Macro Poverty Outlook

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

Annual Meetings 2021

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MACRO POVERTY

Annual Meetings 2021

OUTLOOK

*The **Macro Poverty Outlook** is jointly produced by the Poverty and Equity and the Macroeconomics, Trade and Investment Global Practices of the World Bank Group.*

The cutoff date for information for most countries was October 01, 2021.

East Asia and the Pacific

Annual Meetings 2021

Cambodia
Central Pacific Islands
China
Fiji
Indonesia
Lao PDR
Malaysia
Mongolia
Myanmar
North Pacific Islands
Papua New Guinea
Philippines
Solomon Islands
South Pacific Islands
Thailand
Timor-Leste
Vietnam

CAMBODIA

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

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

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

Key conditions and challenges

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

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

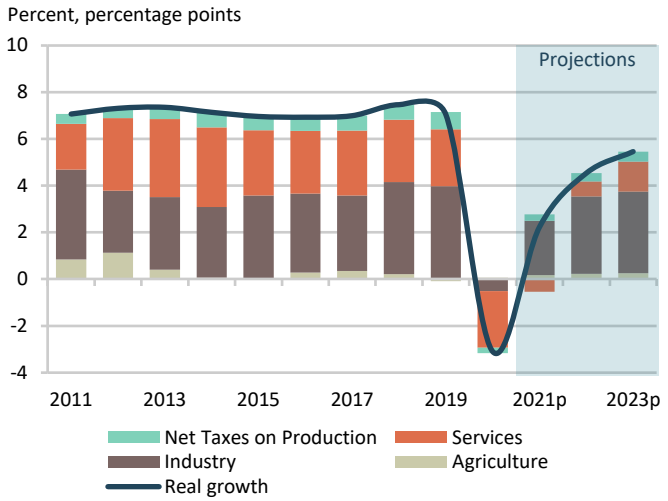
Risks are tilted to the downside and Cambodia's outlook remains highly uncertain. Despite accelerated vaccination progress, risks of further disruptions remain high, given continued high numbers of infections and deaths. In addition, high credit growth and concentration of domestic credit in the construction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

Recent developments

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

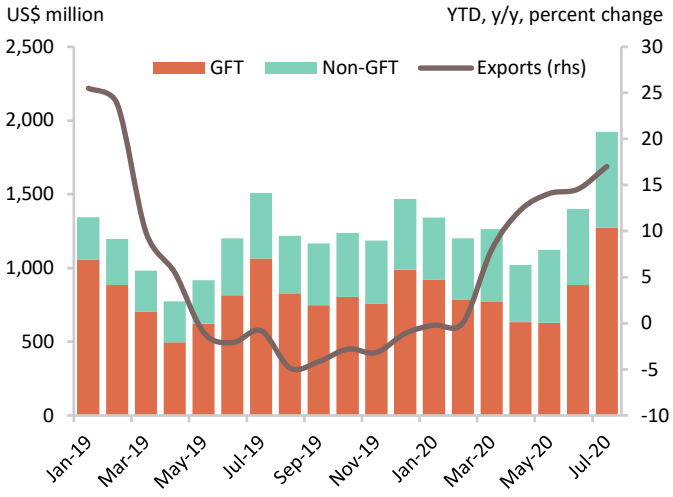
While remaining subdued, inflation has edged up, reaching 3.3 percent y/y in July 2021, compared to 3.1 percent at the end of 2019. Nominal exchange rate was broadly stable, hovering around riel 4,100

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



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

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



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

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

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

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

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

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

Outlook

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

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

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

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

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

CENTRAL PACIFIC ISLANDS

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

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

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

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

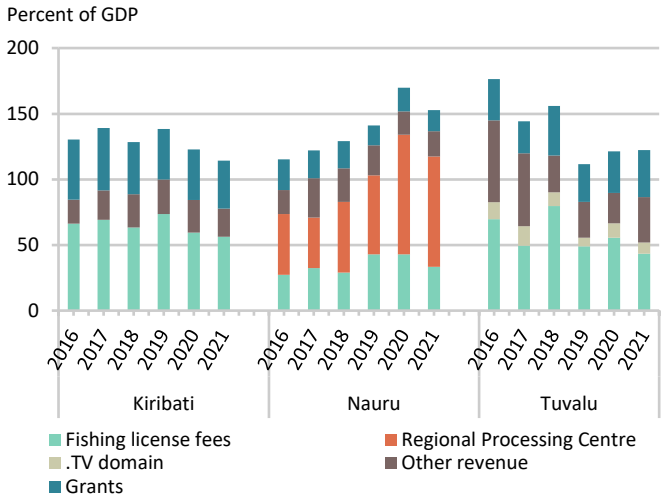
Nauru is also undergoing a significant economic transition. Economic growth and public revenues have been highly dependent on activity associated with Australia's Regional Processing Centre (RPC) for asylum-seekers, phosphate mining and fishing. However, phosphate resources have now been fully exploited,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

