Latin America and the Caribbean

Macro Poverty Outlook

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

Annual Meetings 2021

WORLD BANK GROUP
Macroeconomics, Trade & Investment
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Latin America and the Caribbean

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ARGENTINA

Table 1	2020
Population, million	45.4
GDP, current US$ billion	401.2
GDP per capita, current US$	8837.0
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	4.9
Upper middle-income poverty rate ($5.5)[a]	14.4
Gini index[a]	42.9
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)[c]	395.5

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

Emerging from one of the steepest COVID19-related contractions, Argentina's economy is expected to grow by 7.5 percent in 2021. Growth is projected to decelerate, as persistent macroeconomic imbalances and tight capital controls inhibit strong investment growth in the short-run. GDP will reach its pre-pandemic level by end- 2022, while poverty levels will take much longer to recover. A sound macroeconomic framework that addresses fiscal sustainability and reduces inflation, strengthened by reforms to boost long-term growth, could accelerate the recovery, job creation and poverty alleviation.

Key conditions and challenges

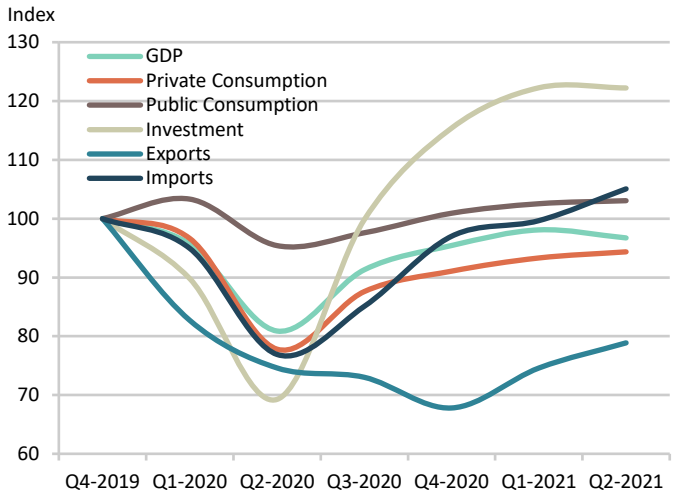
Argentina is struggling to return to sustained growth following a three-year recession amid stubborn levels of COVID -19 contagion and following almost a decade of stagnation. The economy was 8 percent below its previous peak when the pandemic hit, reducing GDP per capita to 2004 levels by the end of 2020. The economic recovery started by end-2020, led by strong private investment, as confinement measures were lifted. However, the recovery has been uneven across sectors. While manufacturing, agriculture, retail and construction ended 2020 almost at or above pre-COVID levels, the transportation and hotels and restaurants sectors remain subdued, owing to the pandemic. Job retention and income support schemes during 2020 protected formal labor market attachment. However, non-formal sectors accounting for large shares of total employment, such as retail and construction, experienced average losses in labor income of the order of 15 percent in 2020 and negative employment growth rates. Job creation has been soft: the few sectors showing positive, yet modest employment growth rates, are formal--except for manufacturing --and related to essential services such as health and education.

Despite the reduction of the fiscal deficit in 2021, due to increasing commodity prices, one-off fiscal revenues and the unwinding of COVID-related spending, macroeconomic imbalances persist, including high inflation, favored by an accommodative monetary policy stance in support of meeting the financing needs of the Federal Treasury during a time of limited access to capital markets. Central Bank money printing to assist the Treasury has reached 7.4 percent of GDP in 2020 and is estimated to decline to 2.9 percent of GDP in 2021. Meeting public financing needs will remain a challenge going forward. A historical low level of foreign reserves may pose challenges stemming from depreciation pressures. In this context, a strong macroeconomic policy framework and structural policies to improve the business climate are critical to anchor expectations, attract broad based investment and fuel job creation.

Recent developments

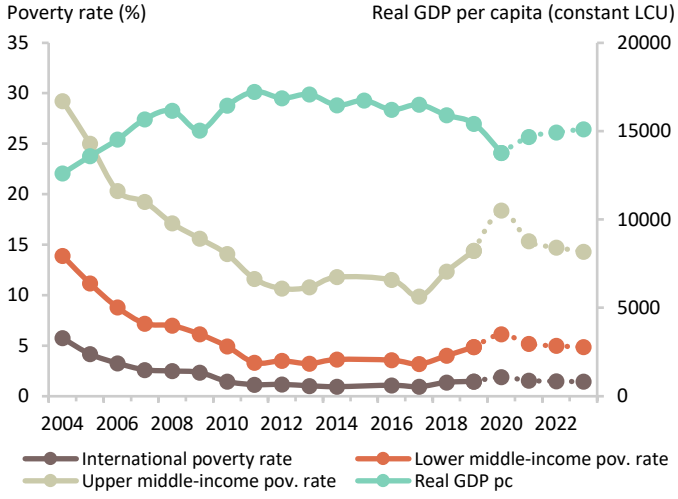
After a strong rebound at end-2020, growth momentum has slowed. Economic activity has slowed down in the beginning of the year and further contracted in Q2 as renewed confinement measures were imposed. High frequency indicators are pointing to a rebound in June, as COVID-19 cases dropped and mobility increased, but with the likelihood of a new deceleration in July. Strong investment in agroindustry, energy and mining sectors are supporting the recovery. Covid-19 exacerbated already weak labor markets with high levels of informality and underemployment, particularly in the metropolitan

FIGURE 1 Argentina / Real GDP demand components (Index Q4-2019=100)



Source: World Bank staff calculations based on INDEC.

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



Source: World Bank. Notes: see Table 2.

area of Buenos Aires, historically with the largest number of poor people because of its size, and currently the region of the country with the highest poverty incidence.
Inflation continued to accelerate in the first half of the year, as economic activity gained momentum, the velocity of money increased, and the effects of the monetary expansion observed in 2020 started to materialize. Despite price controls, tariff freezes and an appreciation of the Peso in the official foreign exchange market, inflation has reached a 50 percent annual pace, eroding purchasing power, disproportionally hurting low-income households.
The Central Bank has bought foreign exchange, helped by the boom in commodities prices. However, a significant share of accumulated reserves has been used to repay debt and contain the pressure of a widening gap between the official and parallel exchange rates. The SDR allocation from the IMF (US$4.3bn) will help to curtail further erosion of reserves, as these funds will be used to pay IMF debt service coming due in the second half of 2021.

Outlook

GDP is projected to grow by 7.5% in 2021 given the strong 2020-Q4 carry over and a rebound in private consumption, investment and net trade. The spike in commodities prices--together with the maintenance of import controls--will continue to contribute to a trade and current account surplus in 2021. A high inflationary environment, and several controls on imports, prices and capital movements will inhibit a strong investment momentum. As a consequence, the economy is projected to grow 2.6 percent in 2022, slowly converging to potential in 2023, in the absence of bold reforms.
The current account will continue to be supported by high commodity prices, but the surplus is expected to gradually wane as the cyclical recovery progresses. Uncertainty about the pandemic dynamics will continue to weigh on economic activity until a large portion of the population is vaccinated. Climate conditions (i.e. droughts) continue to be a source of risk to the projections, impacting on agricultural production, while the historically low flows in the Parana river could also seriously harm industrial exports.
Poverty is expected to decline modestly, alongside the economic recovery. In 2021, it is projected that 15.4 percent of the population will be considered poor under the international poverty line of $5.5 per day. Real possibilities of a sharper poverty decline in the medium term will depend on the dynamism of job creation and the evolution of prices of the basic consumption basket. Rebuilding human capital and redressing the losses owing to COVID – especially the increased number of school dropouts and losses to labor market entry - would set the basis of stronger growth and improve equity.

TABLE 2 **Argentina** / 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	-2.6	-2.0	-9.9	7.5	2.6	2.1
Private Consumption	-2.2	-7.3	-13.8	8.5	2.7	2.1
Government Consumption	-1.9	-1.2	-3.3	3.6	2.8	1.0
Gross Fixed Capital Investment	-5.7	-16.1	-12.7	24.0	5.6	4.8
Exports, Goods and Services	0.6	9.1	-17.3	9.1	5.1	4.1
Imports, Goods and Services	-4.5	-19.0	-17.9	22.0	6.6	4.8
Real GDP growth, at constant factor prices	-2.7	-1.7	-9.9	7.5	2.6	2.1
Agriculture	-14.6	21.3	-7.1	2.0	3.0	1.1
Industry	-3.0	-4.8	-9.4	10.6	2.0	1.5
Services	-0.8	-3.1	-10.6	7.0	2.9	2.6
Inflation (Private Consumption Deflator)	47.3	53.2	39.1			
Current Account Balance (% of GDP)	-5.2	-0.8	0.8	0.8	0.4	-0.2
Net Foreign Direct Investment (% of GDP)	1.9	1.1	0.7	1.0	1.5	1.6
Fiscal Balance (% of GDP)	-5.7	-4.7	-8.1			
Debt (% of GDP)	93.9	98.5	106.4			
Primary Balance (% of GDP)	-2.1	-0.5	-5.6			
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	1.5	1.9	1.6	1.5	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.0	4.9	6.1	5.2	5.0	4.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.3	14.4	18.4	15.4	14.7	14.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2012-EPHC-S2, 2018-EPHC-S2, 2019-EPHC-S2. Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(b) Projection using annualized elasticity (2012-2018) with pass-through = 1based on GDP per capita in constant LCU.

THE BAHAMAS

Table 1	2020
Population, million	0.4
GDP, current US$ billion	10.0
GDP per capita, current US$	25000.0
School enrollment, primary (% gross)[a]	81.4
Life expectancy at birth, years[a]	73.9
Total GHG Emissions (mtCO2e)[b]	2.6

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

GDP is estimated to have contracted by 14.5 percent in 2020 due to the impact of the COVID-19 pandemic on tourism, the country's main economic activity and source of revenue. With over 50 percent of the labor force employed in this sector, unemployment remains high, particularly affecting the most vulnerable. Poverty is expected to rise well above 13 percent. The pandemic interrupted the fiscal consolidation and reconstruction efforts following Hurricane Dorian.

Key conditions and challenges

The Bahamas is a high-income service economy heavily dependent on tourism and financial services. Its GDP has risen steadily over the past 3 decades, with annual growth averaging 1.4 percent in real terms. Nonetheless, the country's economic position remains vulnerable due to its small size, lack of economic diversification and vulnerability to natural disasters. The Bahamas relies significantly on foreign investment, especially related to tourism. Tourism, together with tourism-driven construction and manufacturing, accounts for approximately 60 percent of GDP and, directly or indirectly, employs half of the country's workforce.

Economic growth in recent decades has not been distributed broadly among all segments of the population. According to the last Household Expenditure Survey collected in 2013, around 13 percent of the population lived below the national poverty line. Moreover, inequality was high, with a Gini index of 41.4. The bottom 40 percent of the population distribution only accounted for 16 percent of total consumption, while the top 10 percent accounted for 31 percent. While no official poverty indicators have been produced since 2013, the country has shown steady improvement in the Human Development Index (HDI), particularly in the education and life expectancy components.

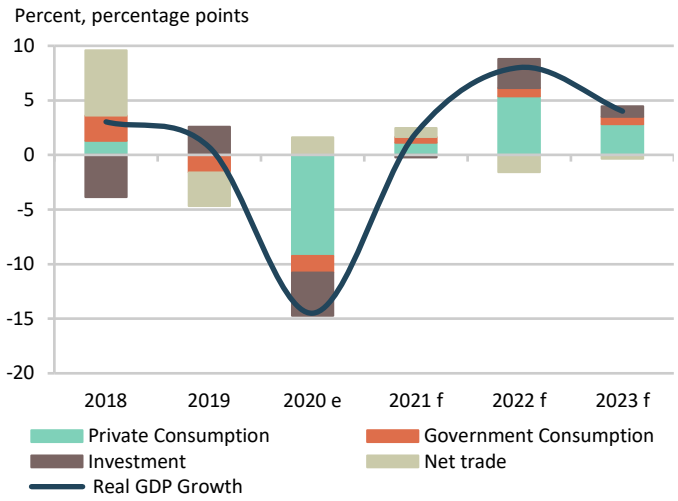
Vulnerability to climate change and global health risk jeopardize the country's development trajectory. Sea-level rise associated with increasing temperatures threatens The Bahamas' low-lying islands. In addition to the severe impacts of Hurricane Dorian in 2019, the country faces an average annual loss from windstorms of US$850 million—over 6 percent of GDP.

The COVID-19 pandemic led to a steep decline in tourism arrivals and the resulting job losses have been particularly felt by the vulnerable populations, such as low-income households, informal workers, and women. School closures are likely to have impacted learning, with potential longer term impacts on human capital and potential earnings. This will erase some of the progress in recent years in terms of human development and will increase poverty and inequality, underlining the need for the recovery efforts to support these groups decisively and allow a more diversified portfolio of income sources.

Recent developments

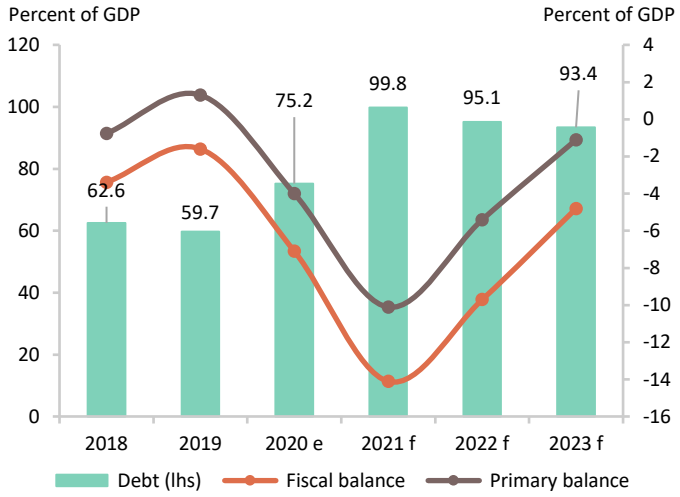
After shrinking 14.5 percent in 2020, GDP growth declined further (y-o-y) the first half of 2021 weighed down by the repercussions of Covid-19 pandemic. Unemployment in 2020 was estimated at 14.4 percent, up from 10 percent in 2019, and about 5 percent of the working age population dropped out of the labor force in 2020. Vaccination started in March and 30 percent of population was fully vaccinated by end-August. Meanwhile, the country

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



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

FIGURE 2 The Bahamas / Fiscal balances and public debt



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

has been experiencing a surge in cases since mid-July. Even though tourism showed signs of a mild recovery in the second quarter, arrivals to the country contracted by 83.6 percent in January-May 2021, compared to the same period in 2020. Sea cruise tourism, the main source of tourists in the islands, virtually halted. Still, by of June 2021, occupancy rate at hotels had increased to around 50 percent in average. Tourism related FDI projects together with hurricane rebuilding efforts supported the construction sector output. Increases in food, beverages and clothing were offset by decreases in restaurant and hotel services. 12-months inflation stood at 0 percent in February 2021.

Public finances continued to deteriorate during FY 2020/21 after recording a 4.0 percent of GDP primary deficit and a 7.1 percent of GDP overall fiscal deficit in FY 2019/20. The overall fiscal deficit during the first three quarters of FY 2020/21 was 2.5 times larger compared to same period of the previous fiscal year, explained by a 30 percent drop in total revenues and a 5 percent increase in expenditures. As a result, total public debt increased to an estimated 90.4 percent of GDP in March 2021, compared to 80.5 percent of GDP in March 2020.

Government's response to Covid-19 pandemic included measures to enhance unemployment benefits and assist self-employed workers, to provide food assistance to those workers and households most affected, a rental assistance program together with suspended disconnection from public services, and an inclusive vaccination policy.

The external sector was particularly hit by the Covid-19 pandemic during 2020, as net travel receipts make the largest contribution to the current account balance. In fact, the services account balance moved to deficit after March 2020. The current account deficit was 18.8 percent of GDP in 2020, compared to a 4.0 percent surplus in 2019. It was financed through borrowing from capital markets and IFIs as well as through decreasing international reserves.

Outlook

The economy is expected to grow by 2.0 percent in 2021 and 8.0 percent in 2022, once tourism flows to the island rebound. The inflation rate of The Bahamas is projected to average around 3 percent in the medium-term. The primary and overall fiscal deficits will worsen in FY2020/21 to 10.1 percent of GDP and 14.1 percent of GDP respectively, largely due to the drop in revenues. They are expected to steadily improve in the following two years in response to government's fiscal efforts, but it will not record a primary surplus before FY2023/24. Public debt is projected to decrease once the economy is back on the growth path, revenues rebound, and pandemic-related expenditures are winded down but will remain above 80 percent of GDP in the medium term.

The current account deficit is expected to increase to 21.8 percent of GDP in 2021, as demand for imports increase while tourism receipts will remain dampened. A gradual decrease of the current account is expected thereafter, with a 15.2 percent of GDP deficit for 2022. Outlook will depend on the development of the highly contagious Covid-19 Delta variant, the availability of vaccines, and the possibility of new travel restrictions worldwide affecting tourist arrivals to the country.

TABLE 2 The Bahamas / 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	3.0	0.7	-14.5	2.0	8.0	4.0
Real GDP growth, at constant factor prices	3.1	0.7	-14.5	2.0	8.0	4.0
Agriculture	-10.6	-0.8	-8.8	-1.3	8.6	4.8
Industry	-8.5	-1.0	-2.0	2.0	12.0	1.5
Services	5.3	1.0	-16.4	2.0	7.3	4.4
Inflation (Consumer Price Index)	2.3	2.5	0.0	2.8	3.9	3.1
Current Account Balance (% of GDP)	-8.7	4.0	-18.8	-21.8	-15.2	-11.5
Net Foreign Direct Investment (% of GDP)	3.8	2.0	2.2	2.4	2.5	2.8
Fiscal Balance (% of GDP)[a]	-3.4	-1.6	-7.1	-14.1	-9.7	-4.8
Debt (% of GDP)[a]	62.6	59.7	75.2	99.8	95.1	93.4
Primary Balance (% of GDP)[a]	-0.8	1.3	-4.0	-10.1	-5.4	-1.1

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

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

BARBADOS

Table 1	2020
Population, million	0.3
GDP, current US$ billion	4.4
GDP per capita, current US$	14666.7
School enrollment, primary (% gross)[a]	100.3
Life expectancy at birth, years[a]	79.2
Total GHG Emissions (mtCO2e)[b]	3.8

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

Barbados's tourism-dependent economy contracted by 18 percent in 2020 due to the fall in international travel and containment measures. Its current account deficit is expected to have increased to 7.3 percent of GDP. Poverty is expected to have increased noticeably in 2020, reflecting job losses and business closures caused by the pandemic. The pandemic curbed the reform efforts made in the context of the Barbados Economic Recovery and Transformation (BERT) plan to sustain primary surpluses and reduce the debt burden.

Key conditions and challenges

Barbados is a high-income service economy. However, the country's economic achievements remain vulnerable due to its small size, its dependence on tourism at 17 percent of GDP, and considerable exposure to climate change risks. Besides the Covid-19 pandemic, natural disasters such as the eruption of the volcano La Soufriere and Hurricane Elsa, disrupted economic activity in 2021. Additional vulnerability stems from a high level of public debt, which is currently over 150 percent of GDP; successful debt restructuring completed in 2019 had brought debt down to 126 percent.

The BERT plan, which included the debt restructuring, is aimed at restoring macroeconomic stability while safeguarding the financial and social sectors. Under the macroeconomic framework of the program, the restructuring agreement ensures that the debt reaches 60 percent of GDP in 15 years. The government made significant fiscal efforts to gradually reduce the debt burden.

Poverty was on an upward trend before the onset of Covid-19. Between 2010 and 2016, Barbados experienced an increase in the poverty headcount rate from 15.1 to 17.2 percent. While no official poverty estimates are available since then, the economic deceleration observed in the years that led to 2020 suggests a further increase.

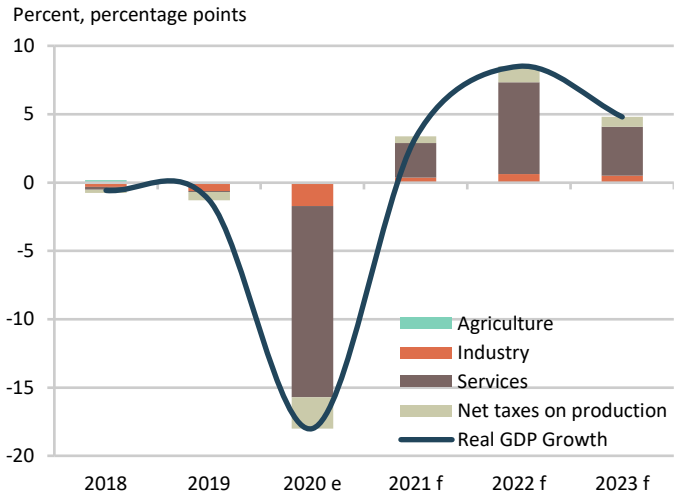
The pandemic, which brought the tourism and construction sectors to a standstill, translated into significant job losses, particularly for the less well-off and women. Thus, in 2020, poverty rate is expected to have increased significantly compared to the 17 percent reported for 2016. However, if it were not for the expansion of social assistance, and the implementation of employment subsidies in the tourism sector, the increase would have been even larger.

Recent developments

During the first half of 2021, GDP was 9 percent below its level during the same period in 2020. However, growth accelerated to 5.5 percent in the second quarter (y-o-y), pointing to a mild recovery as lockdown measures eased. Moderate growth was driven mainly by private sector consumption together with the contribution of base effects. In turn, tourism exhibited a lackluster performance during the first half of 2021, with arrivals still 88 percent below their level during the same period of 2020. Vaccination against Covid-19 started in February 2021, when cases peaked and the Government introduced new lockdown measures. New cases surged again in August after several months of registering almost no cases. By September, more than 30 percent of the total population was fully vaccinated.

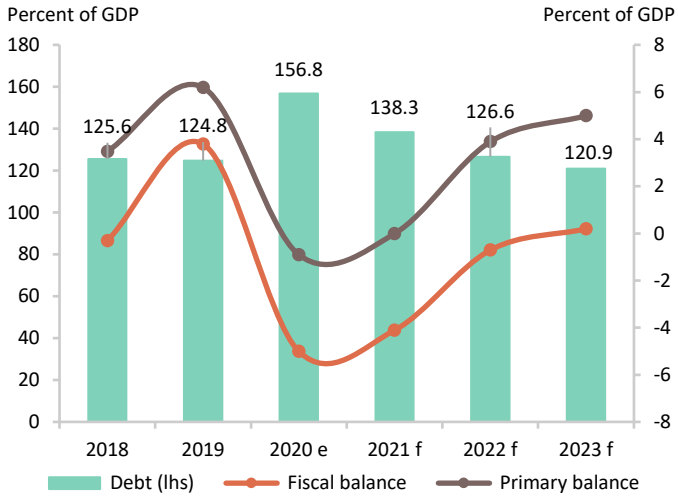
The lower demand for agricultural products from subdued tourism combined with the impact of the eruption of La Soufriere volcano resulted in a 12 percent contraction of agricultural production in

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



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

FIGURE 2 Barbados / Fiscal balances and public debt



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

the first half of 2021. Meanwhile, the manufacturing sector expanded by over 6 percent in the same period.

Employment and earnings were negatively affected by the second lockdown. Unemployment increased to 17.2 percent in 2021Q1, compared to 13.6 percent at the end of 2020. As before, the job losses were concentrated among the most vulnerable, which partially reversed the progress of the early recovery in terms of living conditions.

In turn, the 12 –month inflation stood at 1.5 percent in May 2021. The current account deficit widened to 7.3 percent of GDP in 2020 from 3.1 percent in 2019, because of lower tourism receipts. Gross international reserves stood at US$2.7bn by end-June 2021, equivalent to an import cover of 44 weeks. The US$740 m increase from 2020 was supported by inflows from IFIs and by capital inflows to pay taxes due from the international business sector. After recording a 0.9 percent of GDP primary deficit and a 5.0 percent of GDP fiscal deficit in FY 2020/21, the government is aiming for a balanced budget in FY 2021/22.

Outlook

GDP growth is expected to reach 3.3 percent in 2021 and 8.5 percent in 2022, as tourism slowly recovers. However, the outlook is uncertain, and it will depend on progress with respect to vaccination, the number of COVID-19 cases and international travel restrictions. Lagging construction activity and renewed fiscal consolidation efforts are expected to moderate growth prospects. A balanced primary result is expected in FY 2021/22 while the overall fiscal deficit is projected to remain at 4.1 percent of GDP. Fiscal accounts are expected to improve in FY 2022/23, achieving a robust 3.9 percent of GDP primary surplus and a small overall deficit of 0.7 percent of GDP.

The inflation rate is projected to average around 2.1 percent in the medium-term. The recent increase in energy and oil prices may pose significant challenges for external accounts. The current account deficit for 2021 is projected to widen to 12.8 percent of GDP and narrow to 8.5 percent of GDP in 2022. The government will continue consolidation efforts to reach its debt-to-GDP target of 60 percent by FY 2035/36. Given the commitment of a balanced budget, and a government deposit in the Central Bank of Barbados equivalent to over 5 percent of GDP, fiscal risks for FY 2021/22 will remain moderate.

Recovery in 2021 will likely be accompanied by a modest improvement in living standards. However, returning to pre-pandemic levels of employment and income will take longer, and will depend heavily on the recovery of the tourism sector. Additional support for the most vulnerable will be necessary to attain the welfare levels observed in the last decade.

TABLE 2 Barbados / 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	-0.6	-1.3	-18.0	3.3	8.5	4.8
Real GDP growth, at constant factor prices	-0.4	-0.8	-17.9	3.2	8.4	4.7
Agriculture	14.8	-7.0	0.5	-4.9	1.1	0.5
Industry	-2.3	-4.0	-13.4	2.7	4.6	3.8
Services	-0.3	-0.1	-19.0	3.5	9.2	4.9
Inflation (Consumer Price Index)	3.7	4.1	2.9	2.5	4.0	2.5
Current Account Balance (% of GDP)	-5.0	-3.1	-7.3	-12.8	-8.5	-6.9
Fiscal Balance (% of GDP)	-0.3	3.8	-5.0	-4.1	-0.7	0.2
Debt (% of GDP)	125.6	124.8	156.8	138.3	126.6	120.9
Primary Balance (% of GDP)	3.5	6.2	-0.9	0.0	3.9	5.0

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

BELIZE

Table 1	2020
Population, million	0.4
GDP, current US$ billion	1.7
GDP per capita, current US$	4250.0
School enrollment, primary (% gross)[a]	110.5
Life expectancy at birth, years[a]	74.6
Total GHG Emissions (mtCO2e)[b]	6.8

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

Belize entered the COVID-19 pandemic with high public debt, external vulnerabilities, and low economic growth. The pandemic led to a sharp drop in tourism and manufacturing and has led to an increase in poverty and unemployment. Improving the business climate and protecting the vulnerable remains a policy priority. Growth will recover, but there will be downside risks from natural disasters and delays in vaccination implementation.

Key conditions and challenges

Tourism is Belize's leading foreign exchange earner, followed by agricultural commodities and crude oil. Between 1999 and 2008, real GDP growth averaged 5.6 percent, supported by expansionary monetary and fiscal policies, before falling to 1.8 percent between 2009 and 2019.

Belize's reliance on oil imports makes it vulnerable to fluctuations in energy prices. Belize's regulatory environment, infrastructure deficiencies, and high wage bill continue to be challenges. These are reflected in the country's structurally high unemployment, a widening trade deficit, and a significant foreign debt burden.

The COVID-19 pandemic hit when the economy was already in recession due to a drought and a slowdown in tourism in the second half of 2019. The latest official consumption poverty estimates (2019) classified over half (52 percent) of Belize's population as poor and 9 percent as extreme poor. The economic impact of the pandemic is severe due to a drop in tourism activity as well as the indirect effects of containment and mitigation measures on manufacture. The international airport closed in April 2020 and reopened in October 2020 after appropriate testing and tracing protocols were in place. As of September 8, 2021, COVID-19 affected 4.4 percent of Belize's population, resulting in 3,690 (95 per 100,000) deaths, while 20 percent of the population had been fully vaccinated.

The EU Economic and Financial Affairs Council (ECOFIN) removed Belize from the EU grey list of non-cooperative tax jurisdictions; however, gaps in financial sector supervision remain.

The government is in discussions with Belize's $560 million "superbond" holders to buy back the outstanding bonds' value (including interest) with funding provided by The Nature Conservancy through a new "blue bond" to protect marine habitats.

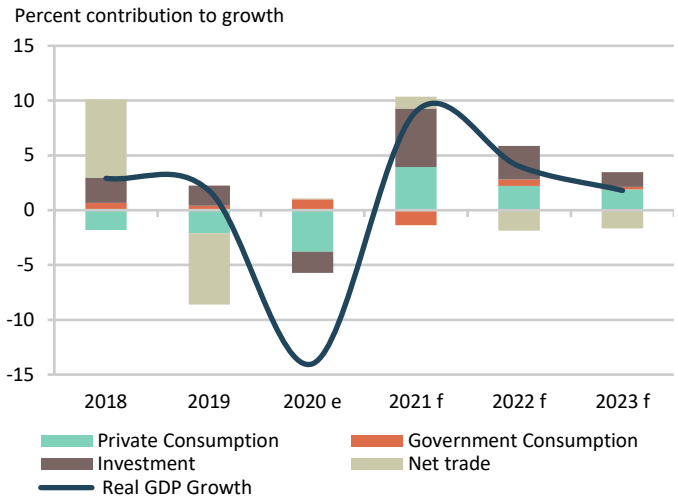
Key risks are related to the emergence of new COVID-19 variants, higher oil prices, exposure to extreme climate-related shocks, high public debt, and social tensions.

Recent developments

Belize's economy contracted by 14 percent in 2020, owing to a sharp drop in net external demand and private consumption as a result of a sharp drop in international tourism, as well as the effect of pandemic-related mobility restrictions. In the first half of 2020, a severe drought reduced hydroelectric generation. In the fourth quarter, Storm Eta wreaked havoc on crops and livestock. Nonetheless, due to a drop in oil prices, inflation remained subdued at 0.1 percent in 2020.

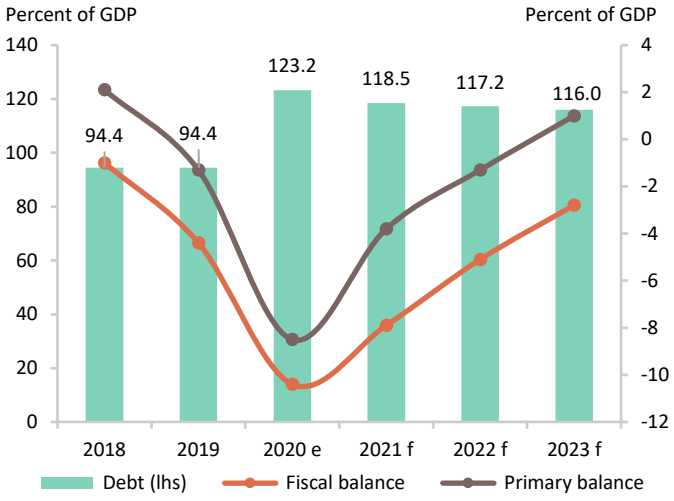
The current account deficit (CAD) narrowed to 7.2 percent of GDP in 2020 due to the deferral of quarterly interest payments to bondholders since August 2020 and an increase in remittances from abroad. Foreign direct investment (FDI), donations, and multilateral lending financed the CAD. By the end of 2020,

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



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

FIGURE 2 Belize / Fiscal balances and public debt



Sources: Ministry of Finance and World Bank staff calculations.

international reserves were up by 25.4 percent to US$348 million (4.6 months of total imports).

Belize announced a fiscal stimulus amounting to 1 percent of GDP in March 2020 to provide short-term relief to employees affected by the crisis, particularly those in the tourism sector. Reduced tax collection and increased spending increased the fiscal deficit to 10.4 percent of GDP in 2020, raising the debt level to 123.2 percent of GDP.

Authorities enacted measures to maintain credit flow in the economy, such as lowering statutory cash reserve requirements, extending the period for classifying targeted non-performing loans, and modifying other aspects of the banking system's balance sheet.

After rising from 10.4 percent in September 2019 to 13.7 percent in September 2020, the unemployment rate has since fallen to 11.2 percent in April 2021. An estimated 19,000 people who lost their jobs due to the pandemic remained unemployed. Tourism remained the hardest hit industry, accounting for one-third of job losses. Working-hour and pay cuts are likely to contribute to an increase in poverty.

Outlook

Increased tourist arrivals, as well as FDI-led construction of several new luxury hotels in 2021, will help jumpstart the recovery. Slower than expected recovery in tourism is a key downside risk. Over the medium term, inflation will average 2.4 percent as the prices of imported commodities normalize and demand picks up.

The sharp decline in economic activity and job losses are expected to lead to significant increases in poverty in 2021. A temporary unemployment program, as well as the expansion of transfers through Boost (the conditional cash transfers program), can provide relief to the most vulnerable and help to mitigate the rise in poverty. However, due to a lack of recent data, determining the beneficiary incidence of these emergency transfers among the 'current' poor is difficult.

