to historical averages. The current account deficit is projected to widen in 2022 due to a deteriorating trade balance and start narrowing in 2023 as tourism receipts recover.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices						
Samoa	-2.1	3.6	-2.7	-8.0	1.5	3.0
Tonga	0.3	0.7	0.7	-3.2	2.6	3.3
Vanuatu	2.9	3.9	-6.8	1.2	3.0	4.1

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

THAILAND

Table 1	2020
Population, million	69.3
GDP, current US$ billion	501.6
GDP per capita, current US$	7238.1
Upper middle-income poverty rate ($5.5)[a]	6.2
Gini index[a]	34.9
School enrollment, primary (% gross)[b]	101.1
Life expectancy at birth, years[b]	77.2
Total GHG Emissions (mtCO2e)	408.3

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2019).

The economy expanded by 2.0 percent in the first half of 2021 amid the third wave of the COVID-19 pandemic, after suffering its worst contraction since the Asian financial crisis in 2020, and is not expected to recover to pre-COVID-19 levels until 2023. Despite the subdued outlook for domestic activity, a recovery in merchandise exports due to stronger global demand is expected to support growth. Extended government relief measures will continue to support the poor and affected workers.

Key conditions and challenges

Immediate challenges include implementation of the government's mass vaccination drive and continuing support to households and firms. The timely procurement and distribution of vaccines is critical for the resumption of domestic and tourism activities. The government acted quickly to support vulnerable households by substantially expanding social assistance to mitigate income losses. However, additional relief remains necessary to support livelihoods as well as keep viable businesses afloat in the current lockdown. Implementing planned public infrastructure investments can help support economic activity and job creation.

The deep economic downturn is projected to reduce potential output growth by 0.3 ppts over 2021-2022 compared to pre-pandemic growth through lower productivity, investment and human capital. The large drop in capital stock growth due to the pandemic, rapidly declining share of the working-age population and slow factor reallocation have contributed to the potential output losses. High uncertainty and firm closures will harm investment, while job loss and school closures will lead to lower human capital over the longer term.

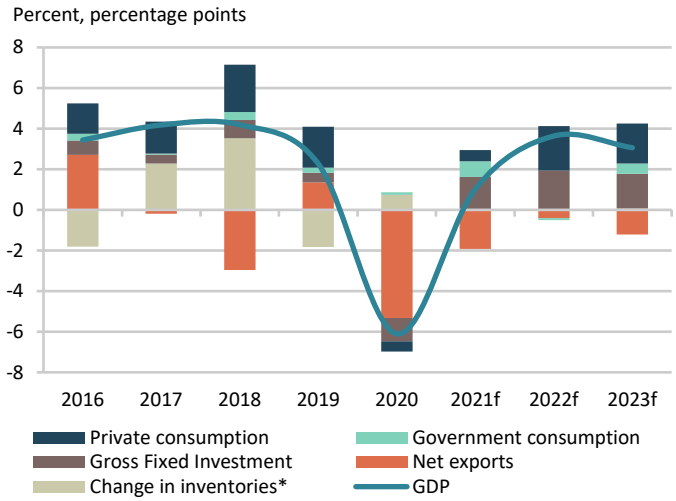
Raising productivity through structural reforms will be critical to support long-term growth. The liberalization of trade in services and other measures to promote economic openness could attract knowledge-intensive foreign direct investment (FDI). FDI will be critical for Thailand's integration into more complex global value chains for higher-value-added goods and services. Further strengthening social safety nets can help support the transition of workers into new higher-value-added sectors.

Recent developments

The economy grew 7.8 percent (yoy) in Q2, registering its first expansion in six quarters due to a rebound from its low base in 2020 as well as the recovery in merchandise exports. Compared to the previous quarter, the economy expanded by 0.4 percent (qoq). Exports of goods rose by 10.8 percent (qoq) but private consumption and investment both declined for the second consecutive quarter. The third wave of infections and reimposition of containment measures as of April have reduced mobility and negatively affected consumption and business sentiment.