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

Recent developments

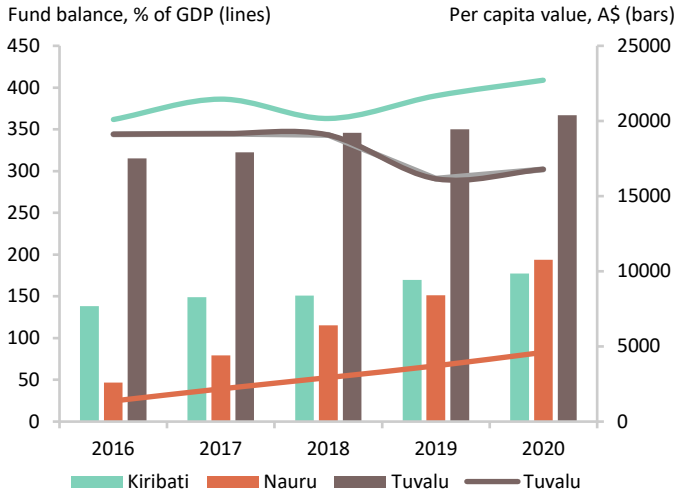
Kiribati's economy is expected to have contracted by about 2 percent in 2020, due mainly to the impact of border closures on donor-financed construction activity and fresh tuna exports, as well as lower public spending during a long election caretaker

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



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

FIGURE 2 Central Pacific Islands / Sovereign wealth fund balances



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

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

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

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

Outlook

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

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

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

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

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

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

CHINA

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

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

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

Key conditions and challenges

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

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

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

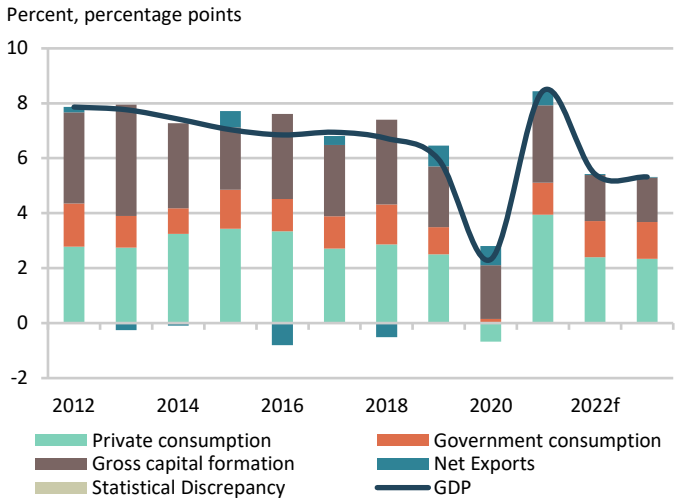
Recent developments

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

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

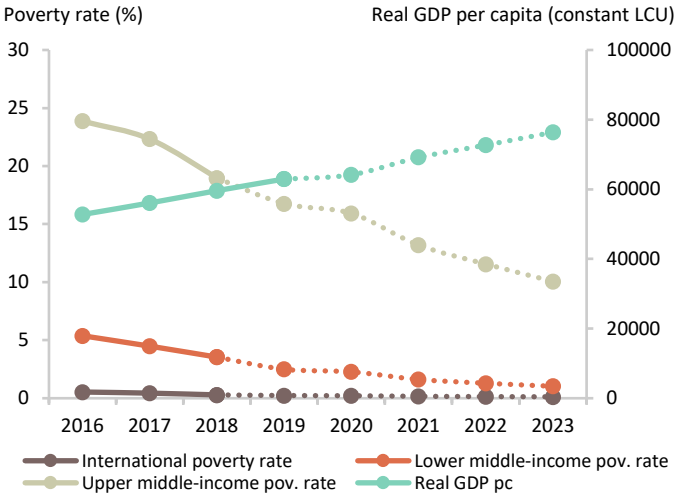
Economic activities have weakened during the third quarter of 2021 reflecting the lagged impact of policy and macroprudential tightening, heavy floods, and the Delta variant outbreak. Growth in both industrial production and fixed