Over the medium term, the CAD is expected to widen to 7.4 percent of GDP as imports recover and remittances level off. The CAD will be funded through private inflows, donations, and multilateral lending, as well as a drawdown of reserves. In this context, as quarterly interest payments to bondholders resume in 2021 and imports begin to recover, the level of international reserves may fall below three months of imports.

Tax collections are expected to increase as the economy recovers. The government announced wage cuts, as well as reductions in cash transfers and capital expenditures. This will bring the fiscal deficit down to 2.8 percent of GDP and the public debt down to 116 percent of GDP by 2023. Debt dynamics will remain vulnerable to shocks to growth, interest rates, and the fiscal position. Natural disasters and climate change also have a significant impact on the fiscal position and debt dynamics. Overall, despite reaching an agreement to relieve the country of its large international debt, financing will remain extremely limited.

TABLE 2 Belize / 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	2.9	1.8	-14.0	9.0	4.0	1.8
Private Consumption	-2.7	-3.3	-6.3	6.0	3.5	3.0
Government Consumption	4.6	2.7	6.4	-7.2	3.6	1.5
Gross Fixed Capital Investment	13.1	9.5	-9.3	24.4	12.1	4.9
Exports, Goods and Services	7.5	-7.0	-14.1	10.0	2.1	1.2
Imports, Goods and Services	-4.3	3.8	-12.9	7.2	5.0	3.8
Real GDP growth, at constant factor prices	3.1	1.0	-12.9	9.0	4.0	1.8
Agriculture	-2.7	-4.2	-3.0	2.7	1.3	1.6
Industry	0.9	-4.2	-1.5	0.9	1.8	2.2
Services	4.5	3.0	-16.8	12.1	4.9	1.7
Inflation (Consumer Price Index)	0.3	0.2	0.1	2.7	2.5	2.0
Current Account Balance (% of GDP)	-6.6	-7.8	-7.2	-6.4	-7.8	-8.0
Net Foreign Direct Investment (% of GDP)	6.1	4.6	4.0	4.7	4.5	4.6
Fiscal Balance (% of GDP)[a]	-1.0	-4.4	-10.4	-7.9	-5.1	-2.8
Debt (% of GDP)[a]	94.4	94.4	123.2	118.5	117.2	116.0
Primary Balance (% of GDP)[a]	2.1	-1.3	-8.5	-3.8	-1.3	1.0

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

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

BOLIVIA

Table 1	2020
Population, million	11.7
GDP, current US$ billion	36.6
GDP per capita, current US$	3128.2
International poverty rate ($ 1.9)[a]	3.2
Lower middle-income poverty rate ($ 3.2)[a]	7.8
Upper middle-income poverty rate ($ 5.5)[a]	19.9
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	71.5
Total GHG Emissions (mtCO2e)[c]	126.2

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

After the pandemic-induced economic contraction, the economy is expected to rebound in 2021 due to easing mobility restrictions and expansionary policies. However, growth will likely slow down in the medium term as the shrinking policy room will restrict future expansionary efforts. Poverty would remain above its pre-crisis levels by 2023. Bolivia's medium-term prospects depend on its capacity to generate confidence in macroeconomic management, create fiscal space to shield social expenditure, and ignite new sources of growth and employment.

Key conditions and challenges

After years of loose fiscal, monetary, and financial policies, Bolivia had limited policy room to deal with the pandemic that resulted in a deep recession and pushed over one million people into poverty. The effect of the pandemic was compounded by high informality, a lethargic private sector with very low formal job creation, poorly targeted social programs, a weak health system, and political polarization after the contested 2019 elections.

After a one-year transition, the new elected Government is trying to resume state-led development policies, including expenditure stimulus and import substitution. However, with limited access to external financing, the Government is increasingly dependent on the Central Bank and pension funds financing, which may undermine confidence in the de-facto fixed exchange rate and crowd out credit to the private sector.

Although the authorities have been reluctant to reintroduce mobility restrictions to address the recent infection waves, the recovery is still vulnerable to the virus as only 24 percent of the population was fully vaccinated as of August 2021. High vaccine reluctance, mainly among the less educated, could delay the immunization.

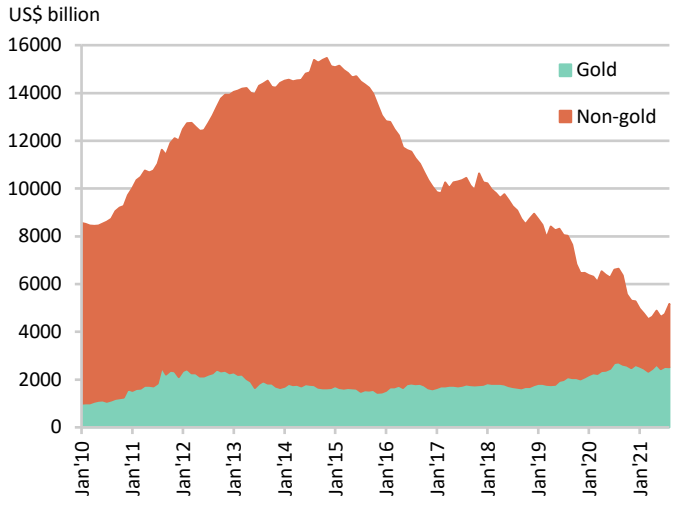
Given its high public debt and fixed exchange rate regime, it will be critical for Bolivia to implement a credible plan to address fiscal and external imbalances. Fiscal consolidation efforts could rely on improving fiscal policy efficiency and progressivity while safeguarding social expenditure to improve access to quality services and support the most vulnerable. Fostering private and foreign investment will be critical to prevent the collapse of gas exports and foster new sources of growth and employment. The investment climate and formal job creation could be improved by reducing red tape, lowering the tax burden, modernizing the labor regulation, improving logistics, easing restrictions on agriculture exports, and reducing barriers to environmentally friendly mining (including lithium).

Recent developments

After contracting by 8.8 percent in 2020, the economy grew 8.7 percent y-o-y in the first half of 2021 due to eased mobility restrictions and better external conditions. The recovery has been led by the rebound of mining and hydrocarbon exports and the non-tradable sectors, mainly construction. Unemployment declined from a peak of 11.6 percent in July 2020 to 6.4 percent in July 2021, a pre-pandemic level. Yet, under-employment remains well above its pre-pandemic level, especially among women.

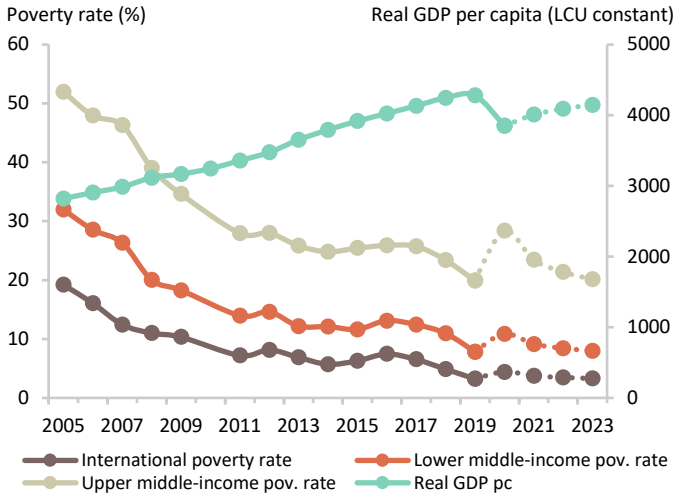
Despite the Government's efforts to reignite public investment, the fiscal balance improved in the first four months of 2021 due to the tax and hydrocarbon revenues rebound. However, with limited external financing, the Government has increasingly

FIGURE 1 **Bolivia** / International reserves



Source: Central Bank of Bolivia.

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



Source: World Bank. Notes: see Table 2.

tapped into Central Bank and pension funds financing.

The trade balance improved in the first seven months of 2021 due to recovering export volumes, higher international commodity prices, and still subdued imports. Coupled with a recovery of remittances, the trade surplus stabilized international reserves in recent months despite low foreign investment, limited external financing to the public sector, and rising smuggling resulting from the depreciation of neighboring countries' currencies.

After a prolonged loans deferment, domestic credit to the private sector has slowed down. Despite increasing money supply, annual inflation remained below 1.0 percent as the economy remained under its potential.

Poverty is expected to decline from a peak of 28.4 percent in late 2020 to 23.5 percent in 2021 ($5.5/day), remaining above its pre-pandemic level. The recovery has been driven by a recovery of employment, although of lower quality, and has been partially offset by the end of emergency transfers after the payments of Bonos Contra el Hambre ended in early 2021. As of May 2021, 60 percent of households still reported food insecurity, mainly among the rural poor, and lower earnings than pre-pandemic.

Outlook

The economy is expected to grow at 5.5 percent in 2021 as the Government ruled out a harsh lockdown, despite new infection waves. Only sporadic restrictions are expected while the vaccination is completed, hopefully by early 2022. Expansionary policies, including higher public investment, will also boost the economy. However, after this rebound, growth is likely to decline to 2.7 percent by 2023 as increasing debt and decreasing international reserves will constrain expansionary efforts.

The fiscal deficit will decrease to 8.5 percent of GDP in 2021, driven by recovering fiscal revenues, low emergency expenditures, and the introduction of a permanent wealth tax. It is expected to decline to 6 percent by 2023 as the spending is constrained by limited access to external funding. Yet, in the absence of fiscal reforms, the fiscal consolidation will be insufficient to stabilize public debt, which is projected to reach 83 percent by 2023.

Although Bolivia will benefit from the new SDR allocations, the current account deficit and capital outflows will continue eroding international reserves. The exchange rate is projected to remain fixed as the Government limits its expansionary efforts to prevent a disorderly devaluation. After Central Bank financing to the public sector and an early pension withdrawal spur liquidity in 2021, declining international reserves and emerging inflationary pressures are expected to constrain expansionary monetary policies.

Although growth will reduce poverty from its 2020 peak, poverty is projected to remain above the pre-pandemic level until 2023. Inequality may gradually decline after its sharp 2020 increase. Yet, long-term pandemic effects—such as the hysteresis, decapitalization of businesses, and human capital losses due to school closures, remote learning, and food insecurity—are likely to affect the poor and vulnerable the most, and to limit inequality reduction and upward intergenerational mobility.

TABLE 2 Bolivia / 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	2.2	-8.8	5.5	3.5	2.7
Private Consumption	4.3	3.7	-8.0	4.9	3.6	2.6
Government Consumption	5.1	3.8	-2.6	0.2	-1.7	-2.5
Gross Fixed Capital Investment	3.2	-3.5	-26.0	20.5	15.2	6.0
Exports, Goods and Services	5.2	-1.8	-18.0	17.9	3.1	3.1
Imports, Goods and Services	1.9	1.5	-24.5	21.7	9.2	3.1
Real GDP growth, at constant factor prices	4.3	2.4	-8.2	4.8	3.5	2.7
Agriculture	6.9	5.3	3.3	3.3	4.0	4.0
Industry	2.3	0.1	-11.9	8.9	2.9	2.5
Services	5.2	3.4	-8.9	2.4	3.7	2.4
Inflation (Consumer Price Index)	2.3	1.8	0.9	1.4	1.9	3.5
Current Account Balance (% of GDP)	-4.3	-3.4	-0.6	0.4	-1.0	-1.4
Net Foreign Direct Investment (% of GDP)	1.0	-0.6	-2.7	0.0	0.4	0.5
Fiscal Balance (% of GDP)	-8.1	-7.2	-12.7	-8.4	-6.8	-6.0
Debt (% of GDP)	53.9	58.6	75.9	78.1	81.1	82.8
Primary Balance (% of GDP)	-7.0	-5.8	-11.2	-6.9	-4.9	-3.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.9	3.2	4.4	3.8	3.5	3.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.0	7.8	10.9	9.1	8.4	8.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.4	19.9	28.4	23.5	21.4	20.1

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

(a) Calculations based on SEDLAC harmonization, using 2008-EH, 2011-EH, and 2019-EH. Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using average elasticity (2008-2011) with pass-through = 0.87 based on GDP per capita in constant LCU.

BRAZIL

Table 1	2020
Population, million	211.8
GDP, current US$ billion	1444.2
GDP per capita, current US$	6818.7
International poverty rate ($ 1.9)[a]	4.6
Lower middle-income poverty rate ($ 3.2)[a]	9.1
Upper middle-income poverty rate ($ 5.5)[a]	19.6
Gini index[a]	53.4
School enrollment, primary (% gross)[b]	132.5
Life expectancy at birth, years[b]	75.9
Total GHG Emissions (mtCO2e)[c]	1420.6

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

After contracting 4.1 percent in 2020, economic activity in Brazil increased substantially in 2021. Vaccination has accelerated, and the adult population is likely to be fully covered in late 2021. A sluggish labor market rebound, coupled with high unemployment and low participation rates will likely increase poverty in 2021. Rising fiscal concerns contribute to increasing long-term yields, while the tightening of monetary policy to contain the rampant inflation may undermine growth in 2022.

Key conditions and challenges

Structural bottlenecks and institutional challenges in passing critical reforms depressed Brazil's GDP growth to an average 0.3 percent per year over the last decade. Despite favorable demographics, labor's contribution to growth was -0.1 percent on average during this period. Meanwhile, productivity growth stalled, mostly due to a complex tax system, a cumbersome business environment that discouraged entrepreneurship, slow human capital accumulation, ineffective sectoral state intervention policies, low savings, and a compression of public investment to accommodate higher current spending and increasing pension obligations.

The economy was still recovering from the deep recession of 2015 and 2016 when the Covid-19 pandemic hit. Since the beginning of the pandemic at least 1 in 10 residents has been infected, putting a severe strain on Brazil's health system and its economic activity. The government responded to the crisis with an unprecedented fiscal stimulus of BRL 815.5 billion (11.4 percent of GDP) in 2020 and another BRL 137.2 billion (1.6 percent of GDP) package in 2021.

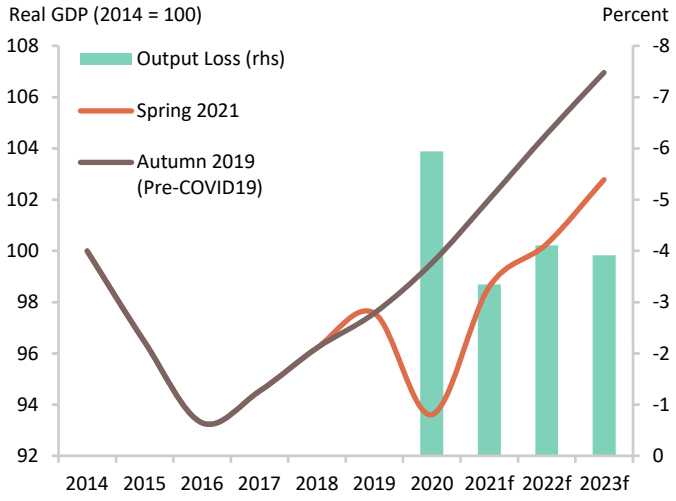
Through the emergency program *Auxílio Emergencial* (AE) the government's response represented more than a lifeline to households in the bottom 40 percent. This group had not recuperated their pre-crisis income levels and were severely affected by the pandemic's effects on labor-intensive services and informal sectors.

In addition, inflation has been accelerating, which is likely to disproportionately affect the poor. Demand for social transfers remains high as unemployment rates are above 14 percent, labor force participation is at historically low levels, and emergency cash transfer measures have been in place in 15 of the last 21 months. Political instability and upcoming elections increase uncertainty and pose additional challenges for fiscal consolidation and business sentiments.

Recent developments

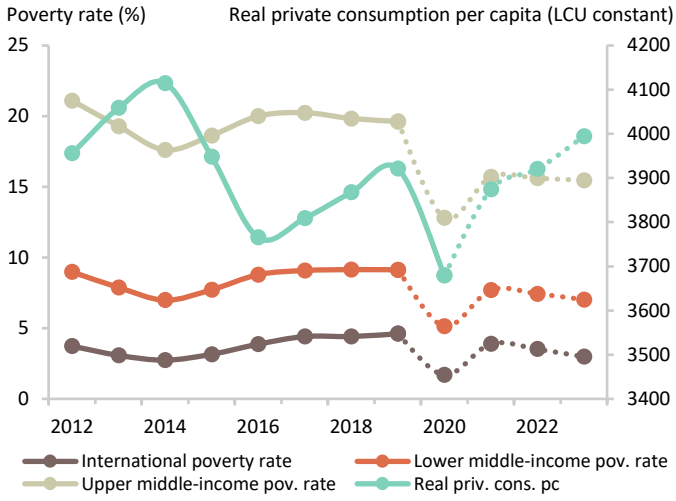
Following the recovery that started in Q3 of 2020, Brazil's quarterly GDP grew 1.2 percent in Q1 of 2021 (QoQ) but decreased 0.1 percent in Q2. Monthly activity indicators and advances in the vaccination campaign are pointing to a consumption-led GDP expansion through services (2.0 percent QoQ) and retail. Meanwhile, manufacturing has been negatively affected by supply chain disruptions and rising costs, and the labor market has still not recovered to pre-pandemic levels. The AE program mitigated the pandemic's impact on poverty in 2020, lowering it to 12.8 percent (based on the US$5.50, 2011 PPP line) and to 1.7 percent (based on the US$ 1.90 PPP line for extreme poverty). The program, however, was not able to contain increases to food insecurity, nor the negative impacts on learning for the

FIGURE 1 **Brazil** / Real GDP, Current forecast vs pre-covid projection



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

millions of children not attending school. High commodities prices and a depreciated currency have led to an improvement of the current account balance in 2021, despite increasing imports as the economy recovers. Inflation reached 9.7 percent in the 12 months to August 2021, above the BCB's target upper band for 2021 (5.3 percent). Increasing food, fuel and energy inflation continue to erode poor households' purchasing power. The BCB began policy normalization in Q1 2021 and accelerated the pace of monetary tightening beyond neutral levels to fight rampant inflation and anchor inflation expectations, increasing the interest rate by a cumulative 4.25 percentage points from a historically low 2.0 percent.

After a record deficit of 9.5 percent in 2020, the public sector balance is projected to improve in 2021 given the roll back of some Covid-19 related expenses and higher-than-expected tax collection (37.8 percent YoY increase between January and July 2021). In July 2021, the 12-month primary deficit was 2.9 percent of GDP and the general government's gross debt declined to 83.8 percent of GDP, a reduction of 5.0 percentage points.

Outlook

The positive GDP growth in Q1 and a near stability in Q2 suggest a 5.3 percent increase in 2021 GDP, largely due to carry-over effects. Consumption is expected to recover in 2021 on the back of improved mobility, decelerating in 2022 as inflation diminishes purchasing power, and the slow recovery in the labor market prevents further increases in demand. Poverty is expected to increase to about 15.7 percent in 2021, decreasing only slightly in 2022 and 2023. Higher external demand, booming commodity prices and the depreciation of the currency are boosting mining and agriculture exports, therefore reducing the current account deficit. After a hike in 2021, consumer price inflation is expected to decelerate in 2022 (5.7 percent) and 2023 (3.7 percent) due to the dissipation of supply shocks and a more aggressive monetary policy stance. Higher nominal GDP growth will aid the needed fiscal consolidation, reducing the debt to GDP ratio and the primary balance deficit from 2.2 percent of GDP in 2021 to 0.3 percent of GDP in 2023 due to increasing revenues and compliance with the spending cap.

Risks for 2022 are high. Acceleration of the vaccination campaign is fundamental to sustain the recovery of services and the labor market. However, severe droughts are provoking water scarcity in hydroelectric plants, substantially raising energy and water costs, further affecting households' disposable income and potentially affecting the growth outlook. Political pressures to increase spending during the electoral year are worsening the perception of fiscal risks and increasing long-term yields. Fiscal risks have also been intensified by discussions on different programs that could increase the deficit, including the cash-transfer *Auxílio Brasil*, and the Constitutional Amendment to stagger the payments of court-ordered debts (*precatórios*). These factors raise country risk premiums and hamper BCB's monetary policy management to tame inflation. Higher yields can dampen private investment, reduce access to credit, and affect the government's debt dynamics by increasing refinancing cost.

TABLE 2 **Brazil** / 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	1.8	1.4	-4.1	5.3	1.7	2.5
Private Consumption	2.4	2.2	-5.5	6.4	1.8	2.5
Government Consumption	0.8	-0.4	-4.7	-2.0	0.0	0.0
Gross Fixed Capital Investment	5.2	3.4	-0.8	6.8	2.9	4.8
Exports, Goods and Services	4.1	-2.4	-1.8	9.0	5.0	5.0
Imports, Goods and Services	7.7	1.1	-10.0	8.7	6.0	6.0
Real GDP growth, at constant factor prices	1.7	1.3	-3.8	5.3	1.7	2.5
Agriculture	1.3	0.6	2.0	2.5	1.5	1.5
Industry	0.7	0.4	-3.5	6.0	1.3	1.6
Services	2.1	1.7	-4.5	5.4	1.9	2.9
Inflation (Consumer Price Index)	3.6	3.7	3.2	7.8	5.7	3.7
Current Account Balance (% of GDP)	-2.7	-3.5	-1.8	-1.0	-1.9	-2.7
Net Foreign Direct Investment (% of GDP)	4.0	2.5	3.3	2.6	2.6	2.6
Fiscal Balance (% of GDP)	-7.4	-6.6	-14.2	-7.0	-7.0	-6.4
Debt (% of GDP)	75.3	74.3	88.8	84.6	85.5	86.9
Primary Balance (% of GDP)	-1.6	-1.0	-9.5	-2.2	-0.6	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.4	4.6	1.7	3.9	3.5	3.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.1	9.1	5.1	7.7	7.4	7.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	19.8	19.6	12.8	15.7	15.6	15.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on SEDLAC harmonization, using 2013-PNADC-E1, 2018-PNADC-E1, and 2019-PNADC-E1.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(b) Projection using point-to-point elasticity (2013-2018) with pass-through = 0.87 based on private consumption per capita in constant LCU. Estimates for 2020-2021based on microsimulations to reflect emergency policy measures implemented.

CHILE

Table 1	2020
Population, million	19.1
GDP, current US$ billion	252.9
GDP per capita, current US$	13240.8
International poverty rate ($ 1.9)[a]	0.3
Lower middle-income poverty rate ($ 3.2)[a]	0.7
Upper middle-income poverty rate ($ 5.5)[a]	3.6
Gini index[a]	44.4
School enrollment, primary (% gross)[b]	102.2
Life expectancy at birth, years[b]	80.2
Total GHG Emissions (mtCO2e)[c]	51.6

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2019).
(c) Most recent CAIT value (2018).

The economy is expected to grow strongly in 2021 driven by consumption, amid an expansionary fiscal policy, pension fund withdrawals, and easing mobility restrictions. The new government, taking office in 2022, will face the challenge of unwinding recent public spending hikes and ensuring a sustainable recovery. Medium-term prospects will be shaped by the need to boost productivity and a new constitution aiming to support greater equity, inclusion, and environmental sustainability while preserving sound macroeconomic fundamentals.

Key conditions and challenges

Over the last few decades, Chile achieved strong economic growth and improved social indicators. However, growth decelerated in the six years before the pandemic, linked to the end of the commodities boom, reform fatigue, and low productivity growth. The decline in income inequality lost momentum and not everyone benefited equally from Chile's success. These factors contributed to broad discontent and social unrest in late 2019.

The COVID-19 crisis deepened social gaps, leading to increased demands for change and higher social spending. The government responded by providing significant fiscal aid to smooth the impact, including cash transfers to households and SMEs and employment subsidies. As social and political pressures increased, cash transfers became the largest in the region as a percentage of GDP, leading to a sharp increase in the fiscal deficit. Three pension fund withdrawals worth 16 percent of GDP provided liquidity but put the pension system at risk and depressed capital markets. A fiscal consolidation by the new government taking office will be key to preserve stability and maintain buffers for future shocks.

General elections in November and the constitutional process could create opportunities to reach a political consensus to meet people's expectations but also involve risks. The new government will need to unwind stimulus without risking the welfare of the vulnerable population. Creating a framework to attain greater equity, inclusion, and environmental sustainability while preserving a sound macroeconomic environment and restoring business confidence will be critical in the constitutional effort. In addition, new Covid variants or a significant change in the external environment, for example a sharp increase in global interest rates, are additional risks. Finally, Chile is extremely vulnerable to environmental risks, affected by climatic events such as severe and costly droughts.

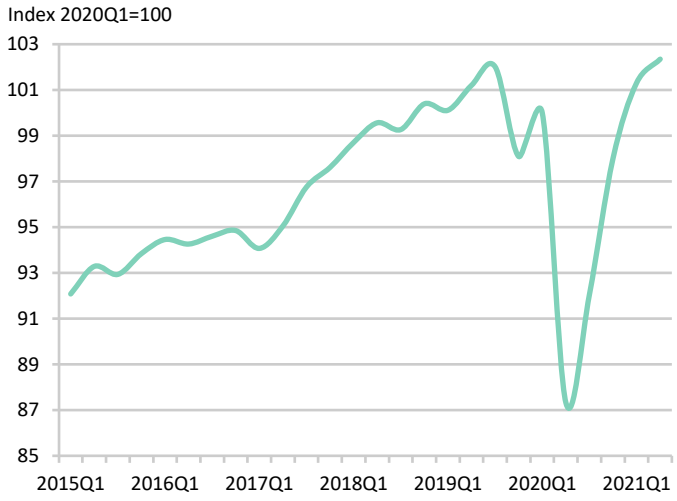
In the more medium term, Chile will need to tackle the declining productivity growth that prevailed over the past decade. Reforms in this area are crucial and should include efforts to reduce regulatory barriers, foster innovation and competition, improve education quality, and increase female labor participation.

Recent developments

GDP grew 8.7 percent y-o-y in the first half of 2021. Economic activity returned to pre-pandemic levels led by commerce, industry, and personal services. Growth was propelled by consumption, massive fiscal transfers, and pension fund withdrawals. A fast vaccination rollout, adaptation to operating under sanitary restrictions, and an expansionary monetary policy also contributed to the recovery.

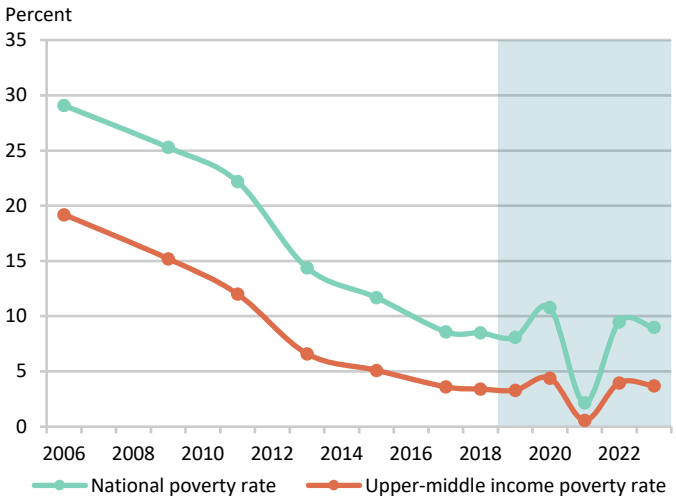
However, employment has lagged output recovery, affecting also potential GDP.

FIGURE 1 **Chile** / Real GDP



Source: Central Bank of Chile.

FIGURE 2 **Chile** / Actual and projected upper-middle-income and national poverty rate



Source: World Bank based on CASEN data for 2006-2020 and microsimulation model for 2021-2023.

Only half of the jobs lost in the second quarter of 2020 had been recovered by the second quarter of 2021. The number of employed still lies about 900 thousand below pre-pandemic levels. Women and low-skilled workers have been disproportionally impacted. A decade of growth in female labor force participation has been undone, still to be recovered.

Inflation accelerated to 4.8 percent y-o-y in August, driven by demand recovery, high commodity prices, supply disruptions, and local currency depreciation. The Central Bank raised the policy rate by 100 basis points between July and August to 1.5 percent, amid concerns about macroeconomic imbalances.

Despite recovering revenues, the 12-month rolling fiscal deficit remained above 7.0 percent of GDP in the first half of 2021 due to high public spending. The direct cost of pandemic-related measures climbed to more than 9.0 percent of GDP in 2021. The largest item, the Universal Emergency Family Income, a monthly cash transfer equal to the national poverty line, that was introduced in June and extended until November, has been received by four-fifths of Chileans.

Despite the record surge in copper prices, the current account registered a small deficit in the first half of 2021 due to a sharp increase in imports. The local currency experienced a significant depreciation, largely due to heightened political uncertainty linked to the ongoing constitutional process and upcoming elections.

Outlook

Loosening mobility restrictions, fiscal expansion, and pension fund withdrawals will allow GDP to grow by 10.6 percent this year. The strong boost to private consumption will lead to a positive output gap, raising concerns about economic overheating. Inflation is expected to end the year above the upper limit of the target range (2-4 percent), leading to further monetary policy rate hikes.

Absent reforms to enhance productivity, growth is expected to decelerate to 1.8 percent in 2023 as emergency measures are phased out, and political uncertainty depresses investment.

The fiscal deficit is projected to reach 8.0 percent of GDP in 2021, more than offsetting the surge of revenues caused by the economic recovery and record-high copper prices. Although the authorities tapped heavily into saving funds, public debt will increase above 36 percent of GDP, up 8.6 percentage points compared to 2019. The fiscal deficit is expected to converge towards its structural balance target in the medium term as emergency spending is phased out and capital expenditure is reduced. However, this process will not allow debt to stabilize over the projection period.

Despite high copper prices, the current account balance is projected to turn negative in 2021, reflecting the sharp increase in imports driven by strong domestic demand.

Emergency social protection measures and the partial labor market recovery are expected to reduce poverty significantly in 2021. Poverty (US$5.5 a day) is projected to decrease from 4.4 percent in 2020 to less than 1.0 percent in 2021, and national poverty is expected to drop from 10.8 to 2.5 percent. The sharp rise in non-labor incomes of poor and vulnerable families would reduce the Gini coefficient from 0.44 to 0.39 in 2021. Assuming emergency programs are phased out, poverty (US$5.5 a day) is expected to increase to 4.0 percent in 2022 and continue to remain above its 2019 level by 2023.

TABLE 2 Chile / 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	3.7	0.9	-5.8	10.6	2.4	1.8
Private Consumption	3.8	1.0	-7.5	18.0	2.1	0.8
Government Consumption	3.3	-0.2	-3.9	14.0	-2.0	-1.0
Gross Fixed Capital Investment	5.1	4.4	-11.5	15.8	1.0	1.0
Exports, Goods and Services	5.3	-2.6	-1.0	1.0	6.0	6.0
Imports, Goods and Services	8.1	-2.4	-12.7	23.3	2.0	1.8
Real GDP growth, at constant factor prices	3.7	1.0	-5.7	10.6	2.4	1.8
Agriculture	2.3	-0.4	-2.6	8.0	2.2	1.5
Industry	3.9	-0.2	-3.7	5.0	2.0	1.5
Services	3.7	1.7	-6.9	13.6	2.6	1.9
Inflation (Consumer Price Index)	2.3	2.3	3.0	4.1	4.3	3.0
Current Account Balance (% of GDP)	-3.9	-3.7	1.3	-2.3	-2.3	-2.5
Net Foreign Direct Investment (% of GDP)	2.2	1.2	-1.3	1.7	1.8	1.8
Fiscal Balance (% of GDP)	-1.5	-2.7	-7.1	-8.0	-5.0	-3.0
Debt (% of GDP)	25.6	28.2	34.0	36.8	42.6	46.9
Primary Balance (% of GDP)	-0.6	-1.8	-6.2	-6.8	-2.8	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.3	0.3	0.7	0.0	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.7	0.7	1.4	0.1	0.9	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.4	3.4	4.4	0.6	4.0	3.7

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

(a) Calculations based on SEDLAC harmonization, using 2017-CASEN. Actual data: 2017. Nowcast: 2018-2019. Forecasts are from 2020 to 2023.

(b) Projection using microsimulation model for 2020-2021and neutral distribution based on GDP per capita in constant LCU for 2022-2023.

COLOMBIA

Table 1	2020
Population, million	50.4
GDP, current US$ billion	271.6
GDP per capita, current US$	5388.9
International poverty rate ($1.9)[a]	4.9
Lower middle-income poverty rate ($3.2)[a]	12.7
Upper middle-income poverty rate ($5.5)[a]	29.4
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	114.5
Life expectancy at birth, years[b]	77.3
Total GHG Emissions (mtCO2e)[c]	268.0

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

The economic recovery is solid, and activity has been resilient to the effects of mobility restrictions and intense protests during 2021Q2. GDP is projected to grow 7.7 percent in 2021, and the poverty rate is projected to decline relative to 2020. Fiscal policy remains expansionary as emergency support to the poorest is extended beyond 2021. Reducing the ratio of debt and deficit to GDP will likely require additional fiscal efforts over the medium-term.

Key conditions and challenges

Colombia confronted the COVID-19 crisis with a strong macroeconomic framework, investment-grade credit rating, and some policy space to respond to the crisis.

Yet, Colombia also faced unresolved vulnerabilities. Low productivity and the predominance of oil and mining in exports weighed on growth, especially after the 2014 drop in oil prices. While poverty declined significantly between 2008 and 2018, inequality remained high, with a fiscal system that redistributes little, high labor informality that hinders the creation of good quality jobs, and limited fiscal automatic stabilizers on the spending side. With a narrow personal income tax base and a high corporate tax rate, the tax system weighs down activity and job creation.