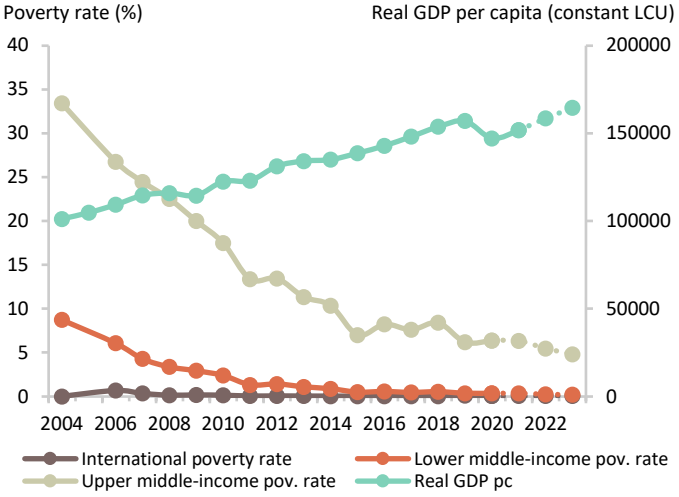
Delays in the COVID-19 vaccine rollout amid supply constraints have weighed on domestic activity and tourism recovery. At current rates of vaccination of 40 percent, Thailand is expected to reach its mass vaccination target of 70 percent by mid-2022, well beyond the government's end-2021 target. The reopening of borders to international travel and revival of the international tourism receipts (11 percent of GDP in 2019) will hinge on a successful vaccination rollout. In 2021, the number of international tourists is expected to remain small at just less than 1 percent of pre-pandemic levels. This is despite the gradual reopening of

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



Sources: World Bank staff calculations and NESDC.
Note: * Includes statistical discrepancy.

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



Source: World Bank. Notes: see Table 2.

borders, starting with the launch of the Phuket Sandbox, a quarantine-free travel destination for vaccinated tourists.

The fiscal deficit continued to widen in the first three quarters of FY 2021 (year ended September) to 8.3 percent of GDP compared with 6.8 percent in the same period last year. The government ramped up the size of COVID-19-related spending by approving another COVID-response package (3 percent of GDP), on top of the 6 percent of GDP approved last year, most of which has already been disbursed. Public debt has increased to 56.1 percent of GDP up from 42 percent prior to the pandemic.

Monetary policy has remained accommodative, and the central bank has continued to focus on providing more targeted liquidity support to firms. The current account has remained in deficit since the fourth quarter of 2020. Muted tourism receipts and soaring freight costs have caused the net services deficit to increase by 2 percent of GDP since the fourth quarter of 2020. By August 2021, the Thai baht had depreciated by 7.0 percent from end-2020 levels (on a real effective exchange rate basis), making it the worst performing currency in Asia.

The poverty rate increased from 6.2 percent in 2019 to 6.4 percent in 2020 (based on the upper middle-income poverty line of 5.5 dollars a day, 2011 PPP) with 150,000 people falling into poverty. Sizable social assistance in 2020 (3.2 percent of GDP) helped contain the increase in poverty. The number of people falling into poverty could have been 710,000 higher or 1.0 percentage points larger during 2020 in the absence of the government's response.

Outlook

The economy is expected to remain subdued in 2021 and the path of recovery remains uncertain due to the spread of highly transmissible COVID-19 variants, delays in mass vaccination and implications for tourism. Real GDP is projected to expand 1.0 percent in 2021 due to subdued domestic demand, and then pick up to 3.7 percent in 2022. GDP is expected to remain below its pre-pandemic 2019 level until 2023, on the assumption that the government's target to fully vaccinate 70 percent of population by end-2021 will not be achieved until the first half of 2022. However, fiscal spending is expected to remain sizeable and supportive. Public debt is projected to rise further to 62 percent due to the additional planned fiscal support. On the external side, merchandise exports are expected to be the major driver of growth given strengthening external demand, while tourism will only start to see a significant recovery in late 2022 once the mass vaccination target is achieved. The overall growth projection for 2022 assumes that the number of international tourists increases to 1.7 million (4 percent of pre-pandemic levels) next year.