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

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

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

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

FIJI

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

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

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

Key conditions and challenges

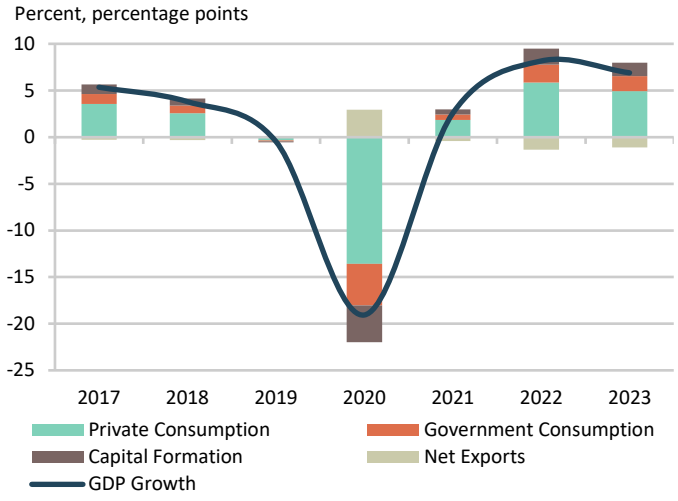
Fiji is a small island nation in the South Pacific Ocean with a population of about 900,000. Remoteness, natural hazards and climate change represent major obstacles to the country's development. Prior to COVID-19, tourism was the main driver of the economy and a major source of foreign exchange, contributing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

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

Recent developments

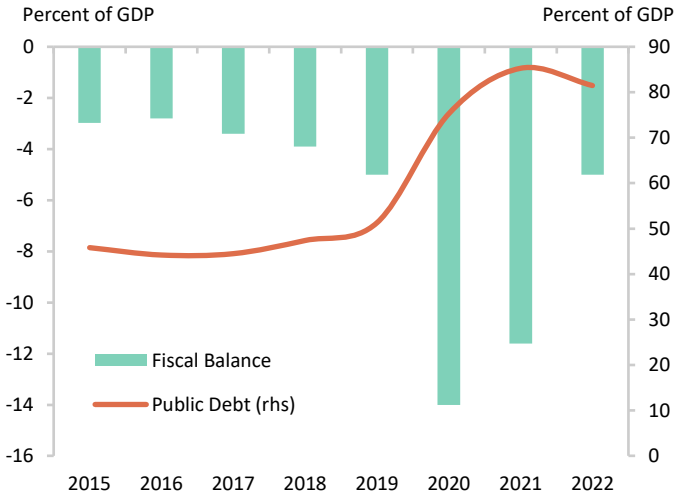
The COVID-19 pandemic presents Fiji with an economic crisis of unprecedented scale and an estimated contraction of 15.7 percent in 2020. International travel restrictions brought tourism to a virtual standstill. This caused a ripple effect on all segments of the economy, had a negative impact on related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

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



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

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



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

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

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

Outlook

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

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

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

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

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

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

INDONESIA

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

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

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

Key conditions and challenges

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

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

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

Recent developments

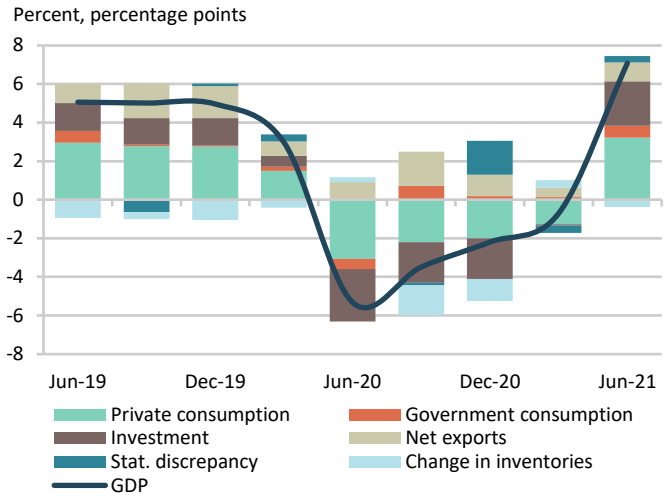
A surge in COVID cases in July-August driven by the Delta variant has slowed a nascent economic rebound. The economy expanded by 7.1 percent yoy during Q2 2021 after four quarters of recession. The expansion was driven by base effects and a pickup in domestic demand. With higher COVID cases and uncertainty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