The COVID-19 crisis exacerbated these vulnerabilities. The national poverty rate, which had already ticked up from 34.7 percent in 2018 to 35.7 percent in 2019, increased further to 42.5 percent in 2020, wiping off over a decade of progress in lifting people out of poverty. Increases in poverty were more pronounced for urban and female-headed households. Income inequality also increased from an already high 0.527 in 2019 to 0.544 in 2020. The opportune and timely fiscal response to the crisis increased the already high public debt-to-GDP ratio, and the country lost its investment-grade rating, making it urgent to reign in the fiscal deficit and debt over the medium-term in a context where the crisis strained society's acceptance for higher taxes on consumption and personal income.

Recent developments

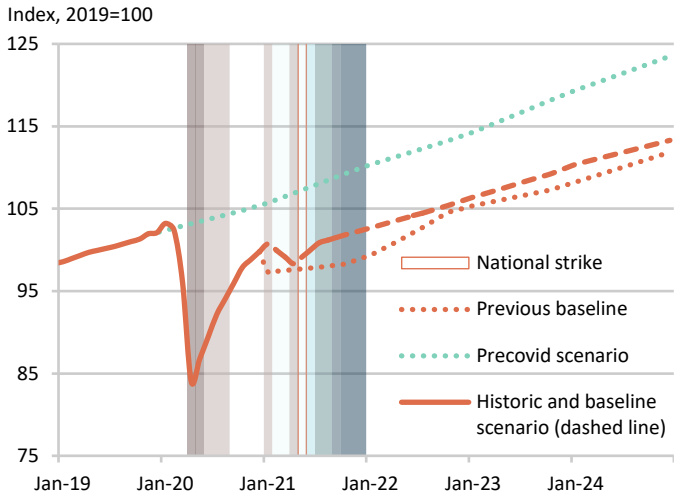
Activity recovered robustly in 2021Q1 but contracted in Q2 owing to intense protests against a proposed fiscal reform package which, among other measures, would have increased value added and personal income taxes. Economic activity picked up strongly in June, reaching pre-COVID 19 levels in most sectors.

After hovering around zero for most of 2020, monthly CPI inflation picked up at end-2020 and accelerated in 2021Q2, as road blockades, the depreciation of the Colombian peso, and an increase in international prices led to higher production costs. With core inflation and inflation expectations over the medium term anchored, the Central Bank kept the monetary policy rate at 1.75 percent.

The current account deficit increased in 2021H1, as exports (especially from tourism) remained weak while imports and distribution of dividends to parent companies resumed, offsetting strong inflows of remittances. FDI and net portfolio inflows were more than enough to finance the current account deficit.

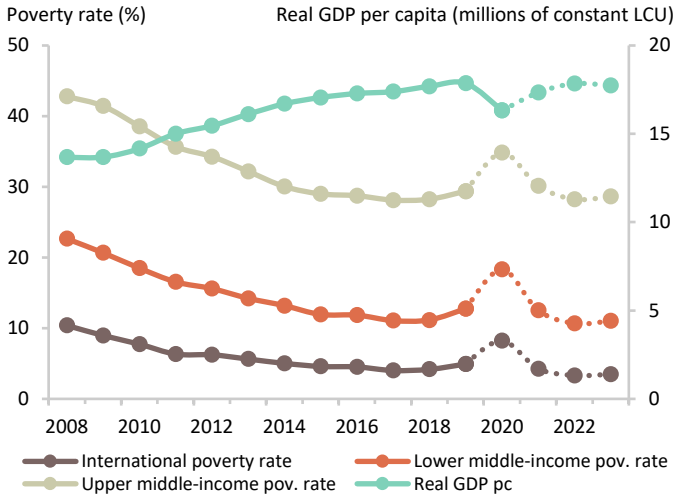
The fiscal stance remained expansionary, as the government extended emergency support to families. In September Congress approved a new (less ambitious) fiscal reform package, which increases corporate income taxes to reduce the

FIGURE 1 Colombia / Real GDP levels under different scenarios



Sources: DANE, Google mobility index, Ministry of Health, World Bank staff calculations. Note: Mobility restrictions stringency on brown scale (darkest: more stringent). Vaccination plan advance on blue scale (darkest: more advanced).

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



Source: World Bank. Notes: see Table 2.

deficit and extend emergency support to the economy and families until 2022; strengthens the fiscal rule by introducing a debt anchor; and institutes a fiscal council.

While the labor market has recovered from the trough in 2020Q2, there are still 1.7 million fewer jobs than in 2019, and the unemployment rate, which stabilized in 2021 at around 15 percent, is around 5 percentage points higher than before the crisis. Urban, female, and youth unemployment remain high. Average household and labor income also recovered only partially, and unequally. In June 2021 household income was 8 percent lower than in June 2019, the gender income gap by household head has widened, and labor income was 12 percent lower. Food insecurity persists, as 1/3 of households are not able to consume 3 meals a day, compared to only 8 percent before the pandemic. The vaccination rate and willingness to be vaccinated are lower among the poor.

Outlook

The economy is projected to grow by 7.7 percent in 2021, reaching the 2019 level by end-year, driven by manufacturing and commerce, and buoyed by capital formation and private consumption. The current account deficit is projected to increase in 2021 and decline in the medium term, as exports of services resume.

The general government's fiscal deficit is projected to increase to 8.3 percent of GDP in 2021 (including 1 percent of GDP of privatization receipts), as a result of pandemic-related health spending, the extension of emergency social spending, and the resumption of investment spending. The deficit is projected to fall to 4.6 percent of GDP by 2023 as the cyclical component of revenue picks up, the effect of the reform package kicks in, COVID-19-related and emergency support spending come down, and subnational finances go back to surplus. The debt-to-GDP ratio is projected to increase in 2022 and start declining in 2023. Monetary policy is projected to tighten slightly, as end-2021 inflation reaches the upper limit of the inflation targeting band (2 -4 percent).

With the continuation of emergency transfers, 2 million people are estimated to escape poverty in 2021, based on the official poverty line. Nonetheless, around 18.9 million people will remain poor, compared to 17.5 million before the pandemic. Income inequality is also expected to fall slightly to 0.534, which is very high and means that Colombia remains one of the most unequal countries in the world.

The profile of risk is tilted to the upside in 2021 and to the downside over the medium-term. A further increase in oil prices and confidence could push 2021 GDP above projections. Over the medium term, risks include: failure to reduce debt and the deficit; the emergence of new Sars -Cov2 variants leading to protracted health alerts; the potential long-term effects of the pandemic on the labor market, and households' assets and human capital (through food insecurity and learning losses); and a tightening of financing conditions abroad. If any of these risks materialize, growth could slow down, confidence erode, and an aggressive contraction of government spending will be needed, which would have severe implications for growth, poverty, and reductions in inequality.

TABLE 2 Colombia / 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	2.6	3.3	-6.8	7.7	4.2	3.9
Private Consumption	3.2	3.9	-5.6	9.6	4.2	3.9
Government Consumption	7.4	5.3	3.7	4.7	0.6	0.7
Gross Fixed Capital Investment	1.0	3.1	-20.6	14.2	4.8	3.4
Exports, Goods and Services	0.6	3.1	-18.3	4.3	8.0	4.8
Imports, Goods and Services	5.8	7.3	-17.3	15.7	4.1	1.5
Real GDP growth, at constant factor prices	2.5	3.2	-6.9	7.6	4.1	3.8
Agriculture	1.6	2.3	2.6	3.0	3.9	3.5
Industry	0.3	0.6	-13.1	7.7	3.3	3.7
Services	3.7	4.4	-5.1	8.0	4.4	3.9
Inflation (Consumer Price Index)	3.2	3.5	2.5	3.2	3.1	3.0
Current Account Balance (% of GDP)	-4.2	-4.6	-3.7	-4.9	-4.6	-4.6
Fiscal Balance (% of GDP)	-2.6	-2.6	-7.2	-8.3	-7.1	-4.6
Debt (% of GDP)	51.3	52.2	66.9	70.9	72.7	72.2
Primary Balance (% of GDP)	0.2	0.4	-4.3	-4.8	-3.7	-1.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.2	4.9	8.2	4.3	3.3	3.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.1	12.7	18.3	12.5	10.7	11.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	28.2	29.4	34.8	30.1	28.2	28.6

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

(a) Calculations based on SEDLAC harmonization, using 2008-GEIH and 2019-GEIH.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(b) Projection using average elasticity (2008-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

COSTA RICA

Table 1	2020
Population, million	5.1
GDP, current US$ billion	62.2
GDP per capita, current US$	12196.1
International poverty rate ($1.9)[a]	1.0
Lower middle-income poverty rate ($3.2)[a]	3.2
Upper middle-income poverty rate ($5.5)[a]	10.6
Gini index[a]	48.2
School enrollment, primary (% gross)[b]	116.2
Life expectancy at birth, years[b]	80.3
Total GHG Emissions (mtCO2e)[c]	8.6

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

After contracting in 2020, the economy is expected to rebound by 3.8 percent in 2021 driven by merchandise exports. The fiscal deficit in 2021 is likely to be lower than expected due to strong revenue performance. However, poverty rates are expected to remain above pre-crisis levels for the forecasting period as unemployment and incomes have not yet reached pre-crisis levels.

Key conditions and challenges

Costa Rica doubled its income per capita over the last two decades due to relatively solid institutions, an outward-oriented growth strategy and investments in human capital. The sophistication of exports of goods and services and the overall resilience of the economy to external shocks has improved. Costa Rica is also a world leader in decarbonization and promoting the sustainable use of natural resources, which are key to its development strategy. This model, however, has not been fully successful in promoting inclusion: the real incomes of the bottom 40 percent remained largely stable, poverty reduction was limited, and inequality increased during the decade prior to the pandemic. Fiscal vulnerabilities also built up as spending increased steadily while revenues stayed flat as a share of GDP.

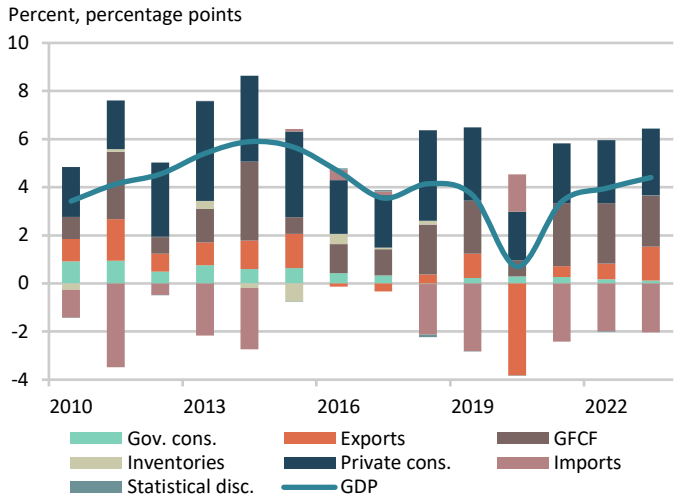
The pandemic intensified these fiscal and social challenges. Fiscal consolidation efforts, launched in 2018, were interrupted as revenues collapsed while expenditures increased as the government sought to mitigate the impact of the pandemic. Efforts included investment in medical equipment, an emergency allowance program, and deferred tax payments. The resulting 8.5 percent of GDP deficit, and the recession, pushed the debt-to-GDP ratio to 67.4 percent by end-2020. The pandemic also led to a rapid deterioration in labor markets with unemployment peaking at 24.4 percent in May-July of 2020. Women, youth, and those with lower levels of education or in informal employment have been most affected. Despite strong mitigation measures, incomes of the bottom 40 percent declined 15 percent last year, poverty increased 2.4 percentage points to 13 percent, and the Gini coefficient increased 0.5 point to 51.9. The government is securing a passage of key reforms to reinforce fiscal consolidation and to enable a sustainable and inclusive economic recovery. These include, inter alia, a reform to the Public Employment system, elimination of tax exemptions, and better targeting of social programs.

Recent developments

Driven by a rebound in external demand, progress in domestic vaccination, and an accommodative monetary policy, GDP is estimated to have expanded by 2.1 percent y.o.y in the first semester of 2021. Manufacturing, construction, and commercial activities led the expansion. Merchandise exports experienced a notable boom (interannual increase of 18.7 percent by the first quarter 2021, above pre-pandemic levels) due to strengthening external demand, including for medical equipment produced in the country. Yet, a sharp increase in imports meant that the current account deficit remained round 2.2 percent of GDP and was financed mainly by FDI (2.3 percent of GDP).

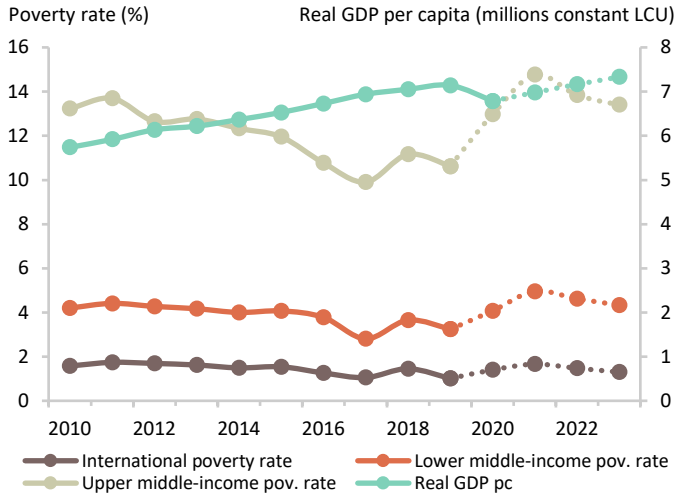
The labor market has also begun to reactivate, facilitated by a re-opening of schools and vaccinations (57 percent of the

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

population received at least one dose by August of 2021). The unemployment rate dropped to 18.1 percent between April and June 2021, but still exceeds the pre-pandemic rate of about 12 percent. Female unemployment remained high at 25 percent. Moreover, 11.4 percent of the employed population is still affected by a reduction in income associated with the suspension/reduction of working hours and business closures. Improvements in the labor market have only partially compensated households for the phasing out of emergency response programs. Hence, poverty (US$5.50 line) is expected to increase by 1.7 percentage point in 2021.

The economic rebound combined with one-off gains, mostly associated with the payment of deferred tax receipts, led to a sharp increase in revenues that, together with spending cuts driven by the country's fiscal rule, yielded a primary fiscal surplus of 0.2 percent of GDP as of June 2021 (the first in 12 years). Costa Rica appropriately activated the escape clause in its fiscal rule in 2020 to respond to the crisis but has returned to full compliance in 2021.

Outlook

GDP is projected to recover by 3.8 percent in 2021, reaching pre-pandemic level by end-year. Growth is expected to remain strong in 2022 and then gradually converge to its potential (around 3 percent). Continued progress with respect to vaccination in Costa Rica and worldwide is expected to lead to gradual recovery of tourism receipts. The current account deficit will remain at around 3 percent, backed by multilateral disbursements and FDI. FDI is projected to continue to recover gradually after 2021 as the implementation of fiscal reforms restore investor confidence.

Continued improvements in the labor market are expected to lead to a gradual decline in poverty rates over the coming years, although poverty rates (US$5.50) are expected to remain above pre-pandemic levels during the forecast period: 13.7 percent in 2022 and 13.3 percent in 2023. These high poverty rates were compounded by losses in schooling, especially among disadvantaged students, with lasting implications. Better delivery of social programs can help to further reduce poverty rates. The government plans to create a centralized social registry, which will help ensure better targeting, reaching those most in need within an overall fiscally constrained environment.

The government is expected to implement its fiscal consolidation plan over the medium term. The strong revenue performance in 2021 supports a 1.7 percentage point of GDP decline in the fiscal deficit. Fiscal consolidation will also rely on measures to eliminate tax exemptions and contain wage bill spending (wage freezes, elimination of vacancies, and a comprehensive Public Employment Law). Downside risks relate to a slower than expected pace in vaccination worldwide, the surge of new variants, and delays in the National Assembly's approval of reforms given the forthcoming February 2022 elections. The latter could slow down fiscal adjustment, in turn depressing overall confidence and delaying economic recovery.

TABLE 2 Costa Rica / 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	2.6	2.3	-4.1	3.8	3.5	3.2
Private Consumption	1.9	1.8	-4.8	2.5	2.8	2.9
Government Consumption	0.6	5.3	0.7	0.0	-0.4	-0.5
Gross Fixed Capital Investment	1.6	-6.5	0.7	6.7	3.2	6.7
Exports, Goods and Services	4.9	3.1	-9.5	11.9	10.2	6.3
Imports, Goods and Services	2.9	0.1	-7.9	9.0	6.9	6.1
Real GDP growth, at constant factor prices	2.9	2.3	-4.1	3.8	3.5	3.2
Agriculture	4.0	-1.1	0.3	2.2	2.6	2.7
Industry	2.6	-1.5	1.3	2.5	4.0	4.2
Services	2.8	3.6	-5.8	4.3	3.5	3.0
Inflation (Consumer Price Index)	2.2	1.5	0.7	1.5	2.0	1.8
Current Account Balance (% of GDP)	-3.0	-2.1	-2.2	-2.6	-3.0	-3.3
Net Foreign Direct Investment (% of GDP)	3.5	4.2	2.6	3.3	3.7	4.5
Fiscal Balance (% of GDP)	-5.7	-6.7	-8.5	-6.4	-5.5	-4.1
Debt (% of GDP)	51.6	56.4	67.4	70.3	72.6	73.8
Primary Balance (% of GDP)	-2.3	-2.6	-3.9	-1.4	-0.4	1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.5	1.0	1.4	1.7	1.5	1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	3.7	3.2	4.1	5.0	4.6	4.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	11.2	10.6	13.0	14.8	13.8	13.4

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

(a) Calculations based on SEDLAC harmonization, using 2020-ENAHO. Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(b) Projections obtained with a microsimulation model, based on Gross Value Added by industry at constant LCU.

DOMINICA

Table 1	2020
Population, million	0.1
GDP, current US$ billion	0.5
GDP per capita, current US$	5000.0
School enrollment, primary (% gross)[a]	100.4
Life expectancy at birth, years[a]	76.6
Total GHG Emissions (mtCO2e)[b]	0.2

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

Dominica's economy contracted by 11 percent in 2020 following the sudden stop in tourism and COVID-19 containment measures. Poverty is expected to have increased. Fiscal pressures remain acute, highlighting the need for strengthened fiscal management and increased fiscal resilience. Risk of debt distress remains high. Medium-term growth prospects appear favorable, though considerable uncertainty remains given pandemic developments.

Key conditions and challenges

Dominica is a small island developing state with an economy driven largely by tourism and agriculture. Tourism accounts for almost 25 percent of GDP and employment. This makes the country vulnerable to climate change, natural disasters and external economic shocks. COVID-19 containment measures, such as lockdowns, quarantines, and the closing of national borders, shops and factories had important economic repercussions with growth falling 11.0 percent in 2020. COVID-19 had been well-contained, but a domestic resurgence in August 2021 as a result of the Delta variant has renewed uncertainty around the resumption of tourism and economic growth prospects.

The COVID-19 shock to growth and public finances occurred when Dominica was still undertaking reconstruction and recovery efforts following damages caused by Hurricane Maria (226 percent of GDP), further exacerbating fiscal and public debt challenges.

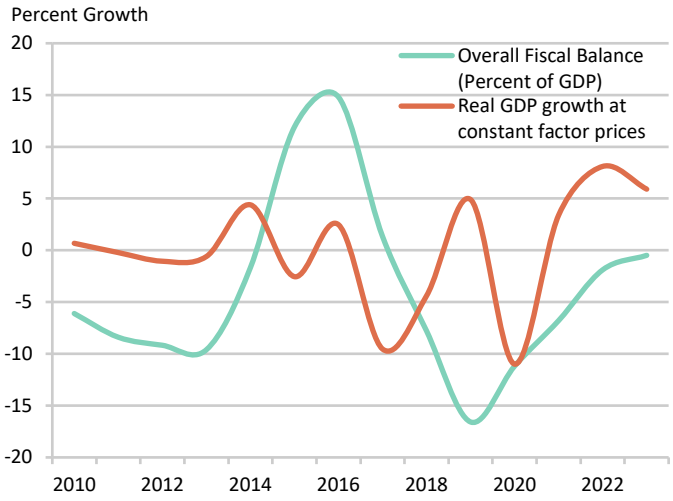
The precise poverty and welfare impact of the current challenging economic and social conditions remain unclear, due to a lack of recent data. However, there is a reasonable expectation that poverty levels have worsened. The latest poverty data are from 2008. With an estimated headcount rate of 28.8 percent, the data indicated a strong downward trend in poverty rates at that time. The Gini coefficient was 0.44, in line with inequality rates observed in most other countries in the region. Although poverty rates were evenly distributed among women and men, women were at a disadvantage in the labor market in terms of employment rates and wages. Given similar developments in other countries in the region, this gender disparity is likely to have deteriorated. In much of Latin America and the Caribbean, women's labor market outcomes were more heavily affected by the pandemic, as (i) their caregiving responsibilities increased, (ii) they worked in sectors that were more heavily affected by lockdowns, and (iii) their labor market outcomes recover more slowly than men's.

Dominica is highly vulnerable to catastrophic weather events. Estimates indicate that poverty increased to 43 percent after Hurricane Maria in 2017. Economic recovery in 2018 and 2019 and a rebound in agriculture may subsequently have lowered poverty, but COVID-19 has likely reversed some of these recent gains. Unfortunately, lack of recent data availability prevents us from accurately assessing the impact on the population.

Recent developments

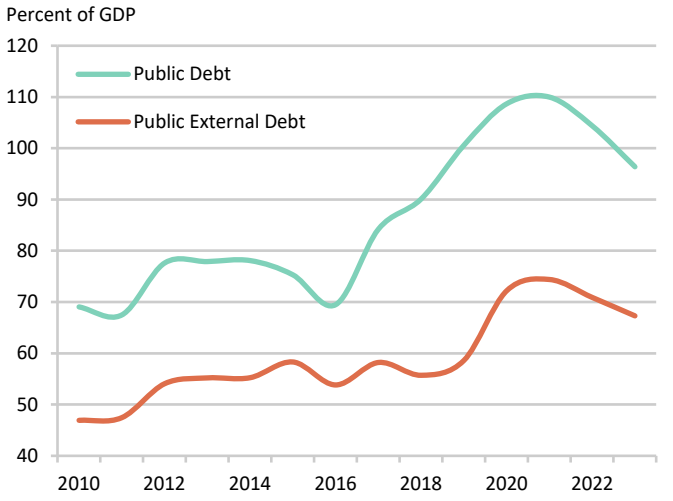
COVID-19 has impacted growth through several channels, including: the near complete stop in tourism; COVID-related restrictions on domestic activity; and lower foreign direct investment. Household income from tourism-related occupations fell significantly. Women

FIGURE 1 Dominica / GDP growth and fiscal balance



Sources: Government of Dominica (2020) and World Bank staff estimates.

FIGURE 2 Dominica / Public debt



Source: World Bank staff estimates.

are expected to have been hit especially hard, given their high participation in the services and informal sectors. However, agriculture has rebounded post-Hurricane Maria and helped limit the overall impact on poverty.

Dominica was effective in controlling COVID-19 transmission and experienced relatively few cases through July 2021. However, the Delta variant resulted in a resurgence in cases in August 2021. The impact of this recent resurgence and its trajectory remains unclear and will also depend on successful vaccination of Dominica's population. As of August 2021, approximately 30 percent of the population had received at least one dose of vaccination.

The government distributes transfers and provides services under a variety of social protection programs. Several of these programs were expanded and others introduced to cushion the impact of COVID-19 on vulnerable households and businesses. These include a national employment program, public welfare assistance, and support to the elderly. The government also provides support through provision and renovation of houses. The extent to which these programs and services helped offset the implications of COVID-19 remains unclear, though initial indications are positive.

Fiscal and debt metrics have deteriorated with an overall fiscal deficit of 11.2 percent of GDP in FY2020 (July 2019-June 2020) and 6.8 percent in FY2021, as a result of decreased revenues, increased COVID-related expenditures, and somewhat lower CBI revenues. Pre-COVID-19, the FY2020 fiscal deficit had been projected to be 3.8 percent of GDP. Public debt levels increased from 100.6 percent of GDP in 2019 to 108.7 percent in 2020, and are expected to decline from that peak.

Outlook

Growth in 2021 remains uncertain due to the pandemic, but is expected to reach 3.4 percent driven by some tourism and continued fiscal stimulus. Tax revenue projections remain muted, though recurrent spending is expected to fall modestly going forward as COVID-19 support programs wind down. Post-COVID-19 efforts to boost climate resilience, including investments in energy infrastructure, port and airport modernization, and agricultural productivity should contribute to improved growth prospects over the medium term, although they many pose fiscal challenges given limited fiscal space and the need to reduce debt levels. The transition to a more climate-resilient economy will depend on increased spending efficiency, careful prioritization, as well as donor support. Inflationary pressures are expected to remain low and stable and the current account deficit is forecast to narrow as tourism receipts increase. Increased growth, reduced post-disaster losses, and low inflation are all expected to contribute to a reduction in poverty rates in the medium term. There remains an urgent need for improved poverty data and better documentation of the extent to which social protection measures reach those most in need and help households cushion the effect of economic shocks.

There continue to be risks from the COVID-19 pandemic, particularly variants, from potential natural disasters and the impact of climate change, including rising sea levels. Risks also arise from the financial sector, public debt vulnerabilities and transitory increases in poverty. Where transition to a fully climate-resilient economy requires additional efforts to strengthen fiscal management, spending efficiency and effectiveness, these pressures will be more acute.

Post-pandemic, the challenge will be to shift focus from the current emphasis on recovery and reconstruction to building ex-ante resilience based on fiscal buffers, increasing climate resilient investment, and expanding public and private insurance protection, in a context of significant capacity constraints.

TABLE 2 Dominica / 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	2.3	3.5	-11.0	3.4	8.1	5.9
Real GDP growth, at constant factor prices	-4.4	4.9	-11.0	3.4	8.1	5.9
Agriculture	-27.4	9.2	5.3	2.3	7.7	-6.9
Industry	33.1	3.7	-31.7	8.4	3.5	2.5
Services	-7.6	4.7	-7.8	2.6	9.1	8.4
Inflation (Consumer Price Index)	1.0	1.5	-0.7	1.9	2.0	2.0
Current Account Balance (% of GDP)	-43.4	-38.7	-29.6	-34.9	-26.1	-25.2
Fiscal Balance (% of GDP)[a]	-7.8	-16.6	-11.2	-6.8	-1.9	-0.5
Debt (% of GDP)[a]	90.1	100.6	108.7	110.0	104.4	96.4
Primary Balance (% of GDP)[a]	-5.9	-14.3	-8.7	-4.6	0.4	1.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Fiscal balances are reported in fiscal years (July 1st -June 30th).

DOMINICAN REPUBLIC

Table 1	2020
Population, million	10.4
GDP, current US$ billion	78.8
GDP per capita, current US$	7576.9
International poverty rate ($ 1.9)[a]	0.6
Lower middle-income poverty rate ($ 3.2)[a]	2.7
Upper middle-income poverty rate ($ 5.5)[a]	12.4
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	112.2
Life expectancy at birth, years[b]	74.1
Total GHG Emissions (mtCO2e)[c]	128.0

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

After more than a decade of strong growth, the COVID-19-pandemic led to a steep contraction of economic activity in the Dominican Republic. A successful vaccination campaign is contributing to a tourism rebound, and the fiscal deficit is narrowing. Informal-sector income opportunities are improving, but poverty is expected to remain above pre-crisis levels. Medium-term growth depends on productivity gains. The exchange rate risk is managed through a fiscal tightening and an accumulation of foreign reserves.

Key conditions and challenges

The Dominican Republic (DR) enjoyed one of the highest growth rates in Latin America and the Caribbean during last decade. Growth over the last decade has largely been fueled by factor accumulation. Investment reached 26 percent of GDP in 2019, despite private sector credit at only 28 percent of GDP and public investment at less than 3 percent of GDP in 2019 and 2020. Also, labor force participation increased. On the demand side, merchandise exports averaged 13.5 percent of GDP between 2005 and 2019, while services exports—mainly tourism—and remittances accounted for 10.5 and 8 percent of GDP, respectively. This provided financing for imports of around 30 percent of GDP, while the current account deficit (CAD) was fully financed by FDI inflows.

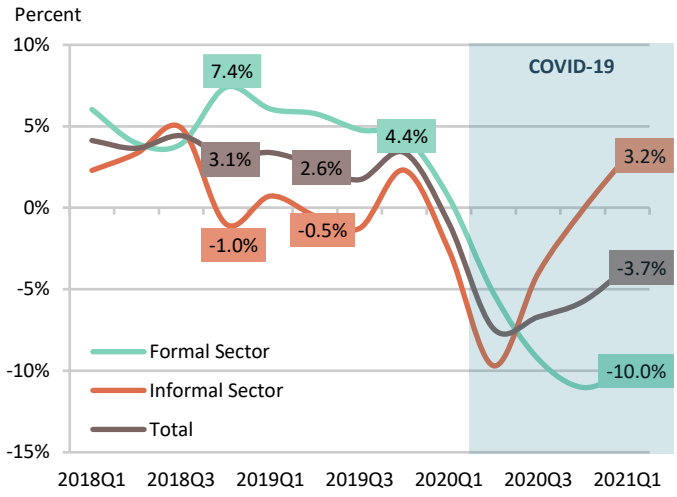
Going forward, the country will have to rely on productivity growth, including through inter-sector labor mobility, which is held by back by skills shortages and half the labor force without social security. Also, deeper merchandise trade integration with international value chains is important for sustained diversification and productivity growth.

The Dominican Republic has one of the lowest tax-to-GDP ratios in the region (13 percent). Tax rates are comparable to regional averages, but tax exemptions reduce public revenue by an estimated 4.6 percent of GDP in 2020. Consolidated Public Sector Debt has increased steadily. Public investment financing is shifting to public-private partnerships (PPPs). Health, education, and social transfers account for 7.7 percent of GDP between 2008-2019, but institutional fragmentation limits effective service delivery. Ongoing reforms to increase the efficiency of public spending will take time to yield results.

Recent developments

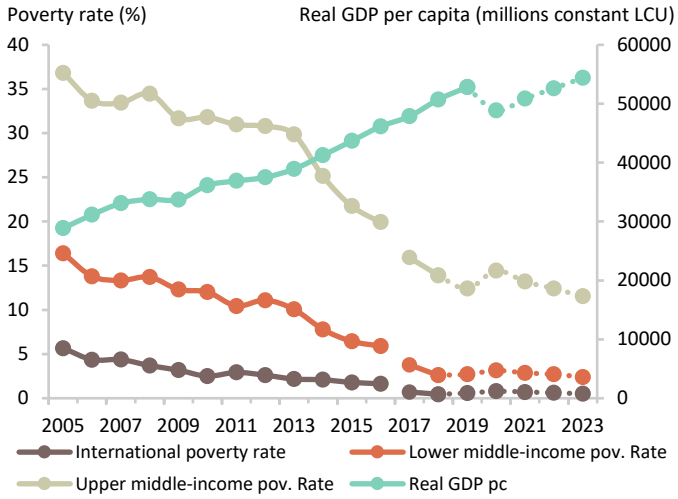
The Covid-19 pandemic had a major but possible temporary impact on growth and poverty. In 2020, the economy contracted by 6.7 percent as both domestic and external demand contracted, and poverty increased by 2.4 percentage points to 23.4 percent but would have reached 29 percent in absence of fiscal transfers targeted at the most vulnerable. Women and the urban population were disproportionally affected, as was the tourism-intensive East region. This year, the economy is recovering rapidly, fueled by a successful vaccination campaign. Economic growth is projected to exceed 9 percent in 2021. Inflation reached 10.5 percent y-o-y, in May but declined to 7.9 percent in August, food and energy prices have increased rapidly, negatively affecting the poor. Core inflation was estimated at 5.9 percent in August, close to target (3–5 percent). Labor market participation continues to lag pre-COVID-19 levels. There were 10 percent fewer formal sector jobs than in 2020Q1, although informal jobs had fully recovered (Figure 1). Female employment

FIGURE 1 Dominican Republic / Formal and informal employment



Sources: World Bank staff calculations based on national data.

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



Source: World Bank. Notes: see Table 2.

is recovering slowly, and female unemployment reached a historical high 12.8 percent 2021Q1.

Between January and July 2021, growth was broad-based, boosted by a successful vaccination campaign and favorable external conditions. Merchandise exports (+26 percent), tourism arrivals (+62 percent), and remittances (+38.6 percent Jan-August) increase significantly. Remittances reached US$7.0 billion (7.7 percent of annual GDP), but did not disproportionally benefit the poor and may have exacerbated inequality. Imports also recovered, but the CAD remains fully financed by net FDI inflows. During January–July, net external public sector borrowing reached US$2.5 billion, and international reserves reached US$12 billion.

The 5.7 percentage point of GDP fiscal stimulus in 2020 that was adopted in response to Covid-19 is being phased out as the recovery gathers pace. The tax deferrals that we adopted in 2020Q2 are gone and between January and July, fiscal revenue recovered by 41.6 percent y-o-y. During the same period scaling down COVID-19-related social transfers contributed to a fall in expenditure by 10.7 percent y-o-y. During the first half of the year the government issued US$2.5 b. international bonds and US$ 0.4 b. domestic debt. Further, successful debt liability management has reduced medium-term debt service payments.