The spread of the highly transmissible variants globally means that risks to the outlook remain high. Rising COVID-19 cases globally could dampen the outlook for export recovery and further delay the reopening of borders for international travel. More stringent containment measures may need to be reimposed if outbreaks of new variants cannot be contained amid logistical challenges in procuring and distributing vaccines. The risk of political instability has increased as reflected by ongoing anti-government protests seeking constitutional reform and the resignation of the Prime Minister. Continued expansion of protests could reduce foreign investment and delay the recovery. The poverty rate is estimated to stay relatively unchanged in 2021 at 6.3 percent. Compared with the pre-COVID level in 2019, an additional 160,000 people have fallen into poverty. In 2022, the poverty rate is projected to trend downward, and fall below pre-pandemic level.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	4.2	2.3	-6.1	1.0	3.6	3.1
Private Consumption	4.6	4.0	-1.0	1.0	4.0	3.6
Government Consumption	2.6	1.7	0.9	5.0	-0.6	3.3
Gross Fixed Capital Investment	3.8	2.0	-4.8	6.6	7.5	6.5
Exports, Goods and Services	3.4	-3.0	-19.4	11.2	6.9	5.2
Imports, Goods and Services	8.3	-5.2	-13.3	14.8	7.5	6.9
Real GDP growth, at constant factor prices	4.2	2.4	-6.0	1.0	3.7	3.0
Agriculture	5.8	-0.6	-3.6	1.4	1.3	1.2
Industry	2.9	0.1	-5.3	8.8	4.8	3.9
Services	4.8	4.0	-6.6	-3.5	3.2	2.6
Inflation (Consumer Price Index)	1.1	0.7	-0.8	1.0	1.1	1.3
Current Account Balance (% of GDP)	5.6	7.0	3.2	-0.4	1.2	1.6
Net Foreign Direct Investment (% of GDP)	-0.8	-1.0	-4.5	0.6	0.5	0.5
Fiscal Balance (% of GDP)	0.1	-0.8	-4.8	-7.4	-6.0	-3.7
Debt (% of GDP)	41.4	40.8	50.0	59.0	62.2	62.7
Primary Balance (% of GDP)	1.1	0.2	-3.8	-6.1	-4.8	-2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.1	0.0	0.0	0.0	0.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.3	0.3	0.3	0.3	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	8.4	6.2	6.4	6.3	5.5	4.8
GHG emissions growth (mtCO2e)	0.6	0.3	-5.7	0.3	1.4	0.8
Energy related GHG emissions (% of total)	58.2	57.0	56.0	56.2	56.5	56.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2014-SES, 2020-, and 2019-SES.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using point-to-point elasticity (2014-2020) with pass-through = 0.7 based on GDP per capita in constant LCU.

TIMOR-LESTE

Table 1	2020
Population, million	1.3
GDP, current US$ billion	1.6
GDP per capita, current US$	1230.8
International poverty rate ($ 1.9)[a]	22.0
Lower middle-income poverty rate ($ 3.2)[a]	65.9
Gini index[a]	28.6
School enrollment, primary (% gross)[b]	112.5
Life expectancy at birth, years[b]	69.5
Total GHG Emissions (mtCO2e)	6.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2019).

An unprecedented surge of COVID cases in the first half of 2021 raised hurdles to economic recovery. The impact on livelihoods has been severe, exacerbated further by the devastating effects of tropical cyclone Seroja. Uncertainty on the future path of the pandemic remains high. GDP is projected to grow at 1.9 percent in 2021, but potential growth will continue to be hampered by a nascent private sector, limited productive capabilities, and the lasting effects of the recent economic recessions. COVID-19, climate change and natural disasters, as well as the post-election uncertainty remain the key risks to the outlook.

Key conditions and challenges

Timor-Leste is a resource-rich country that has saved much of its hydrocarbon-related proceeds in a Petroleum Fund. By the end of July 2021, the Fund's financial assets exceeded USD 19 billion (nearly 10 times the total GDP in 2019). Nevertheless, petroleum production from Bayu-Undan, the remaining field in operation, is expected to cease in 2022.

The fundamental challenge facing the country is the transformation of its petroleum wealth into prosperity for the entire population. Large public spending has failed to sustain economic growth and only marginally improved living standards. Given the very large fiscal deficits and the finite nature of petroleum resources, Timor-Leste faces the risks of a fiscal cliff as, under the current spending trajectories, the Petroleum Fund may be fully exhausted in about ten years.

Timor-Leste suffers from limited economic integration and high market concentration of its exported merchandise. Tourism is the main export on the services side, but its contribution to the overall economy is constrained by weak connectivity. The country will also need to foster a private sector that can create jobs for its young and rapidly growing population.

Timor-Leste is vulnerable to natural hazards, including floods, landslides, tropical cyclones, droughts, earthquakes, and tsunami, and is ranked 20th amongst countries with the highest disaster risk. Climate change is expected to exacerbate natural disaster risk, potentially resulting in heavier and more frequent rainfall and longer drought conditions.