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

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

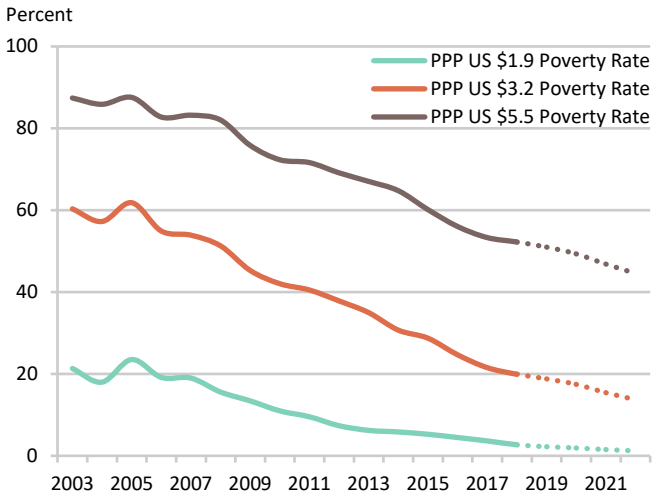
Fiscal and monetary authorities took several measures to support the economy. Bank Indonesia cut its benchmark interest rate by 150 basis points in February 2020-March 2021 to 3.5 percent, loosened macroprudential regulations, and helped finance the fiscal deficit. This policy stance was underpinned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

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



Sources: National Statistics Agency and World Bank.

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



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

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

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

Outlook

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

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

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

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

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

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

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

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

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

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

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

LAO PDR

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

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

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

Key conditions and challenges

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

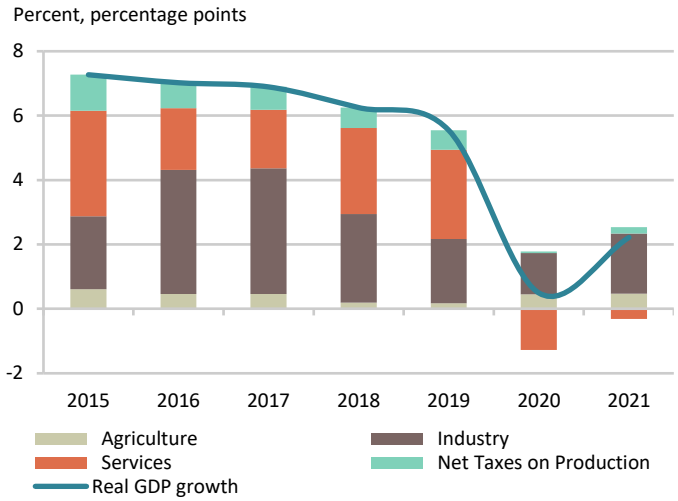
The COVID-19 pandemic and macroeconomic instability are the main risks to the outlook. A prolonged wave of COVID-19 infections will likely require extended containment measures to avert a significant loss of lives. These measures could then result in further job and livelihood losses, especially if not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

Recent developments

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

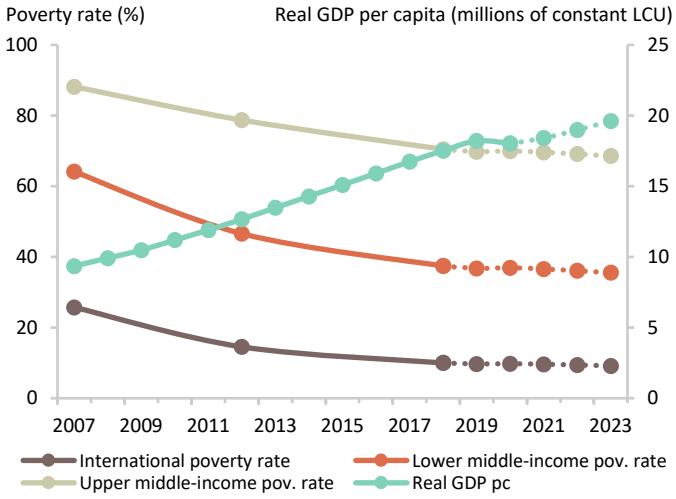
Fiscal revenue performance showed some signs of recovery in the first half of 2021, while public spending was broadly stable when compared to the same period in 2020. However, fiscal space remains limited, which restricts the ability to provide relief to affected businesses and households. Efforts to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