Outlook

After an exceptionally strong rebound in 2021, growth is projected to remain close to 5 percent, creating employment opportunities and contributing to poverty reduction. The recovery is projected to reduce poverty (US$5.5 PPP 2011/day) from 14.4 to 13.2 percent, which remains above pre-crisis levels and 80,000 people are projected to fall into poverty in 2021 (Table 2). The crisis may leave permanent scars due to exceptional rate of school non-attendance (20 percent of households with children). Merchandise exports are projected to remain below their pre-crisis level as a share of GDP, while imports are projected to recover to pre-crisis levels. Remittances are projected to remain above 10 percent of GDP, maintaining the CAD below 3 percent of GDP and fully financed by FDI. Electricity sector reforms are expected to improve investment climate, promote reliable access to electricity for low-income households and reduce fiscal transfers to transmission companies.

The fiscal deficit is projected to fall from 7.9 in 2020 to 4 percent of GDP in 2021 and further thereafter. Revenues are projected to increase by almost 1 percent of GDP as the formal sector is projected to increase its share of GDP. Expenditure controls and an increased reliance on PPPs are projected to contribute to fiscal consolidation but could increase contingent liabilities. Combined with strong growth, the public sector debt-to-GDP ratio is projected to fall by 7.2 percentage points to 61.9 percent by 2021.

The external sector and climate change-related natural disasters pose the main risk to the economy. The recent decline in inflation could be reversed if international food or energy prices increase further. Moreover, another international downturn could create pressure on currency markets, contributing to an increase in inflation and the external debt-to-GDP ratio. Gross foreign exchange reserves have increased from US$10.7 billion in 2020 to US$12.1 billion in July 2021 providing space to manage risk. More importantly, the commitment to sound macro management, illustrated by tight expenditure controls and increased competition in some product markets such as telecommunications, limits the downside risk.

TABLE 2 Dominican Republic / 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	5.1	-6.7	9.1	4.9	4.9
Private Consumption	5.7	4.6	-3.4	8.4	5.0	5.0
Government Consumption	2.8	6.3	4.9	2.3	4.6	4.6
Gross Fixed Capital Investment	13.3	8.1	-12.1	22.2	6.3	5.5
Exports, Goods and Services	6.1	1.5	-30.3	29.2	9.3	8.5
Imports, Goods and Services	8.5	5.8	-14.6	22.7	9.3	8.0
Real GDP growth, at constant factor prices	6.1	4.8	-6.3	9.0	4.9	4.9
Agriculture	5.5	4.1	2.8	3.0	3.0	3.0
Industry	7.9	5.9	-6.7	12.0	5.0	5.0
Services	5.3	4.4	-7.1	8.3	5.1	5.1
Inflation (Consumer Price Index)	3.6	1.8	3.8	7.8	4.5	4.0
Current Account Balance (% of GDP)	-1.5	-1.3	-2.0	-2.1	-2.2	-2.4
Fiscal Balance (% of GDP)[a]	-2.1	-2.2	-7.9	-4.0	-3.2	-2.4
Debt (% of GDP)[b]	47.9	50.5	69.1	61.9	59.7	57.0
Primary Balance (% of GDP)[a]	0.5	0.6	-4.7	-1.2	-0.2	0.6
International poverty rate ($1.9 in 2011 PPP)[c,d]	0.4	0.6	0.8	0.7	0.6	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	2.6	2.7	3.1	2.9	2.7	2.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	13.9	12.4	14.4	13.2	12.4	11.5

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

(a) Fiscal balances are shown for the non-financial public sector (i.e. excluding central bank quasi-fiscal balances).
(b) Consolidated public sector debt.
(c) Calculations based on SEDLAC harmonization, using 2019-ECNFT-Q03.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(d) Projection using neutral distribution (2019) with pass-through = 1 based on GDP per capita in constant LCU.

ECUADOR

Table 1	2020
Population, million	17.6
GDP, current US$ billion	98.8
GDP per capita, current US$	5613.6
International poverty rate ($ 1.9)[a]	3.6
Lower middle-income poverty rate ($ 3.2)[a]	9.8
Upper middle-income poverty rate ($ 5.5)[a]	25.4
Gini index[a]	45.7
School enrollment, primary (% gross)[b]	103.3
Life expectancy at birth, years[b]	77.0
Total GHG Emissions (mtCO2e)[c]	91.8

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

After the pandemic-induced recession, the economy is expected to rebound in 2021 and 2022 due to eased mobility restrictions and a successful vaccination campaign. Although the ongoing fiscal consolidation will partially offset the recovery in the short term, a better investment climate is expected to boost economic growth in the medium term, helping to reduce poverty. Ecuador would need to secure its fiscal sustainability while protecting the most vulnerable and tackling long-lasting constraints to private sector development.

Key conditions and challenges

With a fully dollarized economy and limited macroeconomic buffers, Ecuador struggled to mitigate the pandemic's economic impact, which resulted in a deep recession and pushed a million people into poverty. The crisis deepened inequality by curtailing access to education and reducing job opportunities, mainly for women, the youth, low-skill workers, and migrants.

The shock was partially offset by debt renegotiation with international bondholders, which eased the debt burden and improved its profile. Ecuador also benefited from multilateral financing, including a new medium-term program with the IMF. The World Bank reshaped a programmatic Development Policy Financing and approved rapid disbursement operations to support the Government.

With limited room to raise spending, the new Government sped up vaccination to enable a rapid recovery—half of the population was fully vaccinated by August. A sustainable recovery now requires continued reforms to address structural problems.

After years of capital expenditure compression, fiscal sustainability requires reforms to mobilize fiscal revenues and rationalize current expenditure. Improving expenditure efficiency will be critical for creating room to support vulnerable people, improve access to quality services, and build up some fiscal buffers. Finally, to prevent fiscal consolidation from depressing growth, efforts to foster private investment should be oriented to reduce high informality, encourage diversification, and boost productivity.

Ecuador's exposure to critical risks merits greater efforts to build resilience. Besides fluctuations in international commodity prices and new infection waves, Ecuador is exposed to environmental and social risks related to climate change and natural disasters. For instance, the regressive erosion of the Coca river puts in danger critical infrastructure, including the largest hydroelectric facility and the main crude pipelines.

Addressing these challenges will require sustained reforms and building consensus in a fragmented National Assembly and a polarized society.

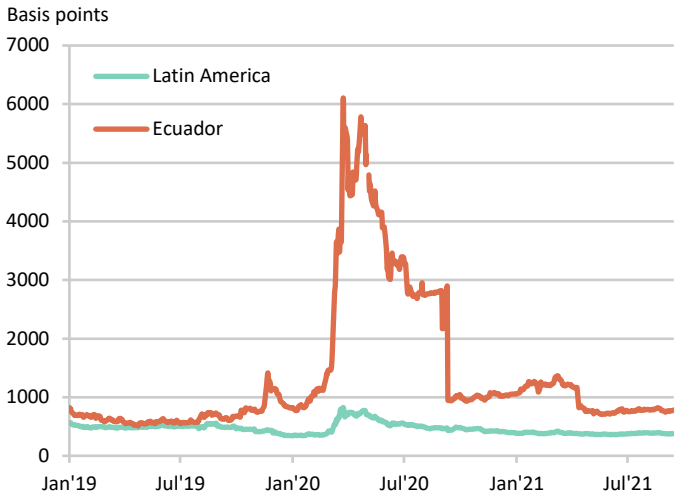
Recent developments

After contracting by 7.8 percent in 2020, the economy is showing signs of recovery. The economic activity index grew 17 percent y-o-y in the first half of 2021 due to easing mobility restrictions. Additionally, oil production recovered from the collapse registered in 2020, after two landslides damaged the main crude pipelines.

Although labor participation returned to its pre-pandemic level by mid-2021, unemployment remained above. Informality and underemployment stayed well above their pre-pandemic levels as workers turned to poor-quality jobs.

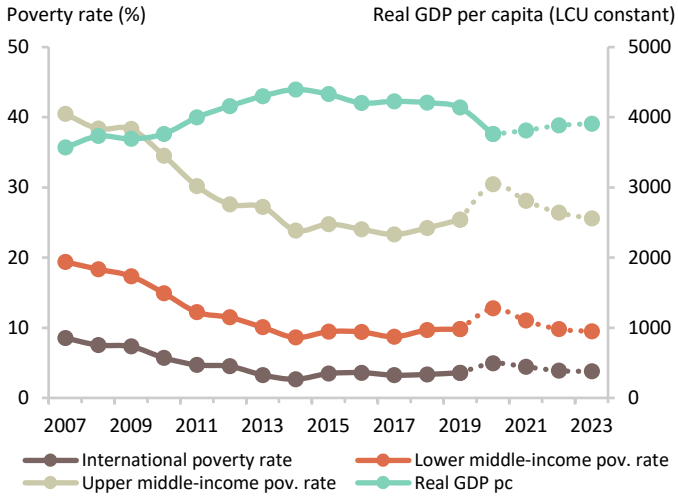
The fiscal balance improved in the first five months of 2021 due to higher oil revenues and lower interest payments after

FIGURE 1 **Ecuador** / Emerging market bond index global (EMBIG)



Source: J.P. Morgan.

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



Source: World Bank. Notes: see Table 2.

the debt renegotiation. These factors more than offset the effect of a modest tax revenue recovery and high health and social protection expenditure. Over the pandemic, the Government has expanded social assistance and eased access to unemployment benefits. Public debt almost stagnated as the high country risk restricts bond issuances, and the electoral process paused multilateral funding.

The trade surplus increased owing to a tepid recovery in imports, surging oil prices, and nascent mining exports. In conjunction with recovering remittances and lower interest payments, the trade surplus spurred the money supply, maintaining high international reserves. With low nonperforming loans, banks are using excess liquidity accumulated last year to increase domestic credit.

Despite the sustained increase in domestic fuel prices and food prices, annual inflation has remained low as the economy is far below its potential.

Poverty will decline from a peak of 30.5 percent in late 2020 to 28.1 percent in 2021, still above its pre-pandemic level. The Government's capacity to offset the effect of the crisis has been contained by the lack of fiscal space and targeting problems that prevent reaching people in low population density regions. Food insecurity remains elevated, and access to education and health constrained, foreshadowing long-term impacts.

Outlook

Despite the limited policy room to stimulate the economy, GDP is expected to rebound by 3.4 percent in 2022 due to greater mobility, high vaccination rates, and better external conditions, before leveling to 2.2 percent in 2023. The ongoing consolidation will dampen growth in the short term, and the brunt of the benefits of improving private investment will only be felt in the medium-term.

The fiscal deficit is expected to drop to 2.4 percent in 2021 from 6.3 percent of GDP in 2020 due to recovering tax and oil revenues, declining fuel subsidies, and lower interest payments. With limited access to international capital markets, the Government is expected to continue the fiscal consolidation, which relies on a mix of current spending rationalization, reduction of tax expenditures, and tax increases for the top of the income distribution, until reaching a surplus by 2023. The consolidation is expected to reduce the country's sovereign risk premium and future borrowing costs. Although the public sector is expected to accumulate some savings, its debt is projected to fall from a peak of 62 percent in 2021 to 59 percent in 2023.

Although exports are expected to increase, surging imports will gradually reduce the current account surplus over the projection period. Despite the low foreign investment, the current account surpluses will expand the money supply and international reserves.

Poverty is expected to decrease to 25.6 percent in 2023 as the recovery will improve labor conditions. Poverty and inequality reduction could be constrained by the pandemic's long-term effects on businesses and people, such as the decapitalization of small firms and loss in human capital due to food insecurity and uneven access to distance learning.

TABLE 2 **Ecuador** / 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	1.3	0.0	-7.8	3.0	3.4	2.2
Private Consumption	2.1	0.3	-7.0	4.2	3.7	2.1
Government Consumption	3.5	-2.0	-6.1	0.1	-0.6	-1.4
Gross Fixed Capital Investment	2.0	-3.3	-11.9	7.7	8.0	5.2
Exports, Goods and Services	1.2	3.6	-2.1	1.7	3.3	2.7
Imports, Goods and Services	4.4	0.3	-7.9	6.3	5.5	3.3
Real GDP growth, at constant factor prices	1.2	0.3	-6.9	2.1	3.3	2.2
Agriculture	0.1	1.6	0.4	2.1	2.1	2.1
Industry	-1.0	0.2	-8.2	3.1	2.8	2.1
Services	2.7	0.1	-7.4	1.4	3.9	2.3
Inflation (Consumer Price Index)	-0.2	0.3	-0.3	0.0	1.3	1.5
Current Account Balance (% of GDP)	-1.2	-0.1	2.5	3.7	2.7	1.8
Net Foreign Direct Investment (% of GDP)	1.3	0.9	1.2	0.9	1.3	1.5
Fiscal Balance (% of GDP)	-2.2	-2.8	-6.3	-2.4	-0.3	0.9
Debt (% of GDP)	49.1	51.4	61.2	61.6	61.2	59.0
Primary Balance (% of GDP)	0.4	0.0	-3.5	-1.2	1.1	2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.3	3.6	4.9	4.4	3.9	3.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	9.7	9.8	12.8	11.0	9.8	9.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	24.2	25.4	30.5	28.1	26.4	25.6

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

(a) Calculations based on SEDLAC harmonization, using 2019-ENEMDU. Actual data: 2019. Nowcast: 2020. Forecast are from 2021 to 2023.
(b) Projection using microsimulations.

EL SALVADOR

Table 1	2020
Population, million	6.5
GDP, current US$ billion	24.6
GDP per capita, current US$	3784.6
International poverty rate ($ 1.9)[a]	1.3
Lower middle-income poverty rate ($ 3.2)[a]	5.7
Upper middle-income poverty rate ($ 5.5)[a]	22.3
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	94.8
Life expectancy at birth, years[b]	73.3
Total GHG Emissions (mtCO2e)[c]	13.4

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

El Salvador is positioned to rebound from the COVID-19 crisis helped by growing vaccination and favorable external conditions. Risks include a lack of clear proposals to reduce public debt and meet financing needs. Higher potential growth depends on a credible fiscal consolidation and progress on reforms to increase productivity. Poverty is expected to return to its pre-COVID-19 trajectory, but the limited fiscal space for mitigating the lingering effects of the pandemic and advance in poverty reduction policies is limited.

Key conditions and challenges

Between 2013 and 2019, El Salvador grew at an annual average rate of 2.5 percent. Growth was largely led by remittances-fueled consumption and physical and human capital accumulation. Though the quality of human capital improved, productivity declined. Several factors depress productivity, such as low investment and innovation; and a poor regulatory environment. During this period, fiscal vulnerabilities increased due to higher debt and persistent deficits, which is challenging for a dollarized economy.

Yet, growth was pro-poor, and the country experienced a decline in poverty and inequality. This was driven by rising labor earnings at the bottom of the income distribution, increases in the earnings of unskilled workers in labor-intensive services, and to a lesser degree, by the poor transitioning from agriculture into the service sector. Remittances played a secondary role but are still important in rural areas. The decline in poverty translated into an expanding vulnerable group – people who could fall back into poverty when hit by shocks. The country reached the highest vulnerability rate (5.5 USD-13USD) in LAC in 2019 (48 percent of the population).

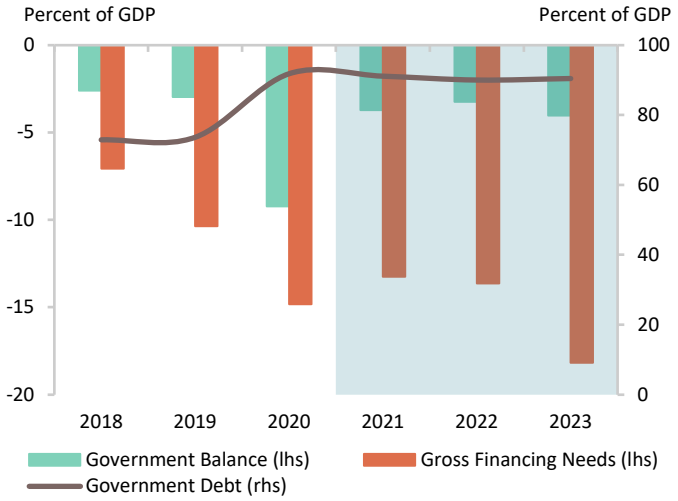
The government responded to the COVID-19 with stringent restrictions such as suspension of public transportation and closure of businesses from February to August 2020, which led to a steep GDP contraction in 2020 through reduced supply and consumption. It also rolled out a generous fiscal response that helped partially mitigate the social impacts but aggravated the vulnerable fiscal situation, leaving limited buffers to cope with future shocks. El Salvador is positioned to rebound from the COVID-19 crisis due to growing vaccination rates, with 59 percent of the population having received at least one dose by mid-September 2021, the absence of any COVID-19 restriction, and a favorable external environment with growing remittances and exports.

Recent developments

In 2020, GDP dropped significantly (-7.9 percent) due to the COVID-19 crisis. Poverty is estimated to have increased by up to 5.2 percentage points, even after mitigation measures. The crisis has affected not only the poor and vulnerable but also the middle class. The crisis also increased food insecurity, with about 40 percent of households considered food-insecure by May 2020. By August 2020, this figure improved to 19 percent, possibly linked to the distribution of food baskets by the government.

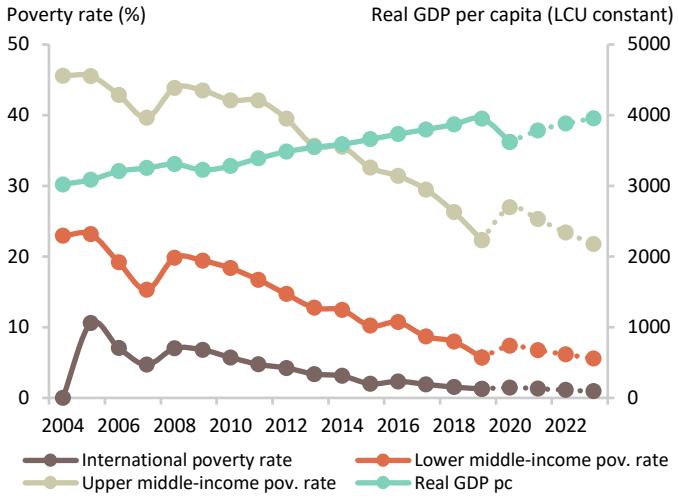
In 2021, growth is showing signals of recovery, supported by remittance-fueled consumption and exports. Remittances grew 45 percent in the first half of 2021, boosting a 47.7 percent increase in imports. Exports grew 48.1 percent in this period. Large employment growth in the formal

FIGURE 1 El Salvador / Government deficit, financing needs and debt



Sources: Ministry of Finance, Central Bank, and World Bank.

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



Source: World Bank. Notes: see Table 2.

sector (7.6 percent) and manufacturing (7.5 percent) is expected to benefit households in the bottom 40 percent, while the increase in remittances is expected to benefit more households in rural areas.

Reserve adequacy metrics have been deteriorating since 2019. Reserves as months of imports dropped from 3.8 in 2019 to 2.7 in 2021. Inflation is growing (4.3 percent up to August 2021), but so far, it seems to stem from base effects from the COVID-19 crisis and an increase in commodities prices.

After increasing to 9.2 percent of GDP in 2020, the fiscal deficit is receding. Revenues grew 24.6 percent in the first half of 2021, while expenditures increased only 3.4 percent, benefiting from the phase-out of one-off COVID-19 expenditures. Transfers declined 21.4 percent in this period, partially offsetting an increase of 8 percent in payroll and goods and services and 22.5 percent in interest payments. The latter reflects the higher debt burden, as the debt jumped from 73.6 percent of GDP in 2019 to 91.8 percent in 2020, before moderating to 90.7 percent of GDP by mid-2021.

Outlook

GDP growth is expected to top 8 percent in 2021, benefiting from base effect, and led by consumption and investment. While the government is making some advances in growth-enhancing reforms, potential growth is not expected to go beyond pre-crisis rates, given the lack of a clear plan to address fiscal vulnerabilities and high policy uncertainty.

The fiscal forecast is determined by two overlapping trends. In the short term, it is improving due to higher revenues brought by the rebound in the economy and the phase-out of extraordinary expenditures. In the medium-term, revenues will stagnate in the absence of tax policy reforms, and expenditures will grow due to increasing interest payments, new hiring, and wage increases set by law. As a result, the deficit and the debt will moderate until 2022 but will start increasing in 2023.

The main risks are the growing fiscal vulnerability and policy uncertainties. The COVID-19 crisis not only increased the debt and the deficit but worsened its composition. Debt maturing in less than one year more than doubled from 3.5 percent of GDP in 2019 to 8.8 percent of GDP in June 2021. The gross financing needs are 13 and 14 percent of GDP in 2021 and 2022 but jump to 20.3 percent of GDP in 2023 due to a maturing Eurobond. Government measures such as the demise of supreme court judges and the adoption of bitcoin as legal tender, while showing slow progress in growth-enabling reforms and devising a credible fiscal plan, backed by an IMF program, have increased the risks, which is evidenced by rating agencies downgrades and growing bond spreads.

The poverty rate ($5.5 USD Line) is expected to decline in 2021, driven by employment and remittances, but still be 2.8 percentage points higher than 2019. The limited fiscal space for social protection and social spending, and policy uncertainties are expected to limit faster poverty reduction.

TABLE 2 El Salvador / 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	2.4	2.6	-7.9	8.0	4.0	2.5
Private Consumption	1.3	3.2	-10.6	8.0	5.2	3.9
Government Consumption	1.6	0.6	6.1	2.8	4.2	3.2
Gross Fixed Capital Investment	7.2	6.7	-7.9	27.9	1.0	2.3
Exports, Goods and Services	1.6	6.2	-21.2	25.0	4.2	1.4
Imports, Goods and Services	2.6	2.9	-10.2	23.0	4.7	4.1
Real GDP growth, at constant factor prices	2.4	2.9	-7.9	8.0	4.0	2.5
Agriculture	-2.7	-0.5	-2.3	4.8	2.1	2.1
Industry	1.4	4.4	-10.0	5.1	3.1	2.3
Services	3.3	2.5	-7.5	9.4	4.5	2.6
Inflation (Consumer Price Index)	1.1	0.1	-0.4	4.5	2.1	2.4
Current Account Balance (% of GDP)	-3.3	-0.6	0.5	-3.2	-3.6	-4.9
Net Foreign Direct Investment (% of GDP)	3.2	2.4	0.8	2.3	2.4	2.8
Fiscal Balance (% of GDP)[a]	-2.6	-3.0	-9.2	-3.9	-4.0	-5.1
Debt (% of GDP)[b]	72.9	73.6	91.8	87.9	86.1	86.8
Primary Balance (% of GDP)[a]	1.0	0.7	-4.8	0.3	0.1	-0.6
International poverty rate ($1.9 in 2011 PPP)[c,d]	1.5	1.3	1.4	1.2	1.0	0.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	8.0	5.7	7.4	6.6	5.7	4.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	26.3	22.3	26.9	25.1	22.8	20.7

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

(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Calculations based on SEDLAC harmonization, using 2019-EHPM .Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(d) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

GRENADA

Table 1	2020
Population, million	0.1
GDP, current US$ billion	10
GDP per capita, current US$	10000.0
School enrollment, primary (% gross)[a]	106.9
Life expectancy at birth, years[a]	72.4
Total GHG Emissions (mtCO2e)[b]	2.4

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

The economic recovery has been slower than previously expected in 2021, but growth is expected to be elevated over the medium term. The pandemic has exacerbated pre-existing vulnerabilities to external shocks and natural disasters, especially for the poor population. The Government is likely to continue supporting the most vulnerable groups and small businesses to prevent potentially lasting damages. Returning to the fiscal rule and resuming reforms to strengthen climate resilience, once the impacts abate, will assist a more sustainable and resilient recovery.

Key conditions and challenges

Grenada achieved significant progress over the past few years in strengthening fiscal sustainability and economic resilience toward climate change. The economy was supported by strong performance in tourism and extensive reforms, including building fiscal buffers and diversifying the economy, especially through leveraging the ocean resources. Continued commitment to the country's Fiscal Responsibility Law (FRL) and debt restructuring allowed Grenada to attain a public debt-GDP ratio of about 59.7 percent in 2019, down from 108.1 percent of GDP in 2013.

The combined efforts resulted in average real GDP growth of 4.2 percent over 2013 to 2019, albeit with muted growth in 2019 amid a slowdown in the global economy and the gradual winding down of some construction projects. Sustained economic development and social assistance programs, such as the Support for Education, Empowerment and Development program, supported poverty reduction. Poverty has fallen by 12 percentage points (pps) since 2008, a significant reduction, but still leaving a quarter of the population classified as poor in 2019.

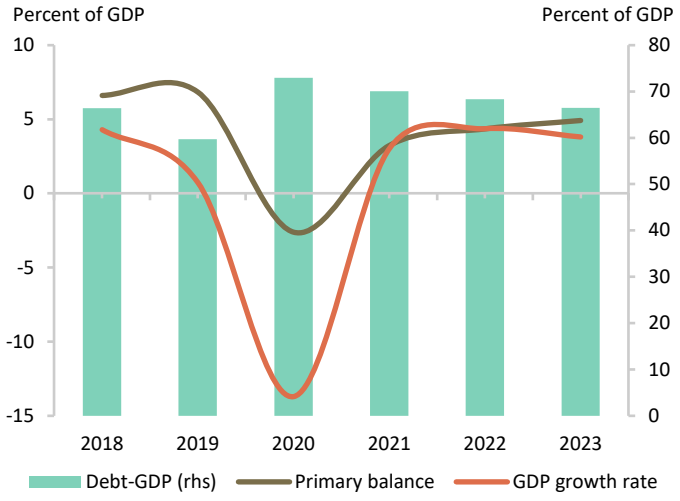
The COVID-19 pandemic affected the country severely, socially and economically, and aggravated existing vulnerabilities to natural disasters and external shocks. Besides threatening the public health system, the pandemic adversely affected Grenada's economy, with a standstill in the main sectors, particularly tourism. The labor market was hit hard especially for female workers reaching a peak of unemployment rate at 30.6 percent by 2020Q2 (26.1% for male) from a historic low of 18.3 percent by 2019Q4 (12.5% for male). Loss of households' income and surging public debt compromised the ability to cushion future shocks.

Risks to the economic outlook are tilted downwards. The new wave of COVID-19 cases in Grenada toward the end of August, together with emerging variants globally, led to significant uncertainty around the evolution of the pandemic. Uncertainties of economic recovery in advanced economies, continued disruptions to international travel, and natural disasters are threats to tourism and external financing, representing sources of risks to growth and debt sustainability, and the reactivation of jobs in sectors that employ large segments of the population.

Recent developments

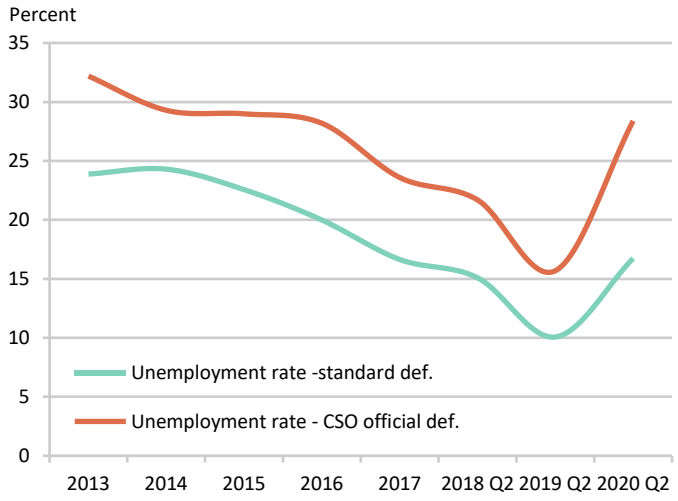
Following a sharp economic contraction in 2020, Grenada's real GDP growth is expected to recover gradually to 3 percent in 2021. While flights to Grenada have resumed, the pace of tourism activity, particularly in areas with predominantly female workers, has been hampered by the delta variant of COVID-19. Nevertheless, the scheduled resumption of face-to-face classes at St. George's University (20 percent of GDP) in late 2021 may partially

FIGURE 1 Grenada / The evolution of main macro variables



Sources: IMF; World Bank staff estimates; ECCB.

FIGURE 2 Grenada / Unemployment rate



Source: Labor Force Survey 2013-2020, Central Statistical Office.

compensate for this activity loss. Public investment projects also contributed to growth in 2021. The poverty rate, after surging by 6.3 percent to reach 31 percent in 2020, is expected to decline slightly in 2021 to 29.9 percent.

The primary balance is projected to turn a surplus of 3.2 percent of GDP in 2021, up from an estimated primary deficit of 2.6 percent in 2020. The escape clauses under the FRL were triggered for both 2020 and 2021 due to low tax revenues and additional expenditures to mitigate the impacts of the pandemic. Taxes on international trade and on goods and services picked up slowly in 2021 following the economy's gradual recovery. The wage bill is expected to increase by about 4 percent for the year reflecting the collective labour agreement in 2019 which covered the period 2020-2022. Meanwhile, the slower-than-expected rollout of public construction projects lowered projected public investment. General Government debt is expected to decline to 70.1 percent of GDP in 2021, from an estimated 73.0 percent in 2020.

The current account deficit is projected to widen slightly to 18.4 percent of GDP in 2021, from 18.2 percent in 2020. The expected widening is tied to a projected increase in imports which should outweigh the anticipated improvement in exports from tourism receipts. Balance of payment needs are expected to be met by recovering FDI and continued financing from multilateral and bilateral development partners, as well as increases in remittances.

Outlook

Growth and poverty reduction are expected to recover gradually over the medium term, albeit with significant uncertainties associated with the impact of the new coronavirus variants globally. Given the slower-than-expected recovery in 2021, real GDP is projected to reach its 2019 level only in 2023-24, in tandem with the assumed gradual resumption of international travel, the expected return of international students, a rebound in construction projects and wholesale and retail trade. In line with macroeconomic performance, the labor market's slow recovery, and the COVID-19 Stimulus Package 2.0 launched in September 2021, poverty is expected to reduce slowly and remain at around 30 percent in 2021, approaching the pre-pandemic level only after 2023.

With the expected return to the FRL, the primary surplus is projected to average 4.6 percent of GDP over the medium term, with the debt-to-GDP ratio falling to about 66.4 percent by 2023. The surplus should primarily be bolstered by increased tax revenues emanating from international trade, and goods & services underpinned by a recovery in tourism.

External balances are likely to improve to pre-pandemic levels over the medium term, consistent with a pickup in exports of goods and services, particularly tourism. In this context, the current account deficit is projected to decline to 15.6 percent of GDP by 2023 as the improvement in exports of goods and services is expected to outstrip imports. Inflationary pressures are expected to emerge in the near term from higher oil prices, particularly in 2021, which would in turn adversely impact disposable household incomes. However, the currency board arrangement and sufficient reserves in the Eastern Caribbean Central Bank - the regional central bank - should anchor consumer prices at low levels.

TABLE 2 Grenada / 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[a]	4.3	0.7	-13.7	3.0	4.4	3.8
Real GDP growth, at constant factor prices[a]	3.7	1.3	-13.7	3.0	4.4	3.8
Agriculture	2.9	-2.3	-14.5	7.3	5.1	5.1
Industry	10.1	-0.6	-14.8	7.4	4.8	4.2
Services	2.3	2.0	-13.4	1.7	4.2	3.6
Inflation (Consumer Price Index)	0.8	0.6	-0.7	2.9	1.9	1.5
Current Account Balance (% of GDP)	-16.0	-15.9	-18.2	-18.4	-16.9	-15.6
Fiscal Balance (% of GDP)[b]	4.6	5.0	-4.6	1.2	2.3	2.9
Debt (% of GDP)	66.4	59.7	73.0	70.1	68.3	66.4
Primary Balance (% of GDP)[b]	6.6	6.8	-2.6	3.2	4.3	4.9

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

(a) Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.

(b) The estimates for the fiscal balance and primary balance for 2020 excluded the Grenlec-related payment.

GUATEMALA

Table 1	2020
Population, million	16.9
GDP, current US$ billion	77.6
GDP per capita, current US$	4591.7
International poverty rate ($ 1.9)[a]	8.8
Lower middle-income poverty rate ($ 3.2)[a]	24.4
Upper middle-income poverty rate ($ 5.5)[a]	49.1
Gini index[a]	48.3
School enrollment, primary (% gross)[b]	101.9
Life expectancy at birth, years[b]	74.3
Total GHG Emissions (mtCO2e)[c]	38.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2019).
(c) Most recent CAIT value (2018).

The COVID-19 pandemic interrupted a prolonged period of growth driven by domestic demand. However, resilience in remittances and exports, and timely fiscal stimulus packages helped alleviate its impact and also supported a strong rebound. Real GDP is projected to increase 5.1 percent in 2021, while poverty is expected to decline gradually amid a gradual scaling back of COVID-related social programs. A slow vaccine roll-out and increased political tensions pose significant risks to a sustainable recovery.

Key conditions and challenges

Guatemala has experienced a prolonged period of macroeconomic stability and growth, which proved to be relatively resilient to the COVID-19 pandemic shock. In the decade prior to the pandemic, real GDP growth averaged 3.5 percent, underpinned by stable fiscal management and credible monetary policy, and propelled by private consumption and investment. Guatemala experienced one of the smallest GDP contractions in 2020 among LAC countries with economic activity already recovering pre-pandemic levels during the first quarter of 2021, supported by a record-high inflow of remittances.