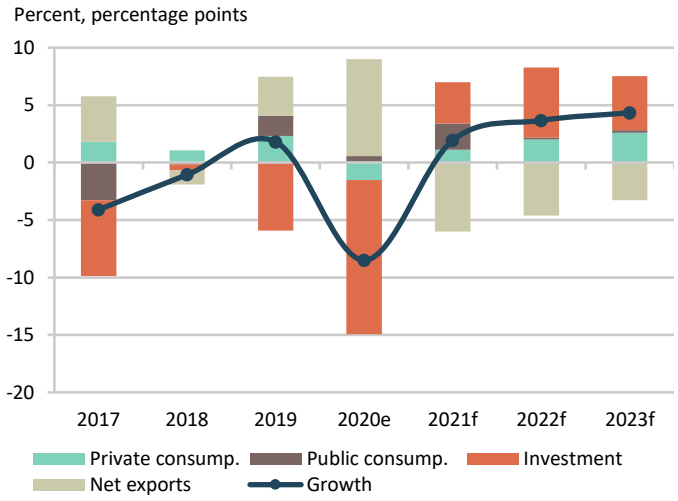
Recent developments

Despite early successes in containing the virus, COVID-19 cases have increased rapidly since early March 2021. More than 16,000 cases and 62 deaths have been reported as of 29 August 2021. A State of Emergency has been declared several times since March 2020 (for periods of 30 days), enabling the government to adopt extraordinary measures.

Tropical Cyclone Seroja in April triggered the most severe flash floods and landslides seen in Timor-Leste in a long time. They affected nearly 14 percent of the total population across all 13 municipalities of Timor-Leste. The floods caused severe damage to critical infrastructure such as roads, bridges, water supply infrastructure, schools, and health facilities, with the latter resulting in a loss of medicine, medical supplies, and personal protective equipment.

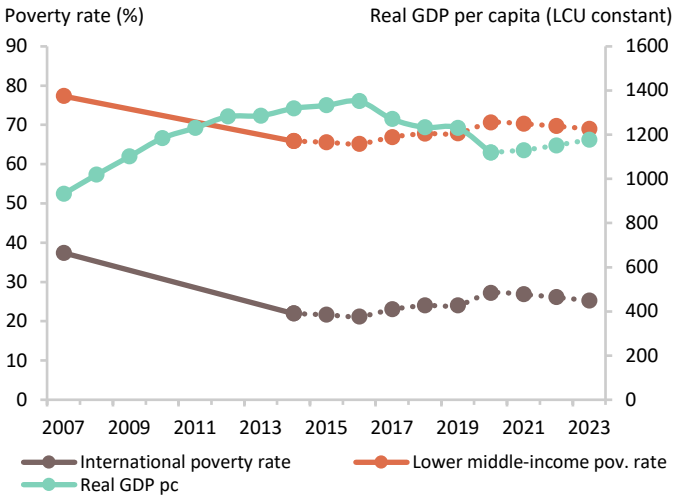
Despite a substantial fiscal package to mitigate the impact of COVID-19, the economy contracted sharply in 2020. Non-oil GDP declined by 8.5 percent in 2020. Public investment contracted by nearly 50 percent following long delays in passing the 2020 budget. Low production of coffee and international trade disruptions led to a 41 percent drop in exports and hurt the

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



Sources: Ministry of Finance and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

agricultural sector. Private investment shrank by 38.8 percent. The construction sector suffered following considerable decline in the public investment.

Poverty is estimated to have increased. Measured by an international poverty line of US$1.90 per day per capita (2011 PPP), poverty increased by about three percentage points between 2019 and 2020. It is difficult to capture the impact of COVID-19 at the household level due to very limited data. A small-scale UN socio-economic survey conducted in June-July 2020 indicates that almost 60 percent of people lost their income during the state of emergency period and about 22.6 percent of households had someone who lost their job because of the COVID-19 pandemic.

Fiscal authorities took strong measures to support the health response, households, and firms. The revised 2021 budget approved in late April includes a considerable fiscal package to address the pandemic and the natural disaster. The COVID-19 Fund was enlarged to 17.7 percent of non-oil GDP while the fund to response against natural disasters was upped to 4 percent of non-oil GDP.