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



Sources: Lao Statistics Bureau and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

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

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

MALAYSIA

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

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

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

Key conditions and challenges

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

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

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

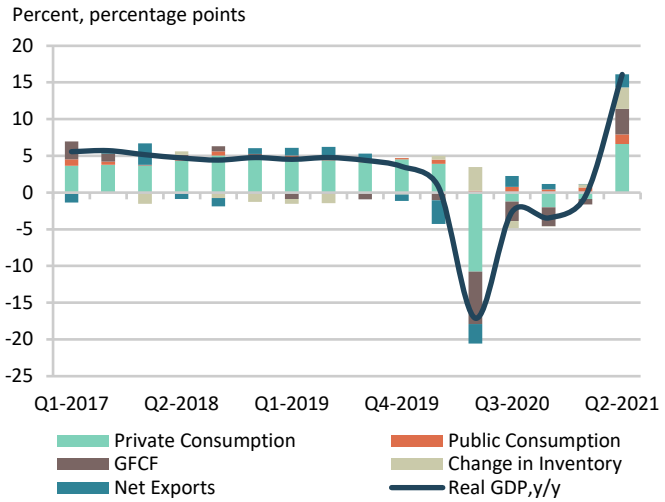
According to government statistics, the national poverty rate is estimated to have increased from 5.6 percent in 2019 to 8.4 percent in 2020. The largest increases were seen in less-developed states such as Kelantan, Terengganu, and Sabah. The pandemic and prolonged movement restrictions also led to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

Recent developments

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

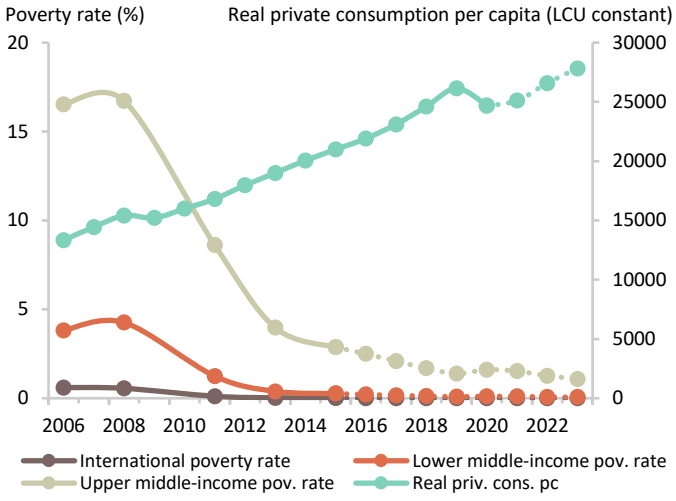
Monetary policy remained supportive of growth with the central bank keeping the overnight policy rate (OPR) at 1.75 percent

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

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

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

Outlook

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

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

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

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

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

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

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

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

MONGOLIA

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

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

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

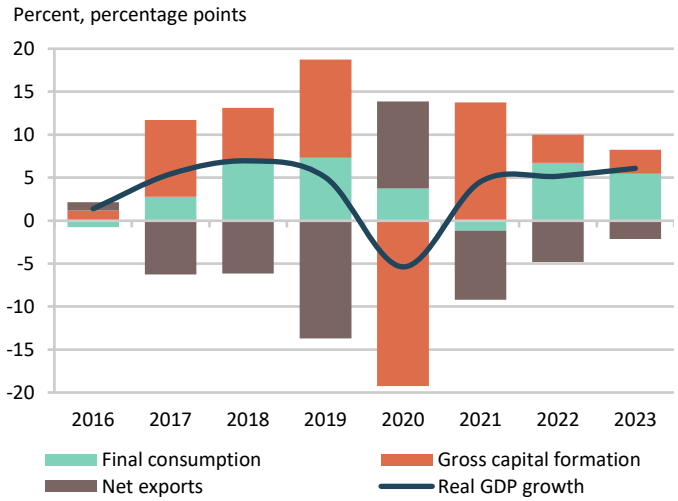
Key conditions and challenges

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

Recent developments