Despite consistent economic growth, there has been little progress in poverty reduction since 2000. Guatemala is one of the countries with the highest rates of social and economic exclusion in the region. The country is characterized by persistent chronic child malnutrition: stunting affects almost half its children, particularly minorities and those in rural areas. Human capital indicators are similar to those of much poorer countries, curbing productivity and growth potential. Guatemala's capacity to achieve social development outcomes is constrained by a small-sized state. With one of the world's lowest tax to GDP ratios, resources for social spending are limited.

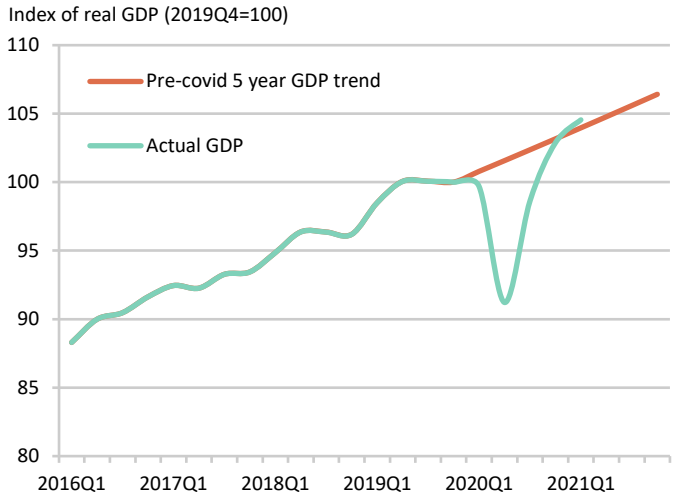
An extremely fragmented political system and high levels of corruption remain among the country's salient challenges. Heightened corruption and governance issues risk increased political instability and civil unrest. Political fragmentation has discouraged the introduction of productivity-enhancing reforms. In this context, potential growth is heavily reliant on factor accumulation and constrained by weak total factor productivity.

Recent developments

Guatemala's economy started to rebound in 2020Q4 following pandemic-induced contractions in Q2 and Q3. The administration's swift response to the crisis – suspension of non-essential activities and a fiscal stimulus of around 3.3% of GDP – resulted in real GDP contraction of only 1.5 percent in 2020, one of the lowest in LAC. The momentum continued in 2021, with real GDP growth of 4.8 percent y-o-y in Q1, led by health services, retail and manufacturing. On the demand side, remittance-fueled private consumption and private investment drove the recovery. Strong export growth in 2021H1 was outpaced by imports, widening the trade deficit and narrowing the current account surplus.

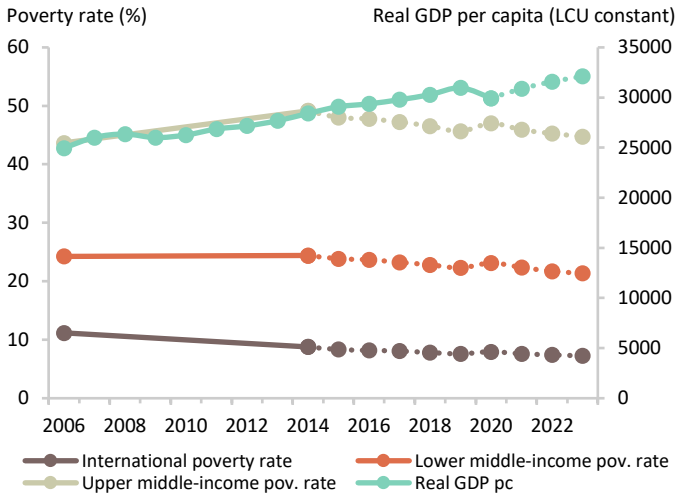
Monetary policy continued to be accommodative to support domestic liquidity. Despite inflationary pressures at the beginning of the year as a result of rebounds in transport prices, the policy rate was kept unchanged as headline inflation remained inside the target range of 4+/-1 percent.

FIGURE 1 Guatemala / Real GDP levels: Actual vs pre-covid trend



Sources: Central Bank of Guatemala and World Bank; Macro Poverty Outlook.

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



Source: World Bank. Notes: see Table 2.

International reserves increased by $700 million (22.6% of GDP) providing 9 months of imports coverage. The exchange rate remained stable in 2021H1, even appreciating slightly by 0.8 percent.

The unprecedented policy response to the pandemic and the sustained inflow of remittances helped to curb the impact on the most vulnerable. While it is estimated that the pandemic led to a 1.5 pp increase in the incidence of poverty (U$5.5 2011 PPP, reaching 47 percent in 2020), without the social programs it would have increased three to four times. Remittances mitigated the negative impact of the shock, as they represent 30 percent of household consumption.

Government accounts improved over 2021H1, with a primary surplus of 0.6 percent. Custom duties and VAT on imports pushed revenue growth to a remarkable rate of 38 percent y-o-y, while under-execution in expenditures contained government spending, especially budget rigidities and delayed vaccine purchases. In this regard, the vaccination campaign only picked up in July thanks to vaccine donations and, as of September 6, 20 percent of the population had received at least one dose.

Outlook

Economic growth in 2021 is expected to reach 5.1 percent. Private consumption and investment are expected to fully recover, supported by a strong US economy, this is expected to boost goods exports and remittances inflows. Manufacturing, construction and real estate activities are expected to contribute the most to growth, while tourism is expected to rebound only in 2022. Growth is projected to gradually decelerate to pre-pandemic rates over the medium term.

Preliminary data from the 2021 WB High-Frequency Phone Survey show that around half of the households interviewed reported that their total income remains below pre-pandemic levels, as those that remained employed are working fewer hours per week, and many have exited the labor force, particularly women. Close to one third of households experienced food insecurity, an improvement on the May 2020 level of 46 percent. Poverty is projected to decline slightly to 45.9 percent in 2021 amidst the recovery.

Inflation is expected to remain muted in 2021H2, as commodity prices such as oil and food are expected to remain stable, closing the year at 4.5 percent and declining to 4.0 percent over the medium term. The current account surplus is projected to narrow as recovery in domestic demand drives up import growth.

The fiscal deficit is projected to decline to 2.4 percent of GDP in 2021 due to improved revenues and budget under-execution. However, a higher deficit is expected in 2022 as the vaccination campaign accelerates. Fiscal consolidation thereafter is expected to stabilize debt over the medium term.

Risks to the forecast are skewed to the downside. Worsening of the political environment, new waves of COVID-19, and natural disaster events could slow the recovery.

TABLE 2 Guatemala / 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	3.3	3.9	-1.5	5.1	4.1	3.5
Private Consumption	3.5	4.5	-1.1	5.9	4.4	4.2
Government Consumption	6.7	2.5	1.6	2.1	3.0	0.0
Gross Fixed Capital Investment	4.5	8.7	-5.9	13.1	3.5	4.9
Exports, Goods and Services	-0.3	0.1	-4.4	6.9	5.5	3.0
Imports, Goods and Services	3.9	4.9	-4.6	10.8	5.0	4.6
Real GDP growth, at constant factor prices	3.2	3.7	-1.4	5.0	4.1	3.5
Agriculture	2.5	2.1	2.9	2.5	2.5	2.5
Industry	1.6	3.8	-1.2	6.0	2.9	2.9
Services	3.8	3.9	-2.2	5.0	4.9	3.9
Inflation (Consumer Price Index)	3.8	3.7	3.2	4.5	4.0	4.0
Current Account Balance (% of GDP)	0.9	2.3	5.5	4.3	4.1	3.3
Fiscal Balance (% of GDP)	-1.9	-2.3	-4.9	-2.4	-2.6	-2.2
Debt (% of GDP)	26.5	26.6	31.6	31.8	31.8	32.0
Primary Balance (% of GDP)	-0.4	-0.6	-3.1	-0.6	-1.1	-0.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	7.8	7.6	7.9	7.6	7.4	7.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	22.8	22.3	23.1	22.4	21.7	21.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	46.5	45.6	47.0	45.9	45.3	44.7

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

(a) Calculations based on SEDLAC harmonization, using 2014-ENCOVI.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.

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

GUYANA

Table 1	2020
Population, million	0.8
GDP, current US$ billion	6.3
GDP per capita, current US$	7875.0
School enrollment, primary (% gross)[a]	97.8
Life expectancy at birth, years[a]	69.9
Total GHG Emissions (mtCO2e)[b]	19.1

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

Guyana grew at an extraordinary rate of 43.5 percent in real terms in 2020 after completing a year of oil production. Positive spillover effects were muted by the non-oil economy's deep contraction caused by the COVID-19 pandemic. This resulted in job and income losses, suggesting increased poverty. There are significant risks associated with managing the new-found oil wealth and it would be critical for the government to save and invest for the future while using the rest to improve human and physical capital to boost national welfare.

Key conditions and challenges

Guyana is an emerging oil producer which in 2020 registered the fastest GDP growth in the world and its country's history. Agricultural products, gold, bauxite, and timber production reinforce its commodity-dependence nature. Guyana's resource wealth contrasts with the overall needs of the population in a context marked by ethnic and social polarization. Guyana had one of the highest poverty rates in the region, at 48.4 percent in 2019, using the upper-middle income poverty line (US$5.5 per day in 2011 PPP). Between 2006 and 2019, the income of the bottom 40 percent grew slower than the average, resulting in increased income inequality, with the Gini coefficient rising from 0.46 to 0.52. Poverty and social exclusion, including limited access to basic services, are particularly severe in Guyana's hinterland and among Amerindians.

Although the revenues from oil production and exports are saved outside of the economy, it is likely to become a significant source of revenues for government once uncertainties regarding the Sovereign Wealth Fund (SWF) are settled and the government starts accessing the Fund. The SWF, which was created in 2019 as the Natural Resources Fund, seeks to reduce exposure to oil price volatility and the risk of Dutch Disease effects by saving some earnings abroad and maintaining a balance between the rate of resource inflow and the country's limited absorptive capacity. The government is considering modifications to the SWF, to support a transparent and efficient management of the oil and gas revenue and alignment with Guyana's fiscal policies.

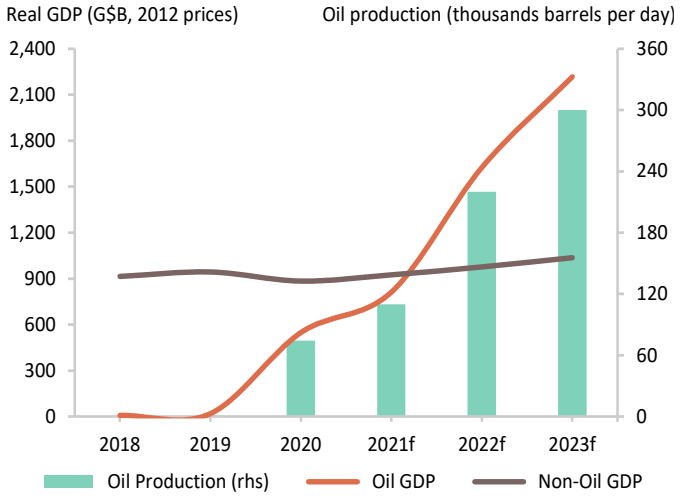
The COVID-19 pandemic exacerbated the challenges of high poverty and has deepened inequity. In the short-term, the pandemic continues to be a major challenge for the country. Vaccine supply shortages, as well as the rise of COVID-19 variants, threaten the normalization of business conditions and livelihoods of the population.

For long-term pro-poor growth, more efficient and effective public service delivery, particularly in health, education, and digital connectivity which improve human capital, are essential. To leverage positive spillovers from the expanding oil sector, a more sophisticated and skilled workforce will be required. Susceptibility to flooding, racial tensions, weak institutions for public planning, budgeting and good governance, and deficient infrastructure can jeopardize Guyana's growth, particularly in non-oil sectors.

Recent developments

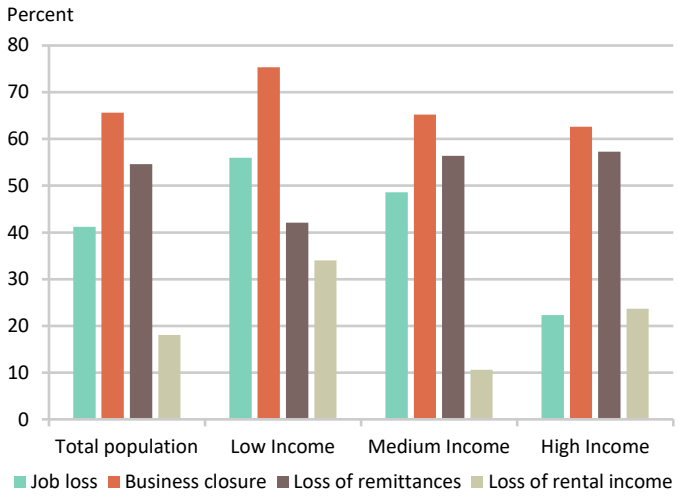
Real GDP is estimated to have increased by 43.5 percent in 2020, owing primarily to new oil production, which averaged 74,306 barrels per day. The expansion of the oil sector was partially offset by a 7.3 percent contraction in the non-oil economy caused

FIGURE 1 **Guyana** / Oil production, real oil, and real non-oil GDP



Source: World Bank staff estimates.
Note: f=forecast.

FIGURE 2 **Guyana** / Percentage of households affected by different income shocks in April 2020, by household income



Source: Arteaga Garavito et al. (2020).
Notes: Calculated with pre-pandemic household income and minimum wage.

by the pandemic-induced disruptions in key service sectors, in particular industry and services. This suggests further increases in poverty through employment and income losses. In the first quarter of 2021, the unemployment rate was 15.6 percent, almost 3 percentage points higher than in 2020Q1, with higher increases in the female unemployment rate (4.7 p.p.). A survey conducted by the Inter-American Development Bank showed that by April 2020, 71.6 percent of Guyanese households had experienced reductions in income levels compared to January 2020. Low-income households were disproportionately impacted. In the face of weak demand, overall inflation remained subdued at 1 percent in 2020. As of early September 2021, roughly 22 percent of the population has been fully immunized against the virus.

The fiscal deficit increased to 9 percent of non-oil GDP in 2020, owing primarily to the pandemic response, which included a variety of tax measures (selected VAT removals, corporate tax reductions, tax concessions, and land lease fee reversal), funds to combat COVID-19, and revitalization of the productive and infrastructure sectors. Revenues were also lower given that oil revenues are held abroad. The higher deficit drove public debt up slightly from 39.8 to 41.9 percent of GDP between 2019 and 2020, which was funded by an overdraft facility from the central bank.

As oil exports began, the current account deficit (CAD) shrank to 12.1 percent of GDP in 2020. Remittances remained relatively stable. The CAD was primarily funded by private inflows, which have allowed the authorities to maintain a modest buffer of international reserves, representing 2 months of imports in 2020.

Outlook

Guyana is expected to remain the world's fastest growing economy in the medium term, as new oil fields are developed, and production capacity expands to over 300,000 barrels per day by 2023. Real GDP is expected to more than double by 2023, pushing per capita income to over US$20,000 at current nominal exchange rate. Poverty reduction will be dependent on performance of the non-oil economy through job creation and redistribution of resource revenues. The expansion of oil and gas production will boost private investment and accelerate the growth of services. Increased gold and bauxite output will also drive export growth. Rising income and demand will cause inflation to accelerate, likely reducing the purchasing power of poor and vulnerable households more severely.

Guyana's oil production boom, and to a lesser extent gold, will have a transformative effect on the external sector, driving the current account into surplus. Imports of services, particularly from the extractive and construction industries, will be in high demand and income outflows will remain high as investment costs are recouped. Foreign direct investment (FDI) inflows will be strong, primarily in the oil and mining sectors, supporting the central bank's international reserves position.

Guyana's fiscal deficit is expected to narrow to 4.5 percent of GDP by 2023. Increased spending to fund public works projects in agriculture, infrastructure, and public services is expected to be partly offset by higher revenues including inflows from the oil sector. It is essential that Guyana maintains an operational SWF to mitigate the imbalance between the resource inflow and the absorptive capacity of the emerging productive sector.

Guyana is now highly vulnerable to oil-related shocks, both to price and output. It also faces well-known risks associated with resource-dependent economies, such as a lack of diversification and incipiently developed institutions. Furthermore, oil production has environmental consequences that must be carefully considered, and the sector may face additional risks in the medium term as the world transitions away from carbon dependence.

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

	2018	2019	2020e	2021f	2022f	2023f
Real GDP growth, at purchaser prices (total)[a]	4.4	5.4	43.5[e]	21.2	49.7	25.0
Real GDP growth, at factor prices (non-oil)[b]	3.6	3.1	-6.2	4.6	5.5	6.1
Agriculture	6.6	-0.5	4.1	3.4	4.8	3.2
Industry (non-oil)	1.4	5.4	-10.5	12.2	3.1	2.8
Services	3.2	4.0	-9.9	0.0	8.0	10.7
Inflation (Consumer Price Index)	2.0	1.4	1.0	4.5	4.8	4.6
Current Account Balance (% of GDP)[c]	-57.3	-54.6	-12.1	-6.7	2.2	9.7
Fiscal Balance (% of GDP)[d]	-2.8	-2.6	-9.0	-10.0	-8.1	-4.5
Debt (% of GDP)	43.1	39.8	43.9	41.4	38.2	36.3
Primary Balance (% of GDP)[d]	-1.9	-1.8	-8.2	-9.3	-7.5	-3.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Total GDP at 2012 prices.
(b) Non-oil GDP at 2012 prices.
(c) BOP definition in current US$.
(d) Share of non-oil GDP.
(e) Real GDP growth for 2020 is potentially overstated, on account of the base year (2012) used for the inclusion of the oil sector in GDP. The government is undertaking a rebasing exercise to better capture the value-added from the oil sector, which could result in significant downward revisions of oil GDP growth rates.

HAITI

Table 1	2020
Population, million	11.4
GDP, current US$ billion	14.5
GDP per capita, current US$	1271.9
International poverty rate ($ 1.9)[a]	24.5
Lower middle-income poverty rate ($ 3.2)[a]	50.3
Upper middle-income poverty rate ($ 5.5)[a]	78.6
Gini index[a]	41.1
Life expectancy at birth, years[b]	64.0
Total GHG Emissions (mtCO2e)[c]	10.6

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2012), 2011 PPPs.
(b) Most recent WDI value (2019).
(c) Most recent CAIT value (2018).

Challenges posed by the COVID-19 pandemic for Haiti, were further aggravated by the assassination of the President on July 7th and the earthquake that devastated part of the country on August 14th, followed by tropical storm Grace two days later on August 16th, disrupting health and education services, further affecting human capital formation, and contributing to low productivity. Political stability, credible institutions, and an economic plan to support sustainable economic growth and poverty reduction seem more elusive than last year.

Key conditions and challenges

Haiti faces deep structural challenges which are difficult to solve in the context of a lingering political and institutional crisis. The non-enabling business environment, an ongoing security crisis, a very slow vaccine rollout, and weak governance undermine growth.

The export base is narrow, with textiles representing over 90 percent of total export revenue.

Uncertainty surrounding the political process and vulnerability to natural hazard shocks and climate change will continue to undermine growth, hurting the poor and the vulnerable. Political instability is exacerbated by the rising insecurity caused by violent gangs that occasionally control large swathes of Port-au-Prince, the capital city, keeping economic activity subdued. This has consequences on job creation and economic opportunities, constraining poverty reduction. In addition, most jobs are informal and insecure, with earnings insufficient to escape poverty.

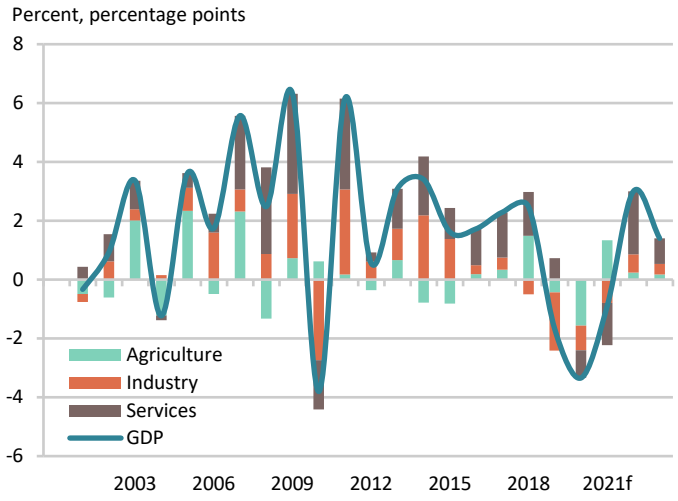
Domestic revenue mobilization remains weak at 7.0 percent of GDP on average over the past ten years, and untargeted fuel subsidies limit the fiscal space. The monetary and fiscal authorities struggle to comply with limits on monetary financing of deficits, as permitted by law. The lack of a credible policy framework erodes confidence and impairs economic agents' ability to plan for the long term, it also generates chronic inflation that mainly affects the poor as they typically cannot hedge inflation risk. In this context, according to a World Bank High Frequency Survey (HFS), roughly two-thirds of households in July 2021 reported a decrease in total income relative to February 2020.

Recent developments

After dipping 3.3 percent in 2020 due to a protracted political crisis exacerbated by the COVID-19 pandemic, GDP expanded by 0.9 percent during H1 FY2021, boosted by the service sector. The COVID-19 impact has been relatively mild in Haiti so far and its economic repercussions have been less severe compared to other Caribbean countries. At the time of writing, about 21,000 positive cases have been reported. Fatality rate, however, is high at 2.8 percent. Vaccination was rolled out only in July 2021 and about 0.2 percent of the population have been vaccinated so far despite a large donation of vaccines through COVAX.

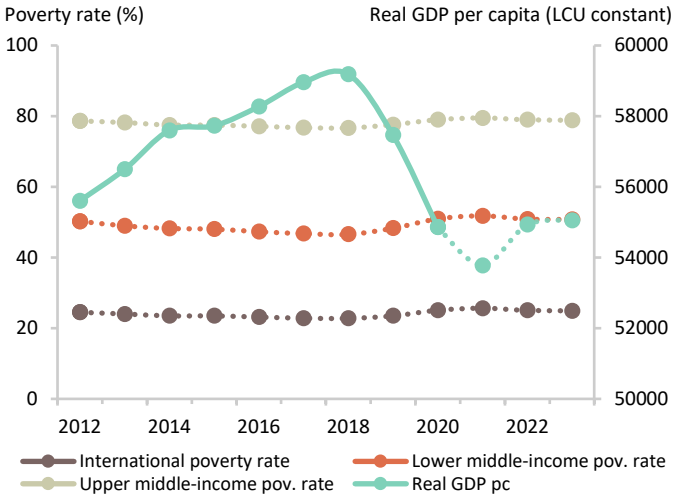
On July 7, President Jovenel Moïse was assassinated, further deepening political tensions. A transition government was established on July 19 and mandated with the organization of peaceful and credible elections. On August 14, just one month after the assassination, a magnitude 7.2 earthquake devastated Haiti's southern peninsula. The earthquake killed more than 2,000 people and caused damages estimated at US$ 1.1 billion or 7.0 percent of 2020 GDP. While the economic impact

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



Source: Haiti Statistical Office (IHSI).

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



Source: World Bank. Notes: see Table 2.

is expected to be lower than the 2010 earthquake, human suffering has intensified given existing high poverty and vulnerability levels; limited resources for rebuilding livelihoods; and constrained mobility as a result of the pandemic. The southern peninsula was hit by Hurricane Matthew in 2016, and the recent earthquake may deepen spatial inequalities in the country.

The strong gourde policy engineered by the authorities at the end of fiscal year 2020 continued to favor imports during the first half of FY2021, but the current account balance (CAB) remains in equilibrium thanks to increases in remittances and higher exports during that period.

Fiscal dominance and ensuing monetization of the government deficit continue to weaken the effectiveness of monetary policy. At the end of August, the fiscal deficit had already reached 3.6 percent of GDP, financed by the central bank (BRH). To limit the resulting inflationary pressures, the BRH intervened to mop up excess liquidity in the banking sector, potentially crowding out the private sector.

Headline, consumer price inflation is on a downward trend. After closing at an average 22.9 percent in 2020, CPI inflation started to slow at the beginning of fiscal year 2021 to close in July at 12.3 percent.

Outlook

The lack of consensus on the solution for the political crisis, the August earthquake, and the flooding caused by tropical storm Grace are projected to lead to a GDP contraction in 2021; this is despite strong expansion of government consumption in support programs to affected households in the earthquake-hit area and preparations for elections. As a result, poverty is expected to increase in 2021 leaving almost 52 percent of the population living on less than the lower middle income poverty line ($3.2 per day, 2011 PPP) and 26 percent below the international poverty line ($1.90 per day, 2011 PPP).

The economy is expected to rebound to 3.2 percent in 2022, driven by private consumption supported by increasing remittances from abroad. The rebound also assumes reconstruction efforts mainly supported by aid from the international community. Poverty is therefore expected to decrease mildly in 2022, but access to basic services will remain a challenge.

Imports will continue to grow, especially after the earthquake. However, stronger remittances growth from the two main remittances senders to Haiti, namely the USA and Canada, will help stabilize the CAB at about -1.5 percent of GDP over the medium term.

Since Haiti imports two-thirds of consumption goods, the pass-through effect from last year's strong gourde policy will help lower inflation, which is expected to close at 16.0 percent on average. However, because the earthquake and the flooding from tropical storm Grace mostly damaged rural infrastructure including agricultural, and with the perennial lack of investment to boost productivity in the agricultural sector, there will be additional pressure on food prices and on inflation in outer years.

The recent earthquake and flooding warranted additional spending in government programs to support the affected households, prompting the authorities to draft a supplemental budget with a higher deficit. The fiscal deficit is therefore expected to widen reaching about 4.7 percent of GDP in 2021, financed mainly by money creation, hurting the poor more severely.

The path ahead remains fraught and particularly exposed to ongoing political turmoil that could continue to hamper economic recovery and delay implementation of critical reforms needed to put Haiti on the path towards sustainable growth and poverty reduction.

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

	2017/18	2018/19	2019/20	2020/21 e	2021/22 f	2022/23 f
Real GDP growth, at constant market prices	1.7	-1.7	-3.3	-0.8	3.2	1.4
Private Consumption	4.1	-1.0	-4.0	-1.7	2.0	0.4
Government Consumption	4.2	-8.6	11.1	18.0	5.0	1.3
Gross Fixed Capital Investment	-5.2	7.7	-20.6	7.4	13.9	8.8
Exports, Goods and Services	-6.5	6.8	-39.7	5.0	4.0	2.0
Imports, Goods and Services	3.3	4.2	-18.3	6.0	5.0	2.0
Real GDP growth, at constant factor prices	0.7	-1.1	-2.9	-0.9	3.1	1.4
Agriculture	1.4	-1.8	-2.4	0.5	1.2	1.0
Industry	-1.9	-7.0	-7.2	0.9	2.0	1.5
Services	1.9	2.1	-1.2	-2.1	4.1	1.5
Inflation (Consumer Price Index)	13.5	17.2	22.8	16.0	19.0	15.7
Current Account Balance (% of GDP)	-2.9	-1.2	3.4	-1.0	-2.0	-1.1
Net Foreign Direct Investment (% of GDP)	0.6	0.5	0.1	0.2	0.5	0.5
Fiscal Balance (% of GDP)	-2.5	-2.2	-3.0	-4.7	-2.5	-2.1
Debt (% of GDP)	23.5	25.6	24.4	29.5	29.7	29.7
Primary Balance (% of GDP)	-2.3	-1.9	-2.5	-3.3	-2.1	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	22.8	23.5	25.1	25.7	25.1	25.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	46.6	48.3	51.0	51.9	51.0	51.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	76.6	77.6	79.0	79.5	79.0	78.9

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

(a) Calculations based on SEDLAC harmonization, using 2012-ECVMAS.Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2012) with pass-through = 0.87 based on GDP per capita in constant LCU.

HONDURAS

Table 1	2020
Population, million	9.9
GDP, current US$ billion	23.7
GDP per capita, current US$	2393.9
International poverty rate ($ 1.9)[a]	14.8
Lower middle-income poverty rate ($ 3.2)[a]	29.0
Upper middle-income poverty rate ($ 5.5)[a]	49.0
Gini index[a]	48.2
School enrollment, primary (% gross)[b]	91.5
Life expectancy at birth, years[b]	75.3
Total GHG Emissions (mtCO2e)[c]	28.1

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

Honduras's economy expanded in the first half of 2021, led by remittance-fueled private consumption and post-hurricane reconstruction. Poverty and inequality are expected to decline in 2021 but remain higher than pre-crisis levels. Real GDP is expected to return to the pre-crisis level by 2023, supported by improved external conditions and reactivated domestic activity amid vaccination rollout. However, a slower recovery is possible if the health crisis endures. Prolonged unemployment and food insecurity, particularly in rural areas, pose risks to poverty reduction and further erode human capital.

Key conditions and challenges

Honduras's export-oriented growth model has been insufficient to boost growth and incomes. The country's exposure to external shocks and natural hazards, combined with high crime rates and a weak institutional and business environment, undermine its competitiveness. Real GDP growth averaged 3.1 percent over the past decade, mainly driven by remittance-fueled private consumption. Yet, in 2019, almost half the population lived on less than US$5.50 per day, making Honduras one of the poorest countries in the Latin America and Caribbean region.

Prudent macroeconomic management anchored in the Fiscal Responsibility Law (FRL), a crawling peg exchange with ample foreign reserves, and a sound financial sector supported macro stability in the run-up to the COVID-19 crisis. The government advanced reforms to strengthen the macroeconomic framework, business environment, and monitoring and mitigation of fiscal risks, including those related to the state electricity company (ENEE).

The impacts of hurricanes Eta and Iota and the pandemic exacerbated existing economic and social challenges. Both hurricanes affected about 4.7 million people (48 percent of the population), with social and economic costs estimated at US$1.8 billion (7.5 percent of 2020 GDP) amid damages to key infrastructure, land, and crops. Poverty (US$5.50 line) is estimated to have increased by 6.4 percentage points in 2020. About 27.6 percent of women are expected to lose their jobs either permanently or temporarily in 2020.

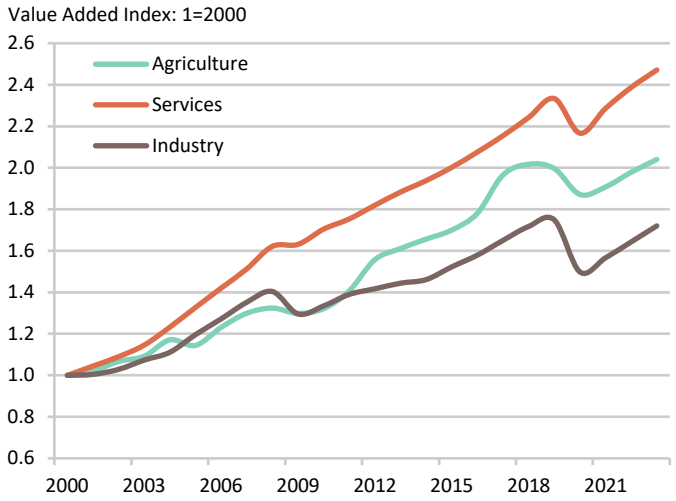
Emergency programs had a relatively small mitigating impact. Lockdowns impacted employment and incomes, especially for overrepresented women in affected sectors, resulting in high levels of food insecurity. They also affected access to education, potentially increasing the incidence of learning poverty in the country, as 30 percent of households report having no internet and no access to online schooling. COVID-19 daily cases continue rising amid low vaccination rates in Honduras, with only 17 percent of the population fully vaccinated as of September 2021.

A key challenge is to keep reform momentum while mitigating the impacts of the pandemic and natural hazards. Better targeting and faster disbursement of support programs, strengthening resilience to climate risks, and increasing digital services access remain critical to boost and sustain economic opportunities for a largely poor and vulnerable population.

Recent developments

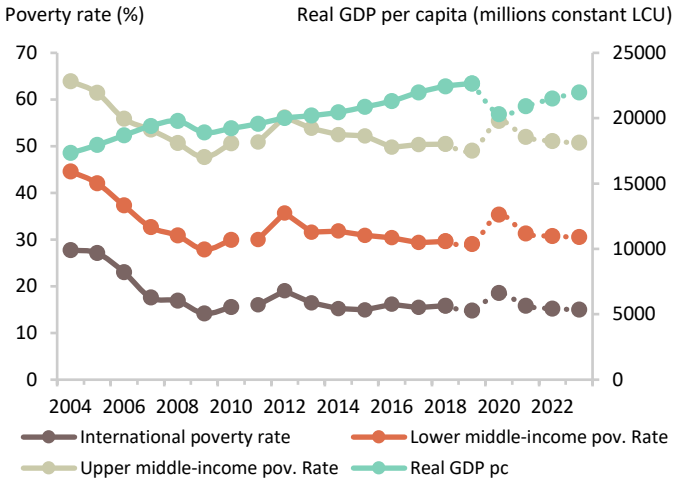
After a sharp contraction of 9 percent in 2020, real GDP grew 1.3 percent y/y in the first quarter of 2021, while the index of economic activity registered a 12.4 percent y/y expansion in the first half of 2021. This expansion was broad-based (except for labor-intensive agriculture) driven by private consumption and post-hurricane

FIGURE 1 **Honduras** / Real value added index, 2000=1



Sources: Central Bank of Honduras and World Bank staff's estimates.