By the end of August 2021, nearly 600,000 COVID-19 vaccine doses had been administered, comprising more than 380,000 first doses (coverage 50.4 percent) and 187,610 second doses (coverage 24.9 percent).

Outlook

The economy is projected to grow by 1.9 percent in 2021, hampered by the direct and indirect impacts of COVID-19 and the heavy floods that affected many parts of the country. Private consumption is expected to grow modestly in 2021. Government consumption will be supported by the recent promulgation of a revised budget for 2021. Some public projects will be postponed, while businesses will delay investment decisions. A rebound in the information and communications, construction, and agricultural sectors may drive the growth from the supply side.

International travel restrictions will affect exports of travel services, but imports will be supported by growing domestic demand. A new package of economic relief measures will provide some support to households and businesses, but economic activity is still predicted to grow modestly in the short term.

The economy is expected to recover in the medium term, but structural constraints will remain an impediment to faster growth. GDP is projected to increase by 3.7 percent in 2022 before accelerating to 4.3 percent in 2023. Potential growth will continue to be hampered by a nascent private sector, limited productive capabilities, and the lasting effects of recent economic recessions.

The economy has experienced three recessions in the past four years – 2017, 2018 and 2020. Although GDP growth is still projected to be positive in 2021, GDP per capita is expected to decline – since the population is growing at about 2 percent per year.

COVID-19 remains the key risk to the outlook, as it may require prolonged containment measures to avoid human losses. A swift vaccination rollout is therefore critical than ever. Greater preparedness remains critical to minimize the impacts of COVID-19 and future pandemics.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-1.1	1.8	-8.5	1.9	3.7	4.3
Private Consumption	1.7	3.6	-2.3	1.6	2.9	3.7
Government Consumption	-0.3	3.2	1.0	3.6	0.2	0.4
Gross Fixed Capital Investment	-1.5	-17.2	-48.1	22.7	32.0	19.3
Exports, Goods and Services	16.6	-17.2	-41.4	13.1	11.8	13.8
Imports, Goods and Services	2.8	-6.5	-17.1	12.6	8.8	6.1
Real GDP growth, at constant factor prices	-0.6	2.1	-7.8	1.9	3.7	4.3
Agriculture	2.9	2.5	1.2	2.6	2.9	2.9
Industry	5.3	-4.7	-9.3	1.1	2.4	2.4
Services	-2.7	3.6	-9.9	1.9	4.2	5.2
Inflation (Consumer Price Index)	2.2	0.9	0.5	1.6	2.1	2.5
Current Account Balance (% of GDP)	-12.3	7.9	-20.3	-31.1	-39.3	-44.9
Fiscal Balance (% of GDP)[a]	-29.1	-30.5	-26.2	-29.7	-32.4	-33.5
International poverty rate ($1.9 in 2011 PPP)[b,c]	24.0	24.1	27.2	26.8	26.1	25.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	67.8	67.8	70.6	70.3	69.7	69.0
GHG emissions growth (mtCO2e)	-2.9	1.5	-5.7	1.8	3.2	3.8
Energy related GHG emissions (% of total)	9.7	9.7	9.5	9.6	9.7	9.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

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

(b) Calculations based on EAPPOV harmonization, using 2007-TLSLS and 2014-TLSLS.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.

(c) Projection using annualized elasticity (2007-2014) with pass-through = 1based on GDP per capita in constant LCU.

VIETNAM

Table 1	2020
Population, million	97.3
GDP, current US$ billion	271.2
GDP per capita, current US$	2787.3
International poverty rate ($ 19)[a]	1.8
Lower middle-income poverty rate ($ 3.2)[a]	6.6
Upper middle-income poverty rate ($ 5.5)[a]	22.4
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	115.4
Life expectancy at birth, years[b]	75.4
Total GHG Emissions (mtCO2e)	414.1

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2019).

While resilient, the Vietnamese economy is confronting a serious domestic outbreak since late April 2021. The restrictive measures taken to quell it have derailed a strong economic recovery that was underway in the first half of 2021. Poverty outcomes in 2021 will depend on the ultimate duration and severity of lockdowns. If the outbreak is brought under control in Q3 2021 and lockdowns ease in Q4, GDP is expected to reach 4.8 percent, but the economy faces heightened risks.