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



Source: World Bank. Notes: see Table 2.

reconstruction spending. Employment gains are expected to help restore household incomes. Poverty under the US$5.50 line is expected to decline in 2021 but remain above the pre-crisis level. Growth in remittances, representing 23.4 percent of GDP in 2020 and 29 percent of household income for the poorest remittance-receiving households, accelerated by 29.6 percent y/y in the first quarter of 2021, further supporting the household incomes.

The government continues to implement targeted policies to cushion the impacts of the multiple shocks on economic activity and livelihoods. The country's relatively low public debt and deficit levels coupled with good access to concessional financing allow for a countercyclical response, in line with the FRL's escape clause. The Non-Financial Public Sector (NFPS) deficit is expected to be 5.4 percent of GDP in 2021, bringing total NFPS debt to 57 percent of GDP in 2021 (compared to 53.6 percent in 2020).

After registering a historical surplus of 2.9 percent of GDP in 2020, the current account is expected to reverse to a deficit in 2021 on the back of recovering imports. External position remains strong, supported by remittances and external financing. Foreign reserves stood at US$8.9 bn (37 percent of 2020 GDP) at end-August 2021, supporting exchange rate stability. Annual inflation accelerated to 4.5 percent y/y in August 2021 – within the Central Bank's (BCH) target band (4 percent ± 1 percent). The BCH maintained the key policy rate at 3 percent in the first half of 2021 and liquidity management operations.

Outlook

Real GDP is expected to reach its pre-pandemic level by 2023, supported by a favorable external environment and strengthening domestic activities amid vaccination rollout. Manufacturing and services are expected to pick up in the short term, while the recovery in the agriculture sector could be subdued amid severe damages to crops and land. A wider current account deficit associated with higher import values is expected to be financed primarily by FDI inflows. Finally, the poverty rate ($5.5 USD Line) is expected to decline to 50.7 by 2023 as labor markets recover.

Honduras is expected to continue receiving external financial support while gradually consolidating its fiscal position. The government is committed to fiscal prudence and aims to return to the 1 percent NFPS deficit ceiling in 2023 while protecting priority spending. The required consolidation is challenging and is expected to be supported by the unwinding of pandemic support, budget reallocations, strict spending controls, and gradual revenue growth aided by the economic recovery and revenue mobilization measures. Inflation is expected to stay within the target range, allowing the BCH to maintain an accommodative monetary policy in the near term to increase access to credit and boost domestic demand. However, monetary tightening is possible over the medium-term if inflation accelerates amid rising oil and food prices and recovering domestic demand.

A slower global recovery would prompt the renewal of containment measures and weaken Honduras's pace of recovery. Further, if growth in remittances stalls, near-poor households could fall below the poverty line. Prolonged unemployment, food insecurity, particularly for informal low-income households that lack insurance and savings, could have lingering effects on human capital and livelihoods.

TABLE 2 Honduras / 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	2.7	-9.0	4.7	4.4	3.8
Private Consumption	5.5	4.7	-6.2	3.7	3.2	3.0
Government Consumption	1.0	1.7	2.9	5.7	-0.2	-1.5
Gross Fixed Capital Investment	7.3	-5.2	-23.8	16.2	11.1	5.7
Exports, Goods and Services	1.4	2.4	-20.4	12.0	7.0	5.0
Imports, Goods and Services	4.5	-2.4	-18.5	13.7	5.9	3.3
Real GDP growth, at constant factor prices	3.8	2.7	-9.0	4.7	4.4	3.8
Agriculture	2.6	-1.0	-6.3	2.0	3.7	3.1
Industry	4.1	1.8	-14.3	4.5	4.9	4.7
Services	4.1	4.1	-7.1	5.5	4.4	3.5
Inflation (Consumer Price Index)	4.3	4.4	3.5	4.0	4.1	4.0
Current Account Balance (% of GDP)	-6.6	-2.4	2.9	-3.2	-3.4	-3.6
Net Foreign Direct Investment (% of GDP)	3.7	2.0	1.5	2.2	2.6	2.8
Fiscal Balance (% of GDP)[a]	-0.9	-0.9	-5.5	-5.4	-2.2	-1.0
Debt (% of GDP)[a]	42.1	43.1	53.6	57.0	57.5	57.1
Primary Balance (% of GDP)[a]	0.0	-0.2	-4.2	-4.2	-0.9	0.5
International poverty rate ($1.9 in 2011 PPP)[b,c]	15.8	14.8	18.5	15.8	15.2	15.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	29.6	29.0	35.3	31.3	30.7	30.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	50.4	49.0	55.4	52.0	51.1	50.7

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

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

(b) Calculations based on SEDLAC harmonization, using 2019-EPHPM. Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(c) Projections using microsimulation methodology.

JAMAICA

Table 1	2020
Population, million	3.0
GDP, current US$ billion	12.6
GDP per capita, current US$	4200.0
School enrollment, primary (% gross)[a]	85.1
Life expectancy at birth, years[a]	74.5
Total GHG Emissions (mtCO2e)[b]	10.2

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

The COVID-19 pandemic led to the deepest recession since independence, reversing some of the gains in fiscal consolidation and poverty reduction achieved in the past decade. Households have been negatively impacted by income and job losses, increasing the poverty rate. The COVID-19 crisis has particularly hit services, including tourism, and informal activities. Challenges regarding vaccine rollout, new COVID-19 variants, natural disasters, and a slow tourism recovery pose significant downside risks.

Key conditions and challenges

Jamaica's economy has grown at a rate of less than 1 percent per year for decades impeded by structural factors. Despite a steep reduction in recent years, from 145 to 94.7 percent of GDP between 2013 and 2019, public debt remains among the highest in the region. Private sector participation in the economy is hampered by lack of interconnectedness with enclave industries, including mining and tourism, low productivity, and a high regulatory burden. Further, rising crime and violence also discourages investments, as do the high cost of electricity, and limited internet connectivity. Human capital is decreasing due to "brain drain" of skilled labor, and weak learning and education outcomes.

Jamaica is also highly vulnerable to climate shocks affecting mainly vulnerable groups as well as key economic and climate-sensitive sectors like tourism and agriculture.

Containment of the COVID-19 pandemic is critical for economic recovery and inclusive growth in this tourism-dependent economy. Vaccinations commenced in March 2021, but have been hampered by limited supplies, logistical bottlenecks and hesitancy among the prioritized groups. As of September 21, 2021, approximately 24.5 percent of the population has received one dose of vaccine and only 7.5 percent of the population had been fully vaccinated against COVID-19, among the lowest in the region. Beyond domestic efforts, Jamaica's recovery will be determined by the normalization of international travel, as the tourism sector accounts for more than 30 percent of GDP and employs one-third of the workforce. New COVID-19 variants represent a major threat.

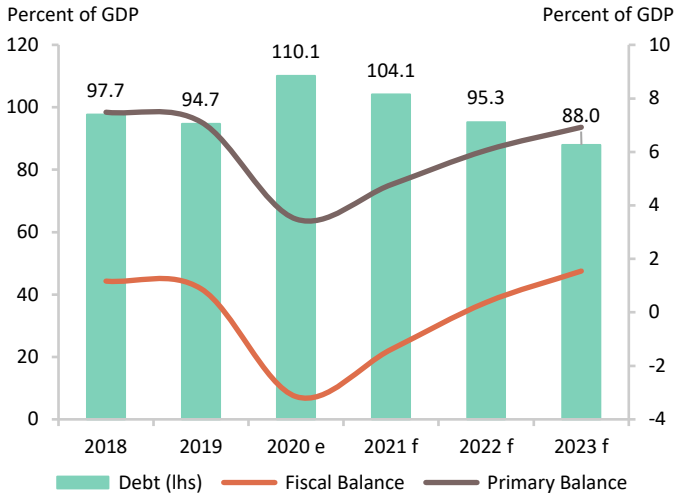
The country is also confronted by anti-money laundering and counter-terrorism financing issues having recently been added to the grey list of non-compliant countries by the Financial Action Task Force (FATF). This is likely to accelerate de-risking by large international banks, which could have implications for trade.

Recent developments

Real GDP contracted by 10 percent in 2020, owing to a steep drop in net external demand, private consumption, and investment. Government consumption expenditures rose given interventions to stem the impact of the pandemic on livelihoods. On the supply side, services declined sharply because of the near closure of tourism. Disruptions in domestic production linked to the pandemic, flooding, and the continued closure of Jamaica's largest aluminum refinery hampered industry. Inflation increased slightly, driven mainly by food prices, but staying within the 4-6 percent target range.

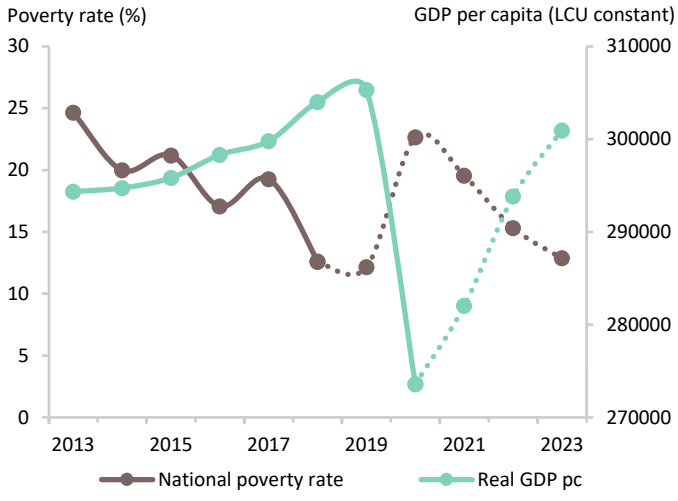
Fiscal policy was countercyclical in response to the pandemic. A fall in revenues combined with the increase in pandemic-related outlays for the health sectors and

FIGURE 1 Jamaica / Fiscal balances and public debt



Sources: GoJ, IMF and World Bank staff estimates.

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



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

cash transfers to vulnerable households and business drove the overall fiscal balance to a deficit of 3.1 percent of GDP in 2020 from a surplus of 0.9 percent of GDP in 2019. This, and the fall in output, increased the public debt to GDP ratio by 15.4 percentage points to 110.1 percent of GDP in 2020.

Jamaica's external account improved in 2020, with the current account deficit (CAD) shrinking to 0.3 percent of GDP due to strong remittance inflows and lower imports of goods, including oil. The CAD was primarily funded by private and official inflows including support from Inter-American Development Bank and the World Bank. The international reserve-cover ratio in 2020 ended at approximately 8 months of imports of goods and services.

Poverty in Jamaica had been declining in recent years, but COVID-19 reversed this trend, with the national poverty rate likely rising over 10 percentage points to 23 percent in 2020. Disruptions in the tourism sector and related activities reversed previous gains in employment and income, with women bearing the brunt. Unemployment rose from 7.3 percent in January 2020 to 12.6 percent in July 2020. The unemployment rate had fallen to 9.0 percent by April 2021, owing to a 7.5 percent increase in employment. Employment to population ratio of 57.6 in April 2021 was 3.3 percentage points lower than January 2020. The recovery has been uneven, especially for female youth, with their unemployment rate lagging at 28 percent in April 2021.

Outlook

Real GDP is expected to gradually recover to pre-pandemic levels over the medium-term, driven by investments in the hospitality industry, and the steady recovery in tourist arrivals as vaccination progresses and travel routes are restored. Mining activities are also expected to resume in the second half of 2022. Remittances should remain robust, albeit less than in 2020, supporting household's consumption and investments. Inflation is envisaged to average around 5.7 percent.

Consistent with the pick-up in economic activity, the fiscal accounts should improve over the medium-term with higher revenues and a fall in spending as the COVID-19 cash support and other programs are phased out. Public debt is expected to decline gradually although the trajectory remains vulnerable to uncertainties related to COVID-19, possible tightening in financial conditions in developed economies, fiscal risks posed by state-owned enterprises and to natural disaster shocks, which also pose risks for poverty.

The CAD is expected to widen as imports recover and remittances normalize. Private flows are expected to improve, reducing the need for public sector borrowing to fund it. The currency is also expected to stabilize as tourism and bauxite exports gradually recover. Gross reserves are expected to remain at healthy levels, averaging more than 5 months of imports.

Monetary policy will continue to support growth while ensuring a sufficient level of liquidity in the financial system. Jamaica's financial institutions are still sound, though a protracted crisis may pose stability challenges. Jamaica was deemed Compliant for 8 and Largely Compliant for 19 of the FATF's 40 recommendations in the most recent evaluation in 2020.

Poverty is expected to fall to around 19 percent by 2023 as employment recovers. However, disruptions in learning during the pandemic may have longer-term effects on human capital and, the future earning potential of affected students.

TABLE 2 Jamaica / 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	1.9	0.9	-10.0	3.5	4.0	2.8
Private Consumption	1.0	1.0	-13.2	3.5	2.9	1.8
Government Consumption	0.7	3.1	11.7	-2.1	2.1	1.9
Gross Fixed Capital Investment	5.1	1.0	-15.9	9.0	6.8	6.9
Exports, Goods and Services	8.2	3.6	-30.0	7.9	4.2	1.8
Imports, Goods and Services	6.0	4.2	-26.7	7.2	3.0	2.2
Real GDP growth, at constant factor prices	1.8	1.0	-10.0	3.5	4.0	2.8
Agriculture	4.1	0.4	-1.4	1.1	1.3	1.6
Industry	4.8	-0.7	-5.7	2.7	4.0	-0.7
Services	0.7	1.6	-12.1	4.0	4.3	4.0
Inflation (Consumer Price Index)	3.7	3.9	5.7	5.8	5.9	5.4
Current Account Balance (% of GDP)	-1.5	-2.3	-0.3	-1.5	-3.4	-2.5
Net Foreign Direct Investment (% of GDP)	4.8	1.4	1.9	2.2	2.5	2.3
Fiscal Balance (% of GDP)[a]	1.2	0.9	-3.1	-1.4	0.4	1.5
Debt (% of GDP)[a]	97.7	94.7	110.1	104.1	95.3	88.0
Primary Balance (% of GDP)[a]	7.5	7.1	3.5	4.8	6.1	6.9

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

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

MEXICO

Table 1	2020
Population, million	128.9
GDP, current US$ billion	1073.2
GDP per capita, current US$	8325.8
International poverty rate ($ 1.9)[a]	1.7
Lower middle-income poverty rate ($ 3.2)[a]	6.5
Upper middle-income poverty rate ($ 5.5)[a]	22.7
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	105.0
Life expectancy at birth, years[b]	75.1
Total GHG Emissions (mtCO2e)[c]	695.3

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

Mexico's economy is projected to expand by 5.7 percent in 2021, driven by strong U.S. demand and the reopening of the economy. Risks to recovery include increases in COVID-19 cases, an employment rebound concentrated in the informal sector, and supply chain disruptions. Poverty is expected to remain above pre-pandemic levels in 2021 as underemployment continues to be high. A robust medium-term recovery calls for addressing pre-pandemic constraints to growth and inclusion, such as access to finance, regulatory burdens, infrastructure bottlenecks, and inadequate public services.

Key conditions and challenges

The Mexican economy is characterized by high trade openness, a strong export manufacturing base that is well connected to Global Value Chains, and a stable macroeconomic framework. Yet, Mexico has experienced a decline in potential output growth, high informality, and poor productivity growth in the last decade. The pandemic brought long-standing structural challenges to growth and job creation to the fore, such as limited access to finance, regulatory burden, infrastructure bottlenecks, and inadequate public services.

The pandemic has also exacerbated labor market weaknesses, including underemployment, low female labor force participation, and significant regional disparities. The re-matching of workers and firms is costly, and it will take time for formal jobs to return to pre-crisis levels. Access to quality education worsened as schools shut down, and access to healthcare declined as the system sought to cope with COVID-19, these have had potential long-term impacts on human capital and productivity. Beyond the effects of the pandemic, uncertainty about regulatory changes could hamper the recovery of some sectors, particularly energy.

Eroded fiscal buffers mean that the government needs broader revenue-enhancing reforms to meet spending pressures, address infrastructure bottlenecks and meet demands for access to quality public services and infrastructure while preserving debt sustainability. A turnaround of PEMEX's financial situation that is draining public financial resources is also needed.

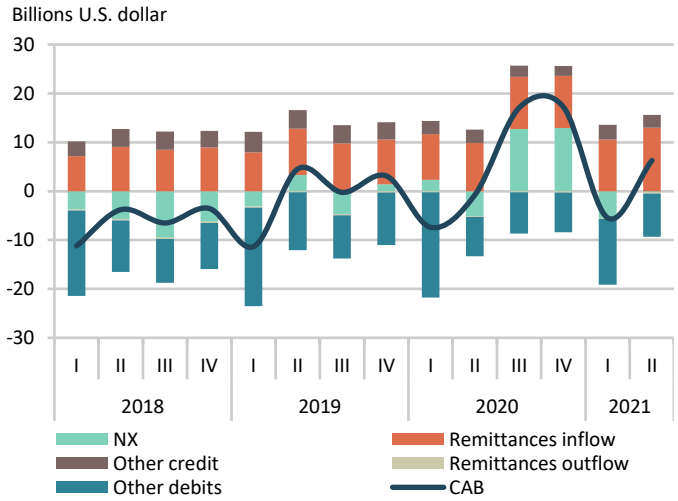
Significant regional differences persist, as 63 percent of the multidimensional extreme poor lived in six of Mexico's thirty-two states in 2020. Rural areas suffer a vicious cycle of low productivity, low physical and human capital investments, and high poverty rates, particularly in the south. At the same time, and despite the positive effects of urbanization, most of Mexico's poor live in urban areas where service provision is inadequate.

Recent developments

The Mexican economy experienced GDP growth of 6.9 percent during the first six months of 2021, compared to the first half of 2020. This outcome was driven primarily by services, mostly retail and transportation, as domestic mobility restrictions eased. Additionally, manufacturing also contributed to economic recovery as U.S. demand improved. By July 2021, jobs increased by 6.8 million (compared to July 2020), surpassing pre-pandemic levels. These jobs were primarily created in the informal sector, which was most affected during the pandemic.

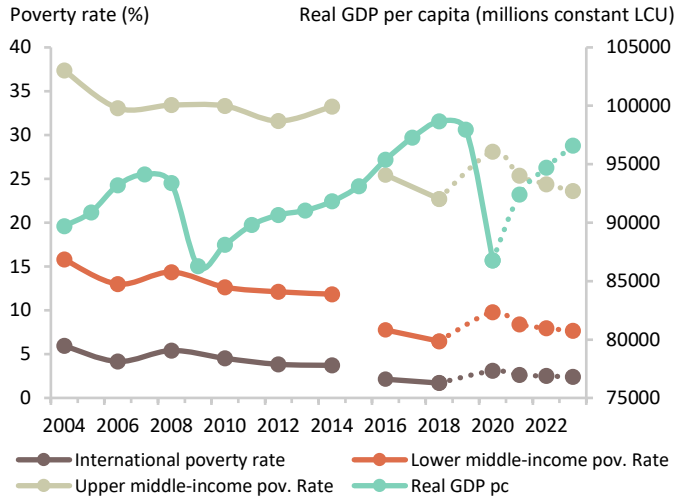
National multidimensional poverty increased to 43.9 percent (55.7 million people), based on the Household Income and Expenditure Survey conducted in the last quarter of 2020, from 41.9 in 2018. The

FIGURE 1 **Mexico** / Current account balance



Source: Banxico.

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



Source: World Bank. Notes: see Table 2.

share in extreme multidimensional poverty also increased to 8.5 percent (10.8 million people). These increments were driven by reductions in labor income and lower access to healthcare. Similarly, monetary poverty using a six-month recall period grew from 26.6 percent in 2018 to 28.1 percent in 2020. However, monetary poverty using a one-month recall period shows a slight reduction relative to 2018, reflecting the recovery in the labor market in the last quarter.

The current account reached a 0.1 percent of GDP surplus in the first half of 2021, higher than the -1.6 percent in the same period in 2020. Growth in imports was attenuated by a rebound in exports and by remittances, which increased to 23.6 billion U.S. dollars in the first six months of 2021 (19.3 billion in the first half of 2020).

Headline and core inflation (5.6 and 4.8 percent in August 2021, respectively) and medium-term expectations remain above the Central Bank's band (3 percent ± 1 percent). As a result, the Central Bank increased its policy rate from 4.0 to 4.5 percent in August 2021.

The government fiscal deficit stayed at 3.1 percent of GDP during the first half of 2021. Public expenditure moderated and tax revenues increased, benefiting from the economic recovery, tax administration measures, tax settlements with large companies, and higher oil prices. Large key public investment projects are still in place.

Outlook

The economy is projected to expand by 5.7 percent in 2021, supported by solid economic recovery during the first half that loses steam during the second part of 2021 due to international supply chain constraints and the surge in COVID-19 cases. The Mexican economy is expected to grow at 3.0 and 2.2 percent in 2022 and 2023, respectively, as Mexico returns to a path in line with potential growth. Overall, at the end of 2022, the economy will attain pre-pandemic GDP levels.

Given persistent high inflation in 2021, the Central Bank is expected to raise its policy rate further to rein in inflation and inflation expectations.

The government is expected to maintain conservative fiscal policies while keeping significant expenditures in flagship investment projects. The budget for 2022 plans to stabilize the public debt-to-GDP ratio over the medium term, helped by the economic recovery and a revenue boost from a tax administration reform.

Continued employment and labor income growth, together with social transfers, are expected to lead to a gradual reduction in monetary poverty in 2021 (to 20.3 percent) and a further decline through 2023.

The economic recovery is subject to risks. Despite the steady vaccination pace (over 45 percent of the population has received at least one dose, and over 30 percent are fully vaccinated), a surge in the number of hospitalized patients might require new mobility restrictions, slowing recovery in the services sector. The persistence in bottlenecks of international supply chains could slow down the recovery of manufacturing and exports. Private investment may be reduced if uncertain regulatory changes, particularly in the energy industry, are not resolved. Continued inflation pressures or an accelerated normalization of U.S. monetary policy may hamper the recovery, as the Central Bank would have to expedite interest rate increases.

TABLE 2 Mexico / 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	2.2	-0.2	-8.3	5.7	3.0	2.2
Private Consumption	2.6	0.4	-10.5	7.6	3.5	3.0
Government Consumption	2.9	-1.3	2.3	2.9	0.9	-0.1
Gross Fixed Capital Investment	0.8	-4.7	-18.3	12.8	1.9	1.7
Exports, Goods and Services	6.0	1.5	-7.3	9.1	5.9	4.8
Imports, Goods and Services	6.4	-0.7	-14.6	15.3	5.6	5.3
Real GDP growth, at constant factor prices	2.1	-0.2	-8.1	5.7	3.0	2.2
Agriculture	2.6	-0.3	-0.5	1.0	1.4	2.0
Industry	0.4	-1.8	-9.9	7.0	2.9	2.1
Services	2.9	0.6	-7.7	5.4	3.1	2.2
Inflation (Consumer Price Index)	4.9	3.6	3.4	5.3	4.2	3.5
Current Account Balance (% of GDP)	-2.1	-0.3	2.4	0.4	-0.2	-0.9
Net Foreign Direct Investment (% of GDP)	2.1	1.9	2.3	2.0	2.0	1.9
Fiscal Balance (% of GDP)	-2.2	-2.3	-4.0	-4.6	-4.0	-4.1
Debt (% of GDP)	44.9	44.5	52.4	50.8	51.0	52.1
Primary Balance (% of GDP)	0.4	0.4	-1.0	-1.8	-1.1	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.7		2.0	1.7	1.6	1.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	6.5		6.5	5.6	5.3	5.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.7		22.5	20.3	19.5	18.9

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

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

(b) Projection using neutral distribution (2020) with pass-through = 0.87 based on private consumption per capita in constant LCU.

NICARAGUA

Table 1	2020
Population, million	6.6
GDP, current US$ billion	12.6
GDP per capita, current US$	1909.1
International poverty rate ($ 1.9)[a]	3.4
Lower middle-income poverty rate ($ 3.2)[a]	13.1
Upper middle-income poverty rate ($ 5.5)[a]	35.4
Gini index[a]	46.2
School enrollment, primary (% gross)[b]	120.6
Life expectancy at birth, years[b]	74.5
Total GHG Emissions (mtCO2e)[c]	38.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2014), 2011 PPPs.
(b) Most recent WDI value (2019).
(c) Most recent CAIT value (2018).

Fiscal stimulus and revitalization of private demand are expected to turn Nicaragua's growth positive, following three years of recession. Favorable external conditions are expected to provide an additional boost to economic output. However, worsening political uncertainty and new waves of COVID-19 variants threaten to moderate the pace of recovery in domestic demand and potentially delay gains in poverty reduction.

Key conditions and challenges

Nicaragua has begun to slowly emerge from a three-year recession prompted by civil unrest in 2018 and the COVID-19 pandemic in 2020. Prior to the twin crises, market-oriented reforms and sound macroeconomic management encouraged foreign investment and contributed to a solid expansion in economic activity. Between 2000 and 2017, growth averaged 3.9 percent, led by domestic demand fueled by remittances and FDI. Nevertheless, growth was driven primarily by factor accumulation, necessitating policies to support productivity gains. Poverty, measured at US$3.2/day, more than halved between 2005 and 2014, from 28 to 10 percent, driven by growth in rural areas.

The political crisis in 2018 revealed the country's institutional fragilities, prompting capital flight and reversing gains in poverty reduction. Deterioration in private investment led to job losses and commensurate declines in income, paralyzing private consumption. Disruptions to economic activity from voluntary private sector shutdowns as a result of the COVID-19 outbreak further weighed on domestic demand, while lower global demand and the fallout from the decline in tourism curbed export earnings.

Renewed political instability linked to arrests of prominent opposition leaders in the lead up to the November 2021 elections threaten the nascent recovery. Intensification of international sanctions could impede the return of foreign capital to the country, and compromise availability of new concessional financing over the medium term.

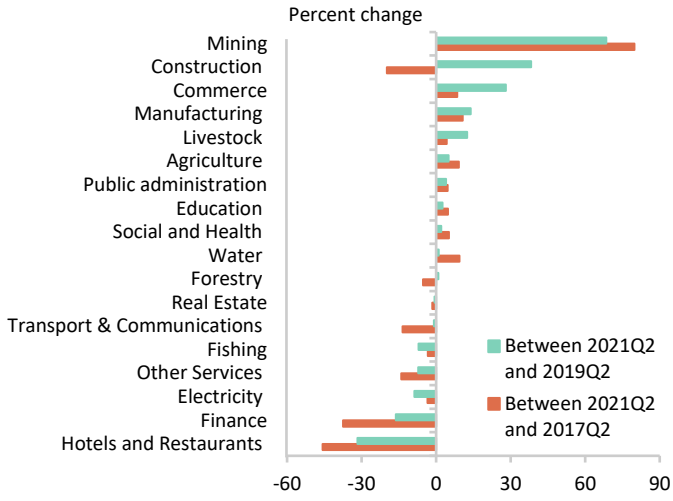
Recent developments

Economic activity rebounded strongly in the first half of 2021. Real GDP grew a cumulative 9.9 percent in 2021H1, having contracted by 2.0 percent in 2020. The recovery was led by remittance-fueled private consumption and a strong rebound in merchandise exports, underpinned by the global recovery. Private investment, returning from a low base; public investment in infrastructure; and trade also aided recovery. On the supply side, manufacturing, mining, construction, and retail and wholesale trade led the recovery.

Nonetheless, the impacts of the COVID-19 crisis on the welfare of Nicaraguans continue to linger, as the main sources of income – wages and family-business incomes – remain affected. According to a World Bank High-Frequency survey, 44 percent of households reported lower incomes by mid-2021. Food insecurity also worsened as 26 percent of households (18 percent in February 2020) reported running out of food during the last month leading up to the interview.

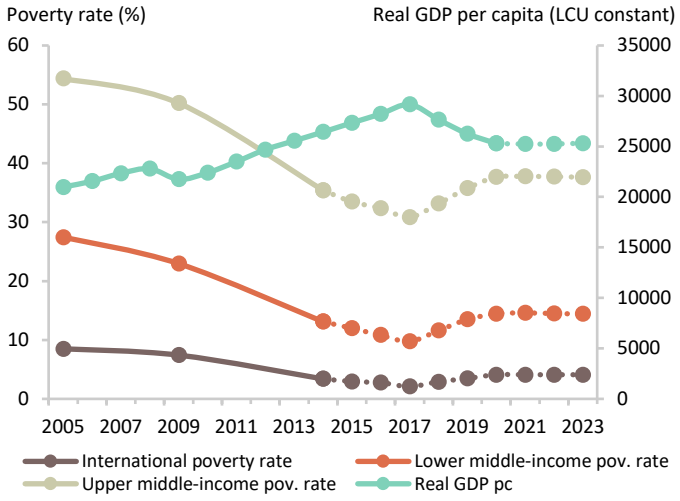
The current account remained in surplus in 2021H1, driven by a favorable performance in exports and strong remittance inflows, even as 46 percent of household recipients reported drops in remittance amounts received. Higher imports,

FIGURE 1 Nicaragua / Change in real GDP by sector



Source: Central Bank of Nicaragua.

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



Source: World Bank. Notes: see Table 2.

boosted by recovering domestic demand, widened the trade deficit.

The fiscal balance improved in 2021H1 as tax mobilization strengthened. Spending maintained its upward momentum, due to current transfers to the INSS and capital expenditures – particularly on road projects, however, execution of COVID-19 funds in 2021H1 lagged severely (only 9.8% of funds executed in 2021H1).

Monetary policy remained accommodative. Inflation picked up in 2021Q1; however, relative stability since May 2021 kept repo rates and exchange rate policy unchanged. Credit growth, lagging behind improvements in economic activity, has shown signs of a potential rebound since May 2021 (2.9% growth year-on-year in July 2021).

Outlook

The pace of the recovery is expected to moderate in the second half of the year resulting in growth of 5.5 percent in 2021. Economic activity is expected to be negatively affected in 2021H2 by growing political uncertainty in the run up to the November elections and increasing COVID-19 cases. Nevertheless, the fiscal stimulus from COVID-related and programed infrastructure spending should continue to support growth over the forecast horizon, unwinding very slowly to entrench the recovery. Sectors expected to drive growth are mining, manufacturing, construction and agriculture amid favorable international commodity prices. Gradually improving economic conditions should at least prevent further increases in poverty rates (defined as $3.2/day PPP), hovering around 14 percent between 2021 and 2023.

The current account surplus is projected to narrow in 2021 and beyond, as strong remittance inflows (which reached around 25 percent of households in the bottom 40 percent of the income distribution) are expected to moderate and be offset by government demand-driven imports.

Having secured sufficient external funding, the authorities are expected to continue spending to support growth thereby increasing the fiscal deficit in 2021 to 3.2 percent of GDP. Expenditures on infrastructure, goods and services, and transfers to the INSS will remain elevated, with the fiscal deficit decreasing only gradually over the medium term. GDP growth and anticipated fiscal tightening in the medium term are expected to prompt a gradual decline in debt to GDP over the forecast horizon.

Risks to the forecast are tilted to the downside. The following could jeopardize the outlook: deterioration in the political situation leading to civil unrest and migration of skilled labor; further international isolation limiting trade and access to foreign capital; further waves of COVID-19 amid emerging variants and delays in the vaccination campaign; delayed resumption of international travel to Nicaragua; and natural disasters.

TABLE 2 Nicaragua / 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	-3.4	-3.7	-2.0	5.5	3.0	2.5
Private Consumption	-4.6	-1.5	-0.9	3.5	2.7	2.4
Government Consumption	-2.3	1.1	3.1	3.2	2.6	2.2
Gross Fixed Capital Investment	-22.8	-25.7	11.6	19.5	7.4	4.4
Exports, Goods and Services	-1.5	5.6	-8.8	15.1	4.5	4.1
Imports, Goods and Services	-15.4	-4.0	1.3	13.9	5.2	4.1
Real GDP growth, at constant factor prices	-2.6	-3.2	-2.0	5.5	3.0	2.5
Agriculture	1.1	2.6	0.8	4.5	2.3	1.9
Industry	-0.2	-3.4	-1.6	9.1	3.9	2.5
Services	-4.5	-4.7	-3.0	4.4	2.8	2.7
Inflation (Consumer Price Index)	4.9	5.4	3.7	4.5	4.0	3.8
Current Account Balance (% of GDP)	-1.6	6.3	7.7	5.4	3.5	1.6
Fiscal Balance (% of GDP)[a]	-4.0	-1.7	-2.5	-3.2	-2.7	-1.3
Debt (% of GDP)[b]	54.4	58.1	65.7	64.2	62.7	60.4
Primary Balance (% of GDP)[a]	-2.8	-0.4	-1.3	-2.0	-1.5	-0.3
International poverty rate ($1.9 in 2011 PPP)[c,d]	2.9	3.5	4.1	4.1	4.1	4.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	11.6	13.5	14.5	14.6	14.5	14.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	33.2	35.8	37.6	37.8	37.7	37.6

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

(a) Fiscal and Primary Balance correspond to the non-financial public sector.
(b) Debt is total public debt.
(c) Calculations based on SEDLAC harmonization, using 2014-EMNV.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.
(d) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.

PANAMA

Table 1	2020
Population, million	4.3
GDP, current US$ billion	52.9
GDP per capita, current US$	12302.3
International poverty rate ($ 1.9)[a]	1.2
Lower middle-income poverty rate ($ 3.2)[a]	4.6
Upper middle-income poverty rate ($ 5.5)[a]	12.1
Gini index[a]	49.8
School enrollment, primary (% gross)[b]	94.4
Life expectancy at birth, years[b]	78.5
Total GHG Emissions (mtCO2e)[c]	22.4

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

Driven by improved external conditions and increased investment, Panama's economy has started to rebound from its steep 2020 GDP contraction. Higher GDP will help reduce fiscal deficit, but pursuing a gradual fiscal consolidation and addressing pension imbalances are critical to ensure fiscal sustainability over the medium term. In the short term, it will be crucial to continue protecting those that have been affected by the economic crisis the most, namely female, low- skilled, rural, and informal workers.

Key conditions and challenges

A small, dollarized economy, Panama had one of the strongest growth performance in Latin America and the Caribbean (LAC) before the COVID-19 crisis. It grew at 4.7 percent on average from 2014 to 2019, while LAC grew at 0.9 percent. Growth has been led by construction, retail, tourism, and logistics but it started to slow down before the pandemic due to a decline in investments, including due to overbuilding of residential and commercial units. Copper production partially compensated this effect in 2019 and 2020. On the demand side, growth has been led by investment, especially public investment, and consumption. Fast growth and prudent fiscal management allowed Panama to reach investment grade and access private financing markets at low cost. Growth, however, didn't translate into equity: while the national poverty rate (under US$5.5 per day 2011 PPP) stood at 12.1 percent in 2019, poverty in rural areas was six times higher than in urban areas.

Panama suffered from one of the most severe COVID-19 outbreaks in LAC. As of mid-September 2021, it registered 10,717 cases per 100,000 habitants. The shock to the labor market reduced the median labor income by 18 percent in 2020. It is estimated that poverty could have reached 18.8 percent in 2020, but Panama Solidario – a transfer instituted to mitigate the effects of the COVID-19 crisis - helped keep the poverty rate at 14.9 percent.

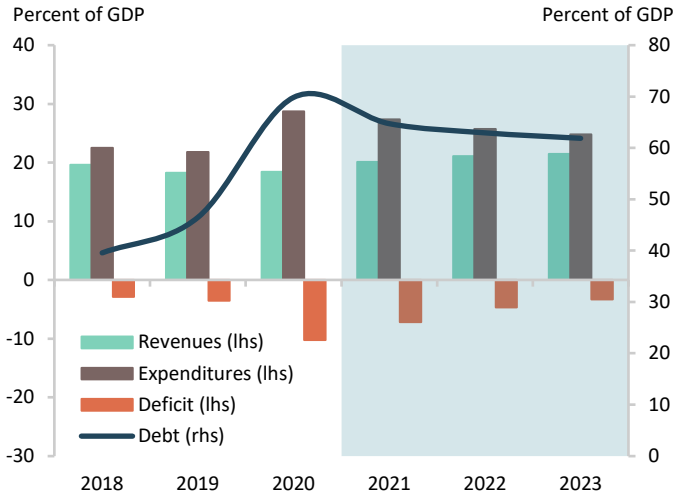
The spread of COVID-19 is slowing down due to progress in vaccine distribution - 63 percent of population has received at least one dose - enabling a recovery in economic activity. Panama's challenge is to reignite growth beyond the output lost due to COVID-19, reducing the reliance on construction and public investment, addressing pension imbalances, while at the same time ensuring that the benefits of growth also reach the rural areas and traditionally excluded groups.

Recent developments

Panama's GDP contracted 17.9 percent in 2020. GDP growth was low in the first quarter of 2021 (1.8 percent), but the monthly economic activity index grew 4.9 percent in the first half of 2021. Labor markets have shown small signs of recovery in 2021; however, informality and self-employment have increased. The pandemic might have long lasting effects since food insecurity have doubled, and the rate of children participating in education has dropped from 97.3 to 89.3 percent.

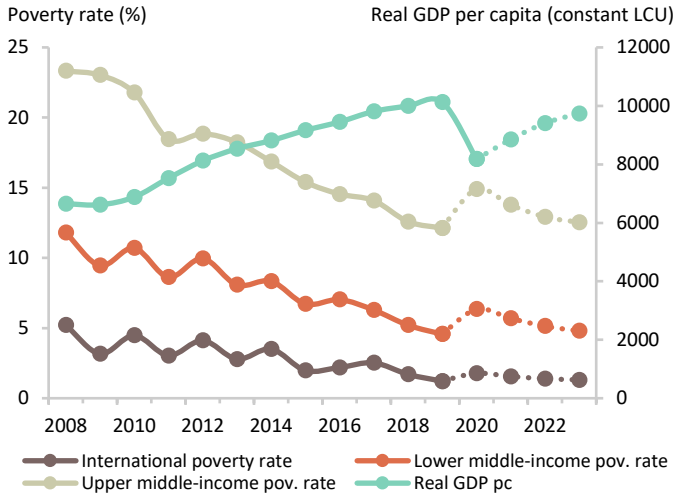
The fiscal deficit deteriorated significantly in 2020, which led to the revision of the fiscal targets set in the Fiscal Responsibility Law. Panama responded to the COVID-19 crisis by maintaining investment levels similar to 2019, while adding new social spending leading to a total expenditure increase of 5.7, despite a large drop in revenues (21.2 percent in 2020). Consequently,

FIGURE 1 Panama / Budget results and debt



Sources: Ministry of Economy and Finance and World Bank.

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



Source: World Bank. Notes: see Table 2.

the Non-Financial Public Sector fiscal deficit widened to 10.3 percent of GDP in 2020. Revenues are rebounding in 2021, increasing by 27.6 percent in the first half of 2021. At the same time, expenditures are growing by 16.8 percent, largely fueled by public investment which is increasing by 48.6 percent as the government seeks to build transport infrastructure. The maintenance of Panama Solidario in 2021, wage increases, new hiring especially in health and higher interest payments also drove up current spending. Still, Panama reduced the fiscal deficit in the first half of 2021 from 4.4 to 3.9 percent of GDP. Fiscal expansion was financed mostly by debt, enabled by ample access to multilateral and market financing. Total public debt jumped from US$31 billion (46.4 percent of GDP) in 2019 to US$36.9 billion in 2020 (69.8 percent of GDP).

Lower imports and resilient activity in the canal have helped bring turn the current account deficit into a surplus in 2020 of 2.3 percent of GDP. On the financing side, FDI dropped from 5.5 to 3.2 percent of GDP in 2020. Higher copper production and prices (65 percent increase in the first half of 2021) are causing a substantial increase in exports in 2021 (109 percent in the first half of 2021).

Outlook

GDP is expected to rebound in 2021 (9.9 percent growth), based on the large and positive statistical carry-over from 2020, however, the weak growth in the first quarter of 2021 poses downside risks. Growth is expected to converge gradually to the 4-to-5-percent range and poverty to be reduced to pre-pandemic levels by 2023. Although the labor market has started to show signs of recovery, many at-risk groups continue to be unemployed or perceive lower labor income than before the crisis. Thus, Panama Solidario will continue to be a crucial source for mitigating vulnerabilities to poverty and preventing inequality from further increasing in 2021.

The economic recovery combined with a gradual fiscal consolidation underpinned by the revised fiscal rule is expected to lead to a decline in the debt-to-GDP ratio. Revenues are expected to grow benefiting from GDP rebound, improvements in tax administration and revenues from the canal. Expenditures are forecasted to decline gradually as the government phases out COVID-19 related expenditures and adopts a more conservative fiscal stance to control the wage bill and purchase of goods and services. As a result, fiscal deficits are expected to decline to 3.4 percent of GDP in 2023 and the debt-to-GDP ratio is expected to drop to 66.5 percent in 2023.

Continued fiscal imbalances are an important downside risks for growth, while reforms on regulation, especially energy and water, on vocational training, and on public sector efficiency to support new growth drivers could increase potential GDP. Other risks to the outlook include weaker than expected recovery in domestic demand and trade.

TABLE 2 Panama / 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	3.6	3.0	-17.9	9.9	7.5	5.0
Private Consumption	3.2	3.4	-18.5	8.5	5.8	4.9
Government Consumption	7.7	4.5	4.3	3.3	2.6	0.5
Gross Fixed Capital Investment	0.9	0.0	-37.9	11.5	12.3	9.1
Exports, Goods and Services	5.1	-0.1	-22.0	20.0	5.6	3.8
Imports, Goods and Services	4.1	-3.3	-29.3	17.0	5.3	4.9
Real GDP growth, at constant factor prices	3.6	3.2	-17.9	9.9	7.5	5.0
Agriculture	2.3	2.5	4.1	2.0	0.6	1.0
Industry	2.8	3.4	-32.1	15.6	8.3	5.3
Services	4.1	3.2	-12.7	8.4	7.5	5.0
Inflation (Consumer Price Index)	0.8	-0.4	0.0	2.0	1.5	1.5
Current Account Balance (% of GDP)	-7.6	-5.0	2.3	1.4	1.0	-0.1
Net Foreign Direct Investment (% of GDP)	7.6	5.5	3.2	5.3	5.6	5.8
Fiscal Balance (% of GDP)	-2.9	-3.5	-10.3	-7.2	-4.8	-3.5
Debt (% of GDP)	39.5	46.4	69.8	69.0	67.8	66.5
Primary Balance (% of GDP)	-1.1	-1.6	-7.5	-4.4	-2.1	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.7	1.2	1.8	1.6	1.4	1.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.2	4.6	6.4	5.7	5.1	4.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.6	12.1	14.9	13.8	12.9	12.5

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

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

(b) Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

PARAGUAY

Table 1	2020
Population, million	7.1
GDP, current US$ billion	35.6
GDP per capita, current US$	5014.1
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	4.5
Upper middle-income poverty rate ($5.5)[a]	15.4
Gini index[a]	45.7
School enrollment, primary (% gross)[b]	104.4
Life expectancy at birth, years[b]	74.3
Total GHG Emissions (mtCO2e)[c]	95.3

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

Paraguay's economic recovery is underway. An ongoing drought weighs on agriculture and hydropower fueled energy exports, but favorable commodity prices cushioned the adverse impact. Growth is forecast to increase by 4.3 percent after contracting by 0.5 percent in 2020, one of the smallest contractions in the region. Unemployment remains above pre-pandemic levels, especially for women, and poverty is expected to decline slightly. Lingering social tensions and new COVID-19 cases amid a slow vaccine roll-out pose risks to the outlook.

Key conditions and challenges

Sound macroeconomic policies have benefited Paraguay's economy over the past two decades. Between 2003 and 2019, Paraguay averaged 4.1 percent growth, while maintaining low public and external debt, and low and stable inflation. The share of the population living under the international poverty line of US$5.5 per day fell sharply from 39.3 to 15.4 percent over the same period, faster than the regional average. Inequality, as measured by the Gini coefficient, also declined by 9 points. Nonetheless, poverty and inequality remain high by regional standards.

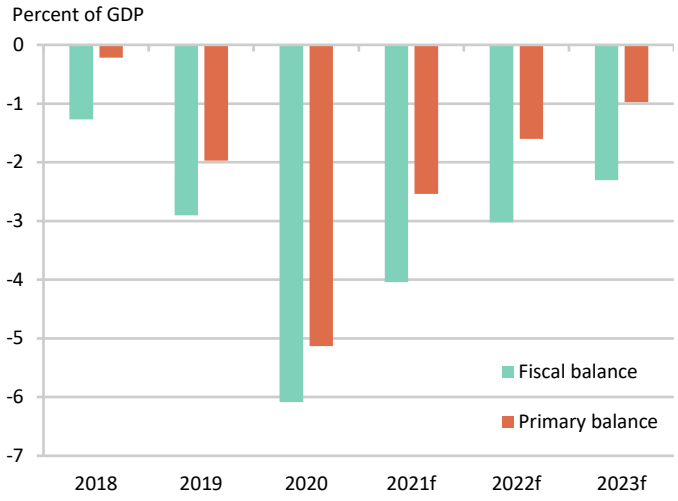
Paraguay's growth trajectory remains highly sensitive to climate and weather events, transmitted through drought that impacts agricultural output and hydropower export volumes, as well as flooding, and forest fires. The COVID-19 pandemic interrupted the economic rebound in early 2020 following a drought that led to near-zero growth in 2019. Well-coordinated monetary and fiscal stimulus, including expansions of cash transfers, helped Paraguay minimize the adverse impacts of the pandemic on households. Although a nationwide lockdown suppressed activity in the first half of 2020, higher commodity prices, especially soybeans, boosted growth in the second half. As a result, Paraguay recorded the smallest GDP contraction and one of the smallest moderate poverty increases in the region, (2.6 pp to 18 percent at US$5.5) and even a slight decline in extreme poverty (0.1 pp to 0.8 percent at US$1.9).

The spread of new COVID-19 variants, a slow rollout of vaccines, and rising social discontent have posed challenges to the recovery in 2021. Only a quarter of the population has been fully vaccinated as of end-August, in part due to inadequate supplies, although vaccination rates have picked up in recent weeks. Moreover, data from World Bank high-frequency surveys show that about 15 percent of the population are hesitant or do not want to get the vaccine. Structural reforms to improve the delivery of public services and the accountability of public institutions are needed to make growth more stable, sustainable, and inclusive. Managing and mitigating risks related to climate change are especially critical, given the heavy reliance on natural resources.

Recent developments

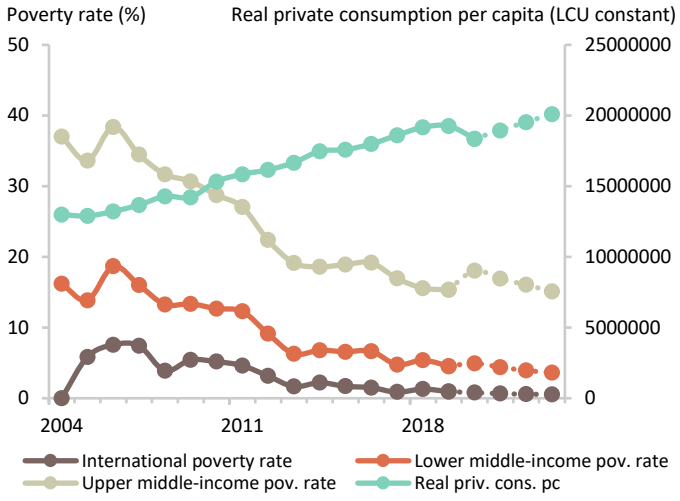
Despite the challenges, the rebound in economic activity that started in late 2020 has kept up the momentum. Preliminary official estimates indicate real GDP growth of 0.6 percent y-o-y in 2021Q1, slower than in 2020Q4 (1 percent y-o-y). Growth was mostly driven by manufacturing, construction, and services sectors. Together with favorable commodity prices, these factors minimized the negative impact of a drought that affected agricultural and hydroelectric energy exports. In spite of COVID-19

FIGURE 1 Paraguay / Fiscal and primary balances (share of GDP)



Sources: Ministry of Economy and Finance, Central Bank of Uruguay, and WB.

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



Source: World Bank. Notes: see Table 2.

outbreaks in Q2, high-frequency data indicate continued economic expansion. The economic activity index grew 11 percent (q-o-q, seasonally adjusted, and annualized), while the year-to-date growth rate of the business sales index reached 13 percent in June.

The value of exports increased 24.8 percent in 2021H1, outpacing imports (21.3 percent) due to the sharp pick up of global activity and higher commodity prices. The widening trade balance helped maintain the current account surplus, which reached 2.3 percent of GDP in 2020, among the largest in the region. The CPI reached 5.2 percent in July 2021, approaching the upper bound of the central bank's target band (6 percent), primarily driven by rising food and transport prices. The central bank raised the policy rate from 0.75 to 1 percent in August, and to 1.5 percent in September. Inflation expectations remain anchored at 4 percent.

The economic recovery has fueled an increase in public revenues, which rose 25 percent y-o-y in nominal terms in 2021H1. Coupled with a partial phasing out of emergency support measures, especially social transfers, this has resulted in a cumulative fiscal deficit of 3.8 percent as of June 2021, down from 6.1 percent in 2020. The debt-to-GDP ratio remained relatively stable, around 34 percent.

Despite the pick-up in activity, the unemployment rate rose from 7.2 percent in 2020 to 8.6 percent in 2021Q2, well above the pre-pandemic average of 5.4 percent. The increase was mostly driven by more men becoming unemployed in urban areas relative to the end of 2020. While the government has extended social transfers to workers in affected sectors in rural areas, these may not be enough to prevent an increase in poverty.

Outlook

GDP growth is expected to reach 4.3 percent in 2021, largely reflecting the recovery across demand components. Higher prices of soybean and soybean oil, which are forecast to increase by 35 and 22 percent this year, respectively, should offset the impact of the ongoing drought on agricultural output. Growth is expected to gradually moderate to 3.9 percent in 2023 as global commodity prices and economic conditions stabilize. Monetary policy is expected to normalize, bringing inflation back to the center of the target band throughout the forecast horizon. Poverty is expected to return to pre-pandemic levels by 2023, led by higher labor incomes coming from the trade and agricultural sectors.

A continued phasing-out of stimulus measures and higher revenues should help the government achieve its target fiscal deficit of 4 percent of GDP this year. Going forward, the government expects to reduce the fiscal gap to reach 1.5 percent in 2024, in line with the current fiscal responsibility law, mainly through expenditure cuts.

The near-term outlook is contingent on a baseline scenario of no new significant COVID-19-related negative developments, which could take the form of high hospitalization rates, stringent lockdowns, or a sharp decline in international trade. The materialization of any of these factors could result in a sizeable negative economic shock, which would put further stress on fiscal accounts and may consequently exacerbate social tensions. Such a shock would severely impact the welfare of the most vulnerable groups affected by the crisis. While the forecast factors in the impact of the ongoing drought, the possibility of future, more intense climate shocks poses significant downside risk to the medium-term outlook.

TABLE 2 Paraguay / 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	3.2	-0.4	-0.6	4.3	4.0	3.9
Private Consumption	4.4	1.8	-3.5	4.5	4.3	4.1
Government Consumption	3.0	4.7	5.2	-1.2	-0.4	1.4
Gross Fixed Capital Investment	6.9	-6.1	6.3	6.6	5.1	4.8
Exports, Goods and Services	-0.4	-3.4	-10.3	4.1	4.1	4.1
Imports, Goods and Services	8.3	-2.0	-17.0	3.7	3.9	4.0
Real GDP growth, at constant factor prices	3.2	-0.2	-0.5	4.3	4.0	3.9
Agriculture	4.3	-3.1	8.2	-0.4	3.6	3.6
Industry	1.1	-3.0	3.1	4.2	3.9	3.9
Services	4.5	2.5	-4.9	5.6	4.1	4.0
Inflation (Consumer Price Index)	4.0	2.8	2.2	3.2	4.0	4.0
Current Account Balance (% of GDP)	-0.2	-0.6	2.3	2.2	2.0	1.6
Net Foreign Direct Investment (% of GDP)	1.1	1.4	1.1	1.3	1.3	1.2
Fiscal Balance (% of GDP)	-1.3	-2.9	-6.1	-4.0	-3.0	-2.3
Debt (% of GDP)	21.4	22.9	34.2	35.5	35.7	34.3
Primary Balance (% of GDP)	-0.2	-2.0	-5.1	-2.5	-1.6	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.3	0.9	0.8	0.7	0.6	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.4	4.5	5.0	4.4	3.9	3.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.6	15.4	18.0	16.9	16.1	15.1

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

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

(b) Projection using neutral distribution (2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.

PERU

Table 1	2020
Population, million	33.0
GDP, current US$ billion	200.7
GDP per capita, current US$	6081.8
International poverty rate ($1.9)[a]	2.2
Lower middle-income poverty rate ($3.2)[a]	7.5
Upper middle-income poverty rate ($5.5)[a]	20.6
Gini index[a]	41.5
School enrollment, primary (% gross)[b]	113.5
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)[c]	186.2

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

Peru's economy is expected to rebound by 11.3 percent in 2021, induced by recovering domestic demand and exports. Despite the slow labor market recovery, poverty is projected to decline this year, supported by another round of cash transfers. Subsequently, growth is expected to return to its pre-pandemic level, as improved external conditions are likely to be partially offset by political uncertainty. Overcoming structural challenges related to widespread informality, limited economic diversification and poor quality of government services, including in education, health, and water, are critical for medium-term prospects.

Key conditions and challenges

The end of the commodity boom led to a significant slowdown in Peru's growth since 2014 and revealed structural weaknesses related to widespread informality, limited economic diversification, and governance. Peru successfully preserved sound macroeconomic fundamentals, but productivity stagnated between 2014 and 2019, slowing the pace of poverty and inequality reduction. A large informal sector employs three-quarters of workers in low-productivity jobs. In addition, weak government services, including in education, health and water, hamper progress and equity. Lack of export diversification renders the economy vulnerable to fluctuations in commodity prices.

The COVID-19 pandemic has hit Peru very hard. Informality, overcrowded housing, and poor water and sanitation services are among the main causes. Moreover, the precarious health sector led the government to enact a strict and prolonged quarantine, with massive effects on employment and earnings, especially on the poor. The poverty rate (US$5-a-day -line) increased 12 percentage points, reaching 32.6 percent in 2020.

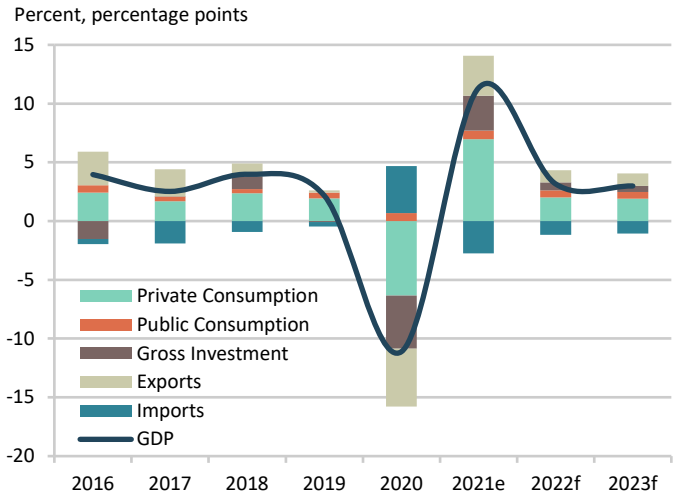
The pace of recovery and medium-term growth prospects will depend on the vaccination campaign and the capacity of the new government to implement a credible reform program to support sustainable growth and poverty reduction. Uncertainty around the policy agenda of the newly elected government, including arrangements for a new Constituent Assembly, markedly undermined business confidence. A lack of a clear set of policy priorities and possible tensions between the Executive and Congress continue to be a source of uncertainty. The economy is also vulnerable to capital outflows, sudden reductions in prices of minerals, and natural disasters.

Recent developments

Real GDP grew 20.9 percent y-o-y in the first half of 2021, returning to its pre-pandemic level. This recovery was driven by the easing of mobility restrictions, an accelerated execution of public works, and the resumption of private investment projects. However, labor market recovery has been slow; formal employment is still 24 percent below its pre-pandemic level. Women and youth have been disproportionately affected by the loss in formal jobs. Monthly earnings in 2021 are 16.5 percent lower than in 2019. While employment in mining, agriculture and construction is higher than in 2019, manufacturing and services are still significantly below pre-pandemic levels.

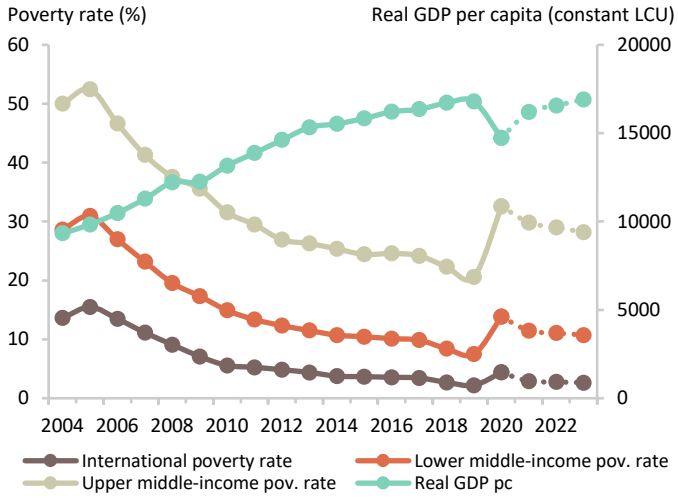
The annualized fiscal deficit declined to 5.0 percent of GDP in August from 8.9 percent in December 2020, driven by a recovering tax collection, due to the rebound of output, favorable mineral prices, and the early cancellation of tax debts. Public spending remained expansive, driven by the health policy to mitigate the effects of the pandemic and higher public investment that

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



Sources: Central Bank and World Bank staff estimates.

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



Source: World Bank. Notes: See Table 2.

prioritized temporary employment and the reconstruction from past disasters.

The current account registered a deficit of 3.5 percent in the first half of the year, despite the increase in the trade surplus, due to higher factor payments abroad related to mining profits. The financial account also recorded a negative balance as short-term capital outflows increased due to heightened political uncertainty. In this context, the local currency reached historical lows, prompting the Central Bank to sell reserves and offer currency swaps.

Annual inflation reached 4.9 percent in August, significantly above the target range of 1-3 percent. The global increase in the price of food and energy, and the domestic currency depreciation are the main factors driving the upsurge in inflation. The Central Bank responded by increasing its reference interest rate by 75 basis points, to 1.0 percent, between August and September.

Outlook

The economy is expected to continue recovering in the second half of the year, although at a less pronounced pace than in the previous semester. The drop in business confidence is expected to be reflected in a slowdown in private investment. In addition, public spending which tends to be seasonally concentrated in the latter part of the year, could be adversely affected by widespread staff changes within the Executive branch. This will be attenuated by the dynamism of consumption, given the accelerated pace of vaccination rate in recent months, and by the effect of the relaxation of mobility restrictions on the provision of services. GDP is expected to grow 11.3 percent and poverty to decrease to 29.8 percent in 2021. Another round of emergency cash transfers will also support the more vulnerable. Without this program, poverty would have remained stagnant, given the slow labor market recovery.

After the rebound in 2021, the economy is expected to return to its pre-pandemic pace of around 3 percent growth per year. The favorable external context of high mineral prices is likely to be partially offset by continued political and policy uncertainty. Longer-term economic growth may be hampered by school closures and the associated productivity losses of future entrants into the labor force. The slower labor market recovery of urban centers may accelerate the already high concentration of the poor in these areas.

The fiscal deficit is expected to decrease to 4.5 percent by the end of the year and to 3.5 percent of GDP in 2022, in line with the fiscal targets. Tax revenues are expected to continue trending upwards due to the entry into operation of new mines and the lagging effect of favorable mineral prices. Also, extraordinary spending linked to the pandemic will dissipate. Public debt is projected to increase to 37 percent of GDP by 2023.

The current account balance is expected to remain in deficit during the projection period as higher factor payments abroad and the recovery of imports will be only partially attenuated by the effect of favorable mineral prices on the value of exports. In addition, prolonged political uncertainty could trigger portfolio outflows from the financial account, exerting some pressure on the exchange rate.

Inflation is expected to gradually reverse to the target range, as the temporary factors that are currently affecting it will dissipate.

TABLE 2 **Peru** / 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	4.0	2.2	-11.1	11.3	3.2	3.0
Private Consumption	3.7	3.0	-9.8	10.6	3.1	2.9
Government Consumption	2.7	4.2	5.5	5.0	4.2	4.0
Gross Fixed Capital Investment	4.7	2.3	-20.5	15.0	3.4	2.5
Exports, Goods and Services	3.9	0.6	-18.0	13.5	4.0	4.0
Imports, Goods and Services	3.3	1.3	-14.5	10.4	4.5	4.0
Real GDP growth, at constant factor prices	4.0	2.2	-11.1	11.3	3.2	3.0
Agriculture	9.6	0.9	1.4	2.5	3.1	2.8
Industry	2.9	-0.2	-13.0	12.0	3.4	3.0
Services	4.1	3.9	-11.3	12.0	3.0	3.0
Inflation (Consumer Price Index)	1.3	2.1	1.8	3.8	3.3	2.5
Current Account Balance (% of GDP)	-1.7	-0.9	0.8	-1.3	-2.0	-2.2
Net Foreign Direct Investment (% of GDP)	3.1	4.3	2.1	3.2	3.2	3.2
Fiscal Balance (% of GDP)	-2.3	-1.6	-8.9	-4.5	-3.5	-3.0
Debt (% of GDP)	26.6	26.8	34.7	33.9	35.7	37.0
Primary Balance (% of GDP)	-0.9	-0.3	-7.9	-3.5	-2.3	-1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.7	2.2	4.4	2.9	2.8	2.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	8.4	7.5	13.9	11.4	11.1	10.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.3	20.6	32.6	29.8	29.0	28.2

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

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

(b) Projection using neutral distribution (2020) with pass-through = 0.87 based on GDP per capita in constant LCU.

SAINT LUCIA

Table 1	2020
Population, million	0.2
GDP, current US$ billion	1.6
GDP per capita, current US$	8000.0
International poverty rate ($ 1.9)[a]	4.6
Lower middle-income poverty rate ($ 3.2)[a]	10.2
Upper middle-income poverty rate ($ 5.5)[a]	19.9
Gini index[a]	51.2
School enrollment, primary (% gross)[b]	102.3
Life expectancy at birth, years[b]	76.2
Total GHG Emissions (mtCO2e)[c]	0.6

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2019).
(c) Most recent CAIT value (2018).

Following a severe economic contraction in 2020, the economy rebounded in 2021, but uncertainty remains high. The impacts of the pandemic have been felt disproportionately by the poor, albeit partially mitigated by supportive government measures. Assuming a continued global recovery, stronger growth is expected over the medium term, also bringing down the poverty rate. The Government will need to strike a careful balance between supporting economic recovery and maintaining debt sustainability, while implementing critical structural reforms.

Key conditions and challenges

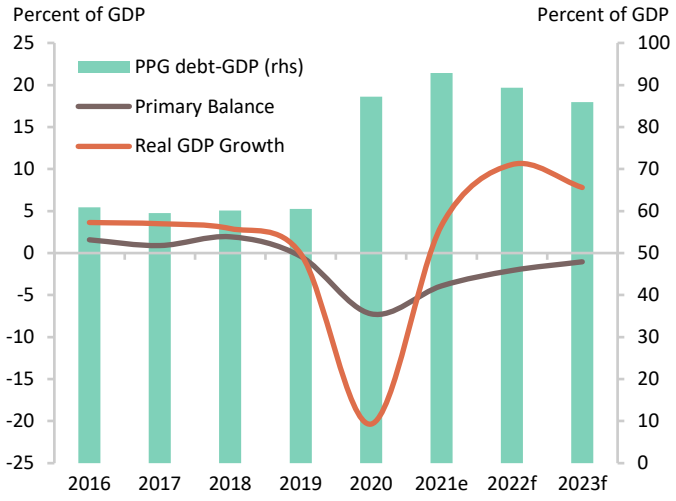
Despite solid economic growth prior to the pandemic, Saint Lucia (SLU) struggled with rising public debt and exposure to external shocks and natural disasters. Economic growth averaged 3.3 percent between 2016 and 2018. The global economic slowdown and delayed public construction projects resulted in a small economic contraction in 2019. Along with stable growth, unemployment declined from 24.1 percent in 2015 to 16.8 percent in 2019, increasing labor incomes and reducing the poverty rate from 20.3 percent to an estimated 19.2 percent. Yet, income inequality remained high with a Gini index of 51.3 in 2016. Stronger growth and poverty reduction have been impeded by challenges including a lack of diversification, and risks from climate change and natural disasters. Rising public debt constrained the Government's capacity to mitigate these challenges. In 2019, the Government designed a fiscal rule and accelerated efforts to diversify the economy in support of a more resilience. Going forward, reforms to improve efficiency of fiscal spending and revenue collection, implementing the fiscal rule, promoting a productive private sector, and supporting a digital and climate-resilient economy will be critical.

The ongoing pandemic has caused severe socio-economic costs and uncertainty about its evolution remains the main source of risks to the economic outlook. The ongoing fourth wave of COVID-19 cases may slow down tourism and delay construction projects. The negative effects of the pandemic have hit the vulnerable groups the most, with female and youth employment rates increasing the highest (by 6 and 6.6 p.p.) from 2019 to 2020. Phone survey data from 2020 suggests comparatively high food insecurity, in line with income and job losses as well as interruptions in international transport. The pandemic also exacerbated pre-existing challenges, including institutional-capacity constraints, debt vulnerability, and susceptibility to natural disasters. The Government is continuing the support the health sector with quarantine facilities and medical supplies. The public construction sector is expected to sustain economic activities and create jobs.