Key conditions and challenges

While the authorities have accelerated and expanded the vaccination efforts, the rise of new variants could further disrupt the economy. Vaccination rates are uneven across the country, as supply is prioritized to currently high-risk regions. If the April 2021 outbreak is not brought under control soon, continued mobility restrictions will lead to lower than expected GDP growth and further affect poverty and inequality.

The economy faces heightened domestic risks. Supporting the day-to-day needs of households in dense urban areas will be a growing challenge if lockdowns extend or widen. In the Southeast region (including Ho Chi Minh City), 16.3 percent of households live in cramped quarters less than 8m2 per capita. Educational continuity will also vary, as primarily schools in the largest urban areas have the capabilities to offer online learning. Migrants, women who bear larger care responsibilities, informal sector workers, and the poor are vulnerable groups least able to cope. The first social support package launched in July 2020 had limited reach. Inequality is expected to rise. Also, the financial sector is expected to face rising risks from nonperforming loans, and the monetary authorities will need to remain vigilant, especially in banks that were already undercapitalized before the pandemic. While fiscal risks are subdued for now and debt is sustainable, continued vigilance is needed, including about potential contingent liabilities of state-owned enterprises.

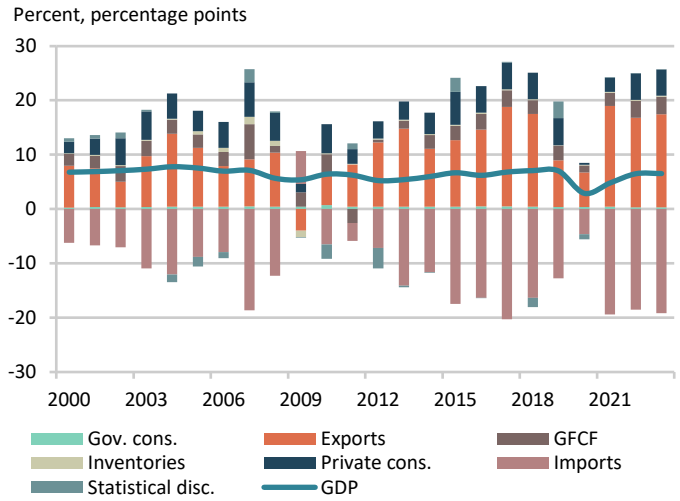
The economy also faces potential external risks. While Vietnam's main export markets – US, China, EU – appear to be on the recovery track, this recovery is subject to the uncertainties associated with emergence of new COVID-19 variants and the uneven global pace of vaccination. Additionally, Vietnamese exports are increasingly facing competition from other countries that are experiencing a stronger rebound in their production activities.

Recent developments

Vietnam faces its most serious domestic COVID-19 outbreak since the beginning of the pandemic. An April 2021 outbreak has spread to most of the provinces and is yet to be controlled. As of mid-September, over 600,000 infections and over 15,000 deaths were recorded, while about 5 percent of the population was fully vaccinated.

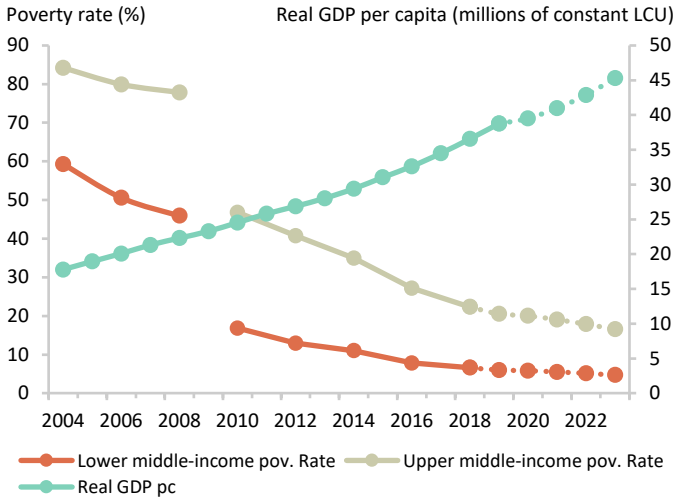
After relatively robust growth in the first semester, progressively more restrictive measures derailed the recovery. The Vietnamese economy expanded by 5.6 percent during the first semester of 2021, with the industrial sector reaching pre-pandemic levels (8 percent (year-over-year [y/y]), and services growth reaching about half of pre-pandemic levels. Vietnam maintained a positive external position, with international

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



Source: World Bank.