Recent developments

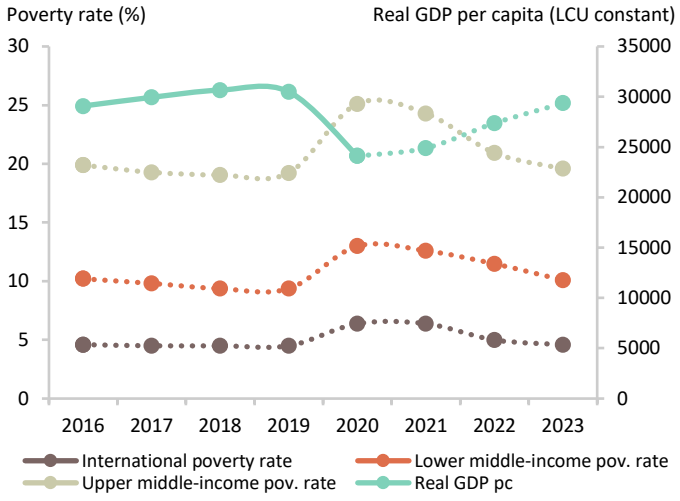
Following a sharp GDP contraction of 20.4 percent in 2020, recovery in 2021 has been slower than expected, it has also been hampered by new coronavirus variants and the relatively slow rollout of vaccinations. Tourism, which accounts for about 40.7 percent of GDP, has picked up, but tourist arrivals are still far below pre-pandemic levels, especially from Europe. Public construction remains the main driving force of the economic recovery. The quarterly unemployment rate remained high in Q1-2021 at 23.1 percent, slightly below its peak of 24.1 percent in Q3-2020.

FIGURE 1 Saint Lucia / Key macroeconomic variables



Sources: ECCB, Ministry of Finance, and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

The primary deficit expanded to 7.2 percent of GDP in 2020, due to a combination of a sharp drop in tax revenues and additional fiscal expenditures to support the poor and boost the economy. Tax revenue is expected to recover in 2021 to 90 percent of its 2019 level, owing to increased tax revenues from international trade and good & services. Improvements to revenue will be partially offset by a slight increase in total expenditure to support public construction, and by social assistance measures, as part of the Economic Recovery and Resilience Plan in response to the pandemic. As a result, the primary deficit in 2021 will decline but remain above its debt stabilizing primary deficit, pushing general Government debt to 92.8 percent in 2021.

Higher fuel prices and gradual pick-up of domestic economic activities are expected to lead to an increase in imports and to a widening of the current account deficit from 7.6 percent of GDP in 2020 to 8.6 percent in 2021, despite higher tourism receipts. Strong FDI inflows and remittances together with bond issuance and multilateral and bilateral support will finance the balance of payment. Inflation is expected to rise in 2021, driven by higher food and fuel prices, threatening food security for poor and vulnerable households, in the absence of appropriate social measures.

Outlook

Over the medium term, SLU's economy is projected to reach its 2019 level by 2023-24 as international travel from major tourism -source countries reaches pre-pandemic levels. A tourism rebound is expected to support the strong economic recovery starting in 2022. The continuation of public construction projects, including the airport redevelopment and the St Jude Hospital Reconstruction project; and resumption of private sector projects, are expected to contribute to the buoyant growth. Nevertheless, the projections are sensitive to the pace of global economic recovery, evolution of the pandemic, and resumption of international travel to SLU.

Given the persistent effects of the pandemic, it is expected that part of the fiscal support measures will continue and the fiscal balance remain in deficit. Benefitting from the expected strong growth over the medium term and lowered borrowing costs due to sound debt management, public debt is expected to gradually decrease after 2021. A gradual exit from the COVID-19 mitigation measures will contribute to lower expenditures. However, to reach the 60 percent Eastern Caribbean Currency Union (ECCU) regional debt target by 2035, strong measures to enhance revenues and expenditure efficiency and implementation of the fiscal rule are needed. Inflationary pressures are expected to ease over the medium term, anchored under the well-maintained fixed exchange rate to US dollar by the Eastern Caribbean Central Bank (ECCB).

Consistent with the projected economic recovery, poverty is expected to improve, but remain higher than pre-pandemic in the near future. Income support by the government to the most affected will partially cushion the impact on poverty. Based on the projected economic recovery, the poverty rate (at the upper middle-income international poverty line of $5.50 per person per day) is expected to drop to 20.9 percent in 2022, and reach 2016/17 levels in 2023, meaning that the COVID-19 pandemic would have undone SLU's poverty reduction efforts by over five years.

TABLE 2 Saint Lucia / 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[a]	2.9	-0.1	-20.4	3.3	10.6	7.8
Real GDP growth, at constant factor prices[a]	3.2	0.8	-20.3	3.3	10.6	7.8
Agriculture	12.9	3.6	-9.5	1.3	2.8	1.8
Industry	-3.4	-1.4	-9.9	5.6	4.9	3.2
Services	3.9	1.1	-21.9	3.0	11.6	8.6
Inflation (Consumer Price Index)	2.5	0.6	-1.7	2.7	2.0	1.8
Current Account Balance (% of GDP)	2.2	4.6	-7.6	-8.6	-6.1	-2.6
Fiscal Balance (% of GDP)[b]	-1.0	-3.4	-11.0	-7.7	-5.7	-4.4
Debt (% of GDP)[b]	60.2	60.5	87.2	92.8	89.4	85.9
Primary Balance (% of GDP)[b]	1.9	-0.4	-7.2	-3.9	-2.1	-1.0
International poverty rate ($1.9 in 2011 PPP)[c,d]	4.5	4.5	6.4	6.4	5.0	4.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	9.4	9.4	13.0	12.6	11.5	10.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	19.0	19.2	25.1	24.3	20.9	19.6

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

(a) Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
(b) Fiscal balances are reported in fiscal years (April 1st -March 31st).
(c) Calculations based on SEDLAC harmonization, using 2016-SLC-HBS.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.
(d) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

ST. VINCENT AND THE GRENADINES

Table 1	2020
Population, million	0.1
GDP, current US$ billion	0.8
GDP per capita, current US$	8000.0
School enrollment, primary (% gross)[a]	113.4
Life expectancy at birth, years[a]	72.5
Total GHG Emissions (mtCO2e)[b]	0.4

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

GDP will contract significantly in 2021 due to the volcanic eruption and the ongoing COVID-19 shock. Poverty is expected to have increased as a result of economic contraction, volcano-induced dislocations, and a drop in household income. After several years of primary surpluses, recent shocks will exert pressure on public finances. Significant public investment, including port modernization, post-volcano reconstruction, and building a new hospital, will pose fiscal challenges. Risk of debt distress remains high.

Key conditions and challenges

St. Vincent and the Grenadines (SVG) is a small island developing state with an economy driven largely by tourism and agriculture. This makes it particularly vulnerable to climate change, external economic shocks, and natural disasters such as those experienced recently with the volcanic eruption and the COVID-19 pandemic. Prior to the pandemic, SVG was upgrading essential economic infrastructure to lay the foundation for increased growth and economic diversification, including completion of a new international airport, modernization of the sea port (a 22 percent of GDP public investment), and plans for construction of a new hospital. To ensure sustainability of these essential investments, fiscal consolidation had commenced prior to 2020 and primary fiscal surpluses had been achieved from 2016 through 2019. SVG adopted a Fiscal Responsibility Framework with fiscal balance, expenditure, wage bill and debt targets, and the creation of a contingency fund. However, the COVID-19 shock and the volcanic eruption have disrupted this agenda.

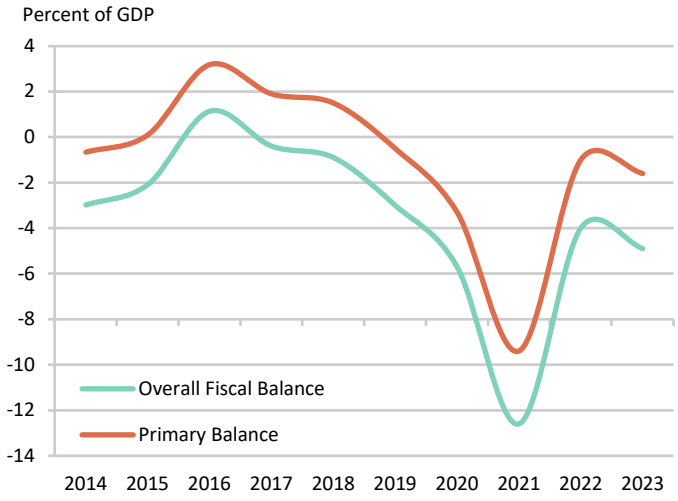
The volcanic eruption, which displaced about 20 percent of the population, compounded the impact of the COVID-19 shock. The heavy ashfall, and interruptions to critical utilities, increased food insecurity; subsequent flooding and mudslides are expected to have had a significant poverty and welfare impact, which is difficult to quantify. Based on the last available data from 2008, the poverty rate was 30.2 percent using the national poverty line of EC$5,523 or US$2,046 per annum per adult.

Recent developments

COVID-19 and the volcanic eruption have had a sizeable impact on economic growth. The fall in tourism following the COVID-19 pandemic resulted in a GDP contraction of 3.0 percent in 2020. Livelihoods were then completely disrupted by the volcanic eruption, with 22,800 people evacuated from their homes, farms, and businesses. This contributed to a significant loss in income and has depressed domestic demand. Electricity and water services were interrupted. Education was severely disrupted as schools throughout the country were used as shelters, although teachers continued to be paid. Manufacturing output, which represents less than 10 percent of GDP, was minimally affected. Tourism had already been hard hit by COVID-19, though the expected rebound in tourism may be delayed post-volcano.

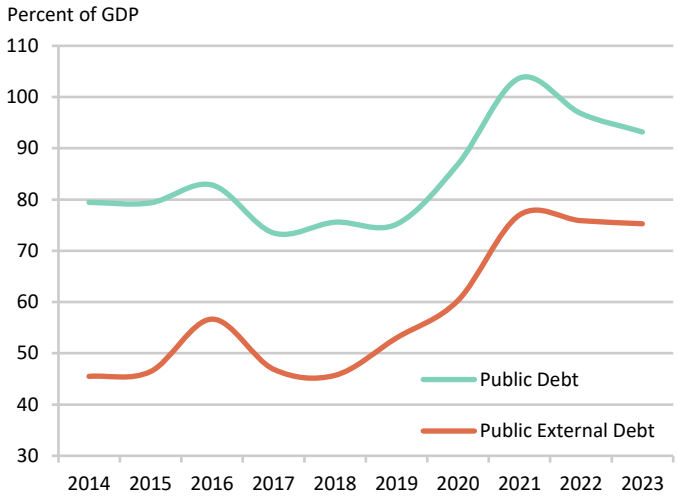
While the fiscal position did not deteriorate as significantly as expected in 2020, COVID-19 led to a widening fiscal deficit of 5.7 percent of GDP in 2020. In response to the volcanic eruption in April 2021, the government implemented fiscal

FIGURE 1 St. Vincent and the Grenadines / Fiscal balances



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

FIGURE 2 St. Vincent and the Grenadines / Public debt



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

spending measures totaling 7.1 percent of GDP to address the immediate post-volcano humanitarian crisis. Additional spending will be needed for reconstruction and recovery efforts. Thus, the deficit is expected to widen to 12.6 percent of GDP in 2021. This will pose challenges in a context where the government plans to continue with critical investment projects, such as the port modernization project, while taking steps to strengthen its fiscal framework.

Public debt will rise, and SVG remains at a high risk of debt distress, but debt is currently assessed to remain sustainable given the fiscal consolidation plans that the authorities plan to implement when the pandemic and the volcanic episode subside. The May 2021 Debt Sustainability Analysis (DSA) forecasts the public debt to GDP ratio to peak at 104 percent of GDP in 2021 and to fall thereafter. The planned fiscal consolidation would ensure that the public debt to GDP ratio would fall to around 60 percent of GDP, the Eastern Caribbean Currency Union's (ECCU's) regional goal by 2035. SVG is participating in the Debt Service Suspension Initiative.

Outlook

Before the volcanic eruption, 0.2 percent growth was projected for 2021, post-eruption, the economy is expected to contract by 6.1 percent. Tourism was already suffering due to COVID-19 and the eruption is likely to further delay the expected rebound. Some output losses are expected to continue to be felt in the transport, water, and electricity sectors owing to damages and outages following ongoing intermittent eruption events. These negative impacts will be offset by gains in construction and related services, possibly including financial services, as the country rebuilds.

Real GDP growth over the medium term is expected be driven largely by increased tourist arrivals, facilitated by the new airport. The sizeable investment pipeline should also contribute to growth over the short term, as will increased economic efficiency following port modernization. Nonetheless, in an environment of relatively low growth, high unemployment rates are expected to continue. Considering the impact on the informal sector, poverty rates have likely increased. Economic stimulus and expanded social protection measures will help mitigate the impacts on poverty, though not eliminate them.

Post-volcano cleanup efforts in 2021 are expected to total EC$30 million (2.1 percent of GDP). Reconstruction activities and the rebuilding of lost infrastructure is not expected to commence in earnest until 2022. Continued fiscal reforms are necessary to build fiscal buffers and to ensure public debt returns to a downward trajectory. To accomplish this, the government is taking steps to improve tax administration, foster resilience, and strengthen SOE governance. It is also exploring measures to reform the government workers' pension system. The fiscal deficit is forecast to fall to 4.0 percent in 2022. Balances in the contingency fund, which had been accessed to address COVID-19 and volcano needs, are expected to be replenished and then continue to grow, which bodes well for future fiscal resilience. Primary fiscal surpluses approaching 3.0 percent of GDP should facilitate a reduction in public debt levels after the impacts of COVID-19 dissipate, reconstruction activities are addressed, and when port modernization is completed in 2024.

TABLE 2 St. Vincent and the Grenadines / 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[a]	2.2	0.5	-3.0	-6.1	8.3	6.1
Real GDP growth, at constant factor prices[a]	2.0	0.2	-2.8	-6.1	8.3	6.1
Agriculture	2.8	-1.0	-10.0	-7.6	6.5	1.2
Industry	2.9	-5.6	-2.7	3.2	2.3	1.7
Services	1.7	1.7	-2.2	-7.9	9.8	7.4
Inflation (Consumer Price Index)	2.3	0.9	-0.6	1.0	1.9	2.0
Current Account Balance (% of GDP)	-12.1	-9.7	-17.6	-22.3	-12.2	-14.2
Fiscal Balance (% of GDP)[b]	2.3	1.0	-5.7	-12.6	-4.0	-4.6
Debt (% of GDP)[b]	75.6	75.2	86.9	104.0	96.9	93.3
Primary Balance (% of GDP)[b]	4.7	3.4	-3.3	-9.4	-1.0	-1.6

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

(a) Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.

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

SURINAME

Table 1	2020
Population, million	0.6
GDP, current US$ billion	2.9
GDP per capita, current US$	4833.3
School enrollment, primary (% gross)[a]	109.2
Life expectancy at birth, years[a]	71.7
Total GHG Emissions (mtCO2e)[b]	14.9

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

Suriname built up substantial macroeconomic imbalances due to economic mismanagement and high revenue volatility, caused by its commodity dependence. In 2020, a newly elected government adopted a comprehensive macroeconomic stabilization program in support of a resilient and inclusive recovery. The COVID-19 pandemic exacerbated existing domestic vulnerabilities, leading to a sharp GDP contraction and increasing unemployment and poverty. The discovery of offshore oil, if adequately managed, may accelerate fiscal consolidation and higher growth in the longer-term.

Key conditions and challenges

Suriname is a small, natural-resource-rich, upper middle-income country. The overall mining sector accounts for over 30 percent of public sector revenue. Although it accounts for only 3 percent of the workforce, gold currently represents more than 80 percent of total exports. The government redistributes revenue from extractive industries through significant public sector employment. The private sector is mostly engaged in provision of non-tradeable services, often through small firms employing informal workers.

Macroeconomic imbalances have built up since the closure of bauxite mines in 2015 and a sharp decline in commodity prices in 2015-16. Suriname's latest poverty data, collected in 2016, indicated that over 26 percent of the population lived in consumption poverty and 5 percent in extreme poverty. The geographical spread of poverty was uneven, with nearly half of the population in the interior regions living in poverty. The Gini coefficient was 0.44, not dissimilar from other countries in the region.

In the run-up to the 2020 general elections, macro-economic imbalances were further exacerbated by economic mismanagement including a further expansion in the number of civil servants from 39,000 to 55,000 (about a fifth of the employed population), excessive borrowing, and monetary financing of the fiscal deficit. A fixed official exchange rate created a widening gap between the official and parallel market rates and led to a near-exhaustion of usable gross international reserves.

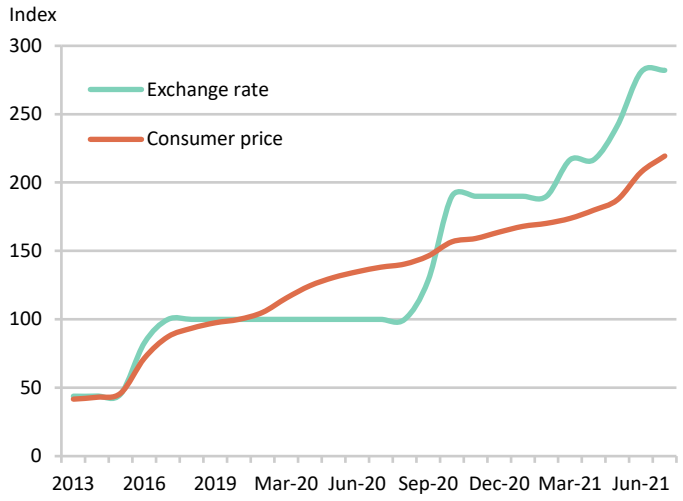
Public debt amounted to US$3,280m or 148 percent of GDP at the end of 2020. External public debt makes up 64 percent of total debt. Suriname already incurred arrears on its debt to bilateral and external private creditors and requires debt restructuring.

Recent developments

Economic mismanagement compounded by restrictions on economic activity to curb the spread of COVID-19 resulted in a severe economic crisis, with GDP contracting 15.9 percent in 2020 and further 3.5 percent expected in 2021. Recent survey data collected by the Inter-American Development Bank show that reduced employment and closure of businesses affected the livelihoods of women and households who were already poor more heavily, thus exacerbating previous inequalities. By June 2020, the probability of at least one family member losing their employment was 20 percent in low and middle-income households versus 13 percent in high income households.

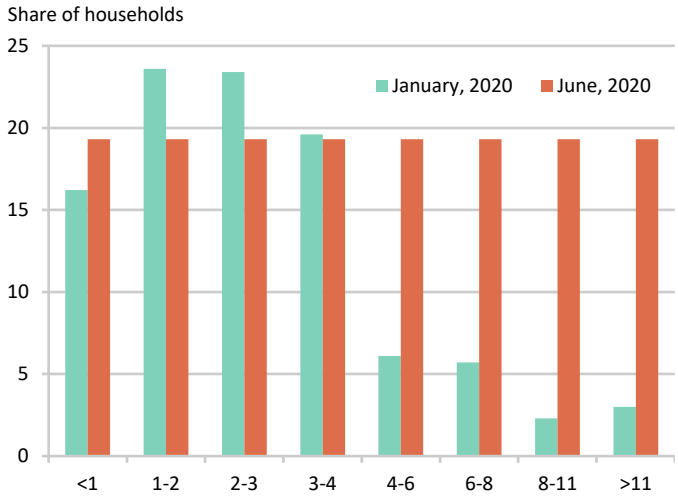
Restrictions on mobility and economic activity have been intermittently tightened throughout 2020 and 2021, depending on the number of new COVID-19 cases. The government has supported people and SMEs that became unemployed or experienced a significant reduction in income due to the pandemic through a limited emergency fund (about 1 percent of GDP).

FIGURE 1 Suriname / Exchange rate and consumer price index



Source: General Bureau of Statistics.

FIGURE 2 Suriname / Share of households per income bracket (expressed as multiples of the minimum wage)



Source: Inter-American Development Bank, 2021.

The country has been able to assure sufficient COVID-19 vaccines, mainly from bilateral sources, and has been able to fully vaccinate 28 percent of the population while 38 percent has had at least one dose end-September 2021.

The government adopted a comprehensive program of policy measures with respect to fiscal and debt sustainability, monetary and exchange rate policy, financial sector stability and governance to address macroeconomic imbalances. In April 2021, Suriname reached a staff-level agreement with the IMF on a three-year Extended Fund Facility in support of this program.

Revenue enhancing and expenditure reduction measures have already led to modest surpluses in the country's overall and primary fiscal balances as of March 2021 on a cash basis. Additional measures, such as the introduction of a Value Added Tax, the elimination of electricity subsidies, and the rationalization of civil service, should turn the primary balance from a persistent deficit into a surplus of 3 -4 percent of GDP by 2023-24.

The government introduced a floating exchange rate and a reserve money targeting regime was adopted as the basis of monetary policy in June 2021. The exchange rate stabilized at the then prevailing parallel market rate of about SRD21-21.5/US$ (compared to the official exchange rate of SRD7.5/US$ less than a year ago). The large stepwise depreciation of the exchange rate led to a peak in consumer price inflation in January at 63.8 percent and another spike of 58.9 percent in July and according declines in real household income.

A temporary expansion of the social safety net included in the government program is not expected to fully offset declines in disposable household incomes arising from declines in employment, rapid inflation, and a reduction in remittances induced by the pandemic. Moreover, a temporary universal and flat transfer provided by the government may not completely compensate poorer households for a partial reduction of electricity subsidies. A yet unquantified but substantial increase in poverty rates is therefore expected.

Exchange rate depreciation, rationing of foreign currency at the official exchange rate as well as the overall economic downturn led to a significant shift in the current account of the balance of payments by about US$600m, from an 11 percent of GDP deficit in 2019 to a surplus of nearly 10 percent of GDP in 2020. The change in the current account was mainly brought about by a sharp contraction in imports of goods and services (a decrease of US$370m), while a strengthening in the price of gold contributed to a stronger export performance (an increase of US$220m).

Outlook

Suriname faces challenging economic conditions. The near-term outlook critically depends on the successful implementation of the macroeconomic stabilization program, including a public debt restructuring. While a further contraction of economic activity is expected for 2021, growth should resume gradually to around 3 percent per year in the medium term.

The longer-term growth outlook may be more positive following the discoveries of several offshore oil deposits as of 2020. A Final Investment Decision (FID) by one of the major oil companies is expected by 2022 at which point there is more certainty about a possible revenue flow from offshore oil production which will take several years to materialize.

The expected modest economic recovery will at best partially counterbalance the significant challenges faced by many households in the initial years. Rationalization of the civil service and a new lockdown will continue to put household income under pressure. A return to pre-crisis poverty levels is therefore not expected in the short term and social protection remains a policy priority.

TABLE 2 Suriname / 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	4.9	1.1	-15.9	-3.5	1.8	2.1
Real GDP growth, at constant factor prices	4.9	1.1	-15.9	-3.5	1.8	2.1
Agriculture	-8.5	-18.8	-1.5	-2.0	1.2	3.0
Industry	3.6	-5.1	-17.1	-2.5	2.0	2.0
Services	8.3	7.7	-17.1	-4.2	1.8	2.0
Inflation (Consumer Price Index)	7.1	4.3	34.8	52.8	30.2	13.3
Current Account Balance (% of GDP)	-3.0	-11.2	9.0	3.2	-1.2	-0.5
Net Foreign Direct Investment (% of GDP)	3.0	-0.2	0.0	4.2	4.0	4.0
Fiscal Balance (% of GDP)[a]	-9.9	-18.8	-11.2	-4.0	-1.9	0.2
Debt (% of GDP)[a]	66.1	85.2	148.3	132.9	123.8	123.4
Primary Balance (% of GDP)[a]	-6.8	-15.7	-7.5	-1.2	1.6	3.3

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

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

URUGUAY

Table 1	2020
Population, million	3.5
GDP, current US$ billion	53.6
GDP per capita, current US$	15314.3
International poverty rate ($ 1.9)[a]	0.1
Lower middle-income poverty rate ($ 3.2)[a]	0.5
Upper middle-income poverty rate ($ 5.5)[a]	3.2
Gini index[a]	39.7
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	77.9
Total GHG Emissions (mtCO2e)[c]	34.4

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

The Uruguayan economy continues to rebound as the successful vaccination rollout advances, but is not expected to reach pre-COVID levels until 2022. A sharp fiscal consolidation is expected for 2022-2023, as fiscal COVID-19 emergency measures are phased out and the Government continues to keep other expenditures under control. The existing social safety net and new containment measures cushioned the negative impact of the pandemic on the vulnerable, but an inclusive recovery remains a challenge.

Key conditions and challenges

The COVID-19 shock hit Uruguay at a time of decelerating growth. During 2003-2019, the country saw its longest economic growth and poverty reduction spell, largely boosted by favorable external conditions, sound macro-fiscal management, reduced trade and financial exposure to neighboring economies, and effective social policies. Uruguay became a high-income country and poverty levels fell to an historical low. Yet, GDP growth decelerated towards the end of the period, from an average of 5 percent in 2003-2014 to 0.9 percent in 2015-2019, while poverty reduction slowed down and even increased slightly in 2018-2019.

Even though Uruguay had a relatively successful handling of the COVID-19 pandemic, GDP fell 5.9 percent in 2020., largely led by a fall in consumption and weaker external demand on the demand side, and by sectors sensitive to reduced mobility (such as retail and hospitality, health, education, real estate and other services) on the supply side. An exceptionally high number of COVID-19 cases per capita in 2021 stifled expectations of a quick recovery, but an outstanding vaccination rollout limits downside risks. The negative impact of the COVID-19 shock on labor income and welfare was partially cushioned by both the social protection system and the containment measures introduced in early 2020 and reinforced in 2021 (including increased social transfers, food support, and flexible unemployment benefits). The potential long-term effects of the pandemic on labor markets emerges as a challenge, as it reinforced previously existing inclusion gaps for vulnerable groups.

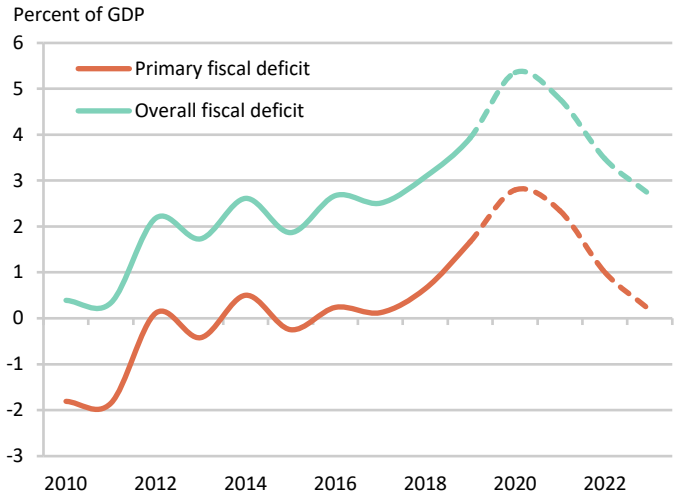
The COVID-19 crisis temporarily curbed fiscal consolidation plans, intended to stem the increase in public debt and protect the country's investment-grade status. Still, the Government enacted an indicative structural balance fiscal rule, improving its fiscal framework. Prudent macro-fiscal policies combined with measures to enhance competition and integration to world markets will be critical for Uruguay to sustain long-term growth.

Recent developments

GDP fell 2.8 percent in 2021Q1 yoy (-0.5 qoq s.a.), led by sectors sensitive to reduced mobility that were partly offset by strong performance in agriculture and construction. High frequency indicators point to a recovery underway that would continue to be led by investment, notably due to the continuation of a US$3bn investment in a paper mill project (UPM 2) and related activities.

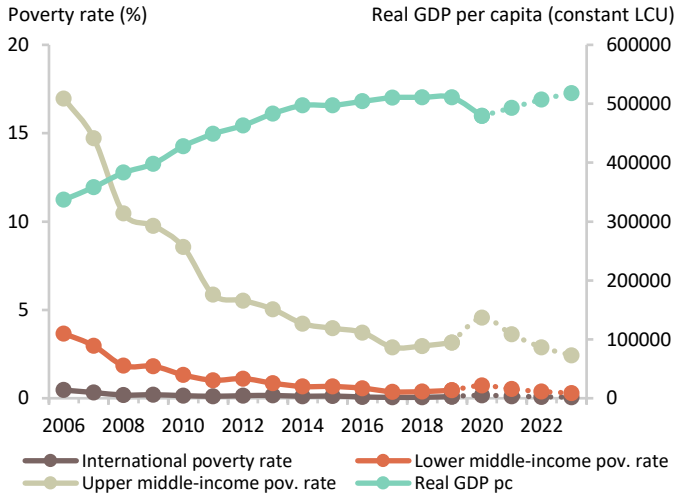
Exports of goods and services fell 13.3 percent y-o-y in 2021Q1 despite merchandise exports growth, largely due to weak inbound tourism, as frontiers remained closed during the 2021 summer season. Imports contracted 4.7 percent, as the fall in services (tourism) was cushioned by higher merchandise imports.

FIGURE 1 Uruguay / Fiscal deficit



Sources: Ministry of Economy and Finance, Central Bank of Uruguay, and WB.

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



Source: World Bank. Notes: see Table 2.

Inflation reached 9.8 percent in 2020, largely fueled by the depreciation of the peso, but has since moved close to the upper bound of the 3-7 percent target range. The Central Bank initiated a gradual monetary tightening process, increasing the policy rate from 4.5 to 5 percent.

The fiscal deficit increased from 3.9 percent of GDP in 2019 to 5.4 percent in 2020, as the increase in COVID-19 cases in 2021 required higher emergency expenditures, further postponing fiscal consolidation plans. Signaling a strong commitment to fiscal consolidation, the Government also started to reduce non-COVID primary expenditure by 3.2 percent in 2020. Uruguay has successfully tapped into international credit markets, retaining its investment-grade status.

Poverty rates increased in 2020 but were contained by the social protection system. Nevertheless, vulnerable populations experienced a stronger shock and a slower recovery. Notably, high informality among Afro descendants left this group in a particularly weak position. Further, women are poorly represented in the construction and primary sectors, the best performing ones post-COVID, while informally employed women were less likely to be able to work remotely. The recent approval of an employment subsidy program for young and vulnerable population with stronger incentives for women's hiring has the potential to incentivize labor income recovery contributing to equitable outcomes.

Outlook

Absent new negative developments related to the pandemic, economic recovery is expected to continue throughout 2021, as mobility levels resume. The opening of borders to (immunized) foreign tourists starting in November is expected to be an important driver of the economy. GDP is projected to grow 3.2 percent this year and approach its pre-pandemic level in 2022.

The fiscal deficit is expected to fall to 4.8 percent in 2021, driven by cyclical components and further reductions in non-COVID19 expenditure, and to contract more strongly in 2022 with the expected phasing out of emergency measures. The fiscal deficit path is still considerably larger than the initial projections in the 2020-2024 Budget Law, given a slower than anticipated economic recovery and additional COVID-19 fiscal efforts. The approval of a pension reform, informed by a multi-party technical committee, will be key for the longer-term fiscal prospects.

Absent negative climate shocks, exports are expected to recover during the rest of 2021 to reach 10.3 percent growth in 2021 and remain elevated in 2022 and 2023, as the new paper mill starts exporting by end-2022, commodity prices remain strong, and tourism recovers. Imports would grow in 2021 and 2022, boosted by strong private investment growth, economic recovery and growth in outbound tourism as sanitary restrictions recede. Yet, they will later subdue as investments are expected to contract from a high level following historically high investment growth related to the paper mill. This will drive an improvement in the current account balance.

Inflation is expected to continue on a decelerating path, supported by a decline in government spending and monetary policy tightening. Keeping inflation low will be key to sustained poverty reduction. In a baseline scenario, poverty (measured by the international upper-middle income line) is expected to decrease to pre-pandemic levels in 2022 and reach 2.8 percent.

TABLE 2 Uruguay / 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	0.5	0.4	-5.9	3.4	3.1	2.5
Private Consumption	2.1	0.5	-6.2	2.5	2.1	1.8
Government Consumption	2.6	1.1	-6.4	2.5	-3.0	-0.1
Gross Fixed Capital Investment	-9.0	0.8	-0.5	8.7	5.7	-1.6
Exports, Goods and Services	-1.7	3.6	-16.2	10.3	8.7	6.2
Imports, Goods and Services	0.0	1.5	-10.8	12.1	4.3	0.5
Real GDP growth, at constant factor prices	0.4	0.4	-5.9	3.4	3.1	2.5
Agriculture	4.5	-0.3	-0.4	2.6	3.1	2.5
Industry	5.8	-3.7	-5.6	4.7	3.9	2.0
Services	-0.7	1.1	-6.5	3.3	3.0	2.6
Inflation (Consumer Price Index)	7.6	7.9	9.8	7.5	6.8	6.1
Current Account Balance (% of GDP)	-0.5	1.4	-0.7	-1.4	-0.7	-0.5
Net Foreign Direct Investment (% of GDP)	-0.8	2.0	5.0	5.7	4.9	4.8
Fiscal Balance (% of GDP)[a]	-3.1	-3.9	-5.4	-4.8	-3.5	-2.7
Debt (% of GDP)	58.2	60.9	68.1	69.0	69.0	66.9
Primary Balance (% of GDP)[a]	-0.6	-1.7	-2.8	-2.3	-1.0	-0.2
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.1	0.1	0.2	0.1	0.1	0.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.5	0.7	0.5	0.4	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.0	3.2	4.6	3.6	2.9	2.4

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

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

(b) Calculations based on SEDLAC harmonization, using 2013-ECH, 2018-ECH, and 2019-ECH.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(c) Projection using point-to-point elasticity (2013-2018) with pass-through = 1based on GDP per capita in constant LCU.

Macro Poverty Outlook

10/
2021

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