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



Source: World Bank. Notes: The 2004-09 and 2010+ poverty series are not compatible. Poverty measurement methodology changes significantly in 2010.

reserves topping US$100 billion, but both merchandise trade and current account balances deteriorated during the first semester. More restrictive social distancing measures and low vaccination have affected economic activities. In August, retail sales fell by 33.7 percent (y/y), while the Industrial production index fell by 7.4% (y/y).

The April outbreak will deeply affect the daily life of workers, businesses, and households, despite policy measures to mitigate impacts. Even before this outbreak and under relatively normal conditions, 30 percent of households reported less income in March 2021 than in March 2020. The extended lockdowns and closures of businesses will worsen household conditions, especially for informal workers. 81 percent of all households (21 million households in 2018) had at least one household member working informally. Only 27 percent of the workforce had social insurance coverage in 2019. The government announced a modest second national level relief package of 26 trillion VND ($1.1 billion) in July 2021 to provide cash support to affected workers, however its impact will rely on local implementation.

Outlook

The GDP could expand by around 4.8 percent in 2021 and converge toward the pre-pandemic GDP growth rate of 6.5 to 7 percent from 2022 onward. This estimation assumes that restrictive mobility measures will succeed in controlling infections by end Q3, allowing the economy to rebound in Q4 2021. A sustained global recovery will ensure strong demand for Vietnamese products in its main export markets (US, EU, and China). The rebound will also be supported by the vaccination of at least 70 percent of the adult population by mid-2022, preventing severe new outbreaks. This projection is subject to downside risks, including a more protracted outbreak, causing prolonged disruptions to economic activity.

Monetary, fiscal and social policies: During the remainder of 2021, monetary policy is expected to remain accommodative through the implementation of various monetary policy instruments and forbearance on business loans. Fiscal policy will become more supportive with faster execution of public investment, especially once mobility restrictions are rolled back. Aside from the second social protection support package, the government is considering a tax relief package to support businesses. Given available fiscal space, the government should deploy further resources to mitigate adverse social impacts and to hedge again downside risks to growth, especially if these risks intensify. Going forward the authorities should pursue their green and digital growth agenda to enhance the resilience and sustainability of the economy.

With the number of new cases remaining high and triggering lockdowns, labor income will continue to remain depressed. The government should increase the envelop and improve the implementation of its cash relief programs to reach more households, informal workers, and those unregistered in existing social assistance registries who have been affected. The 2nd national support package to households accepts more categories of affected workers, and the amount of cash support to individuals is also higher. However, the frequency of cash support is currently limited to a one-time transfer rather than for multiple months as in the first support package in April 2020.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	7.1	7.0	2.9	4.8	6.5	6.5
Private Consumption	7.3	7.4	0.5	4.0	7.4	7.3
Government Consumption	6.3	5.8	6.2	6.9	5.0	4.9
Gross Fixed Capital Investment	8.2	8.7	4.1	7.6	9.6	9.5
Exports, Goods and Services	14.3	6.7	5.0	14.3	11.6	11.5
Imports, Goods and Services	12.8	9.5	3.4	14.1	12.3	12.1
Real GDP growth, at constant factor prices	7.2	7.1	3.1	4.8	6.5	6.5
Agriculture	3.8	2.0	2.7	3.4	2.0	2.0
Industry	8.9	8.9	4.0	7.6	8.5	8.4
Services	7.0	7.3	2.3	2.7	6.0	6.2
Inflation (Consumer Price Index)	3.5	2.8	3.2	3.2	3.6	4.0
Current Account Balance (% of GDP)	2.4	5.0	4.6	1.5	1.0	1.0
Net Foreign Direct Investment (% of GDP)	6.1	6.0	5.7	5.7	5.8	5.7
Fiscal Balance (% of GDP)	-1.3	-0.5	-4.9	-6.0	-5.9	-5.4
Debt (% of GDP)	55.0	55.0	55.3	58.3	59.0	58.8
Primary Balance (% of GDP)	0.6	1.3	-3.2	-4.3	-4.2	-3.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	6.6	6.0	5.9	5.5	5.1	4.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.4	20.6	20.1	19.1	17.9	16.6
GHG emissions growth (mtCO2e)	11.0	7.9	5.3	6.8	7.9	7.9
Energy related GHG emissions (% of total)	62.9	64.1	65.3	66.6	68.1	69.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

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

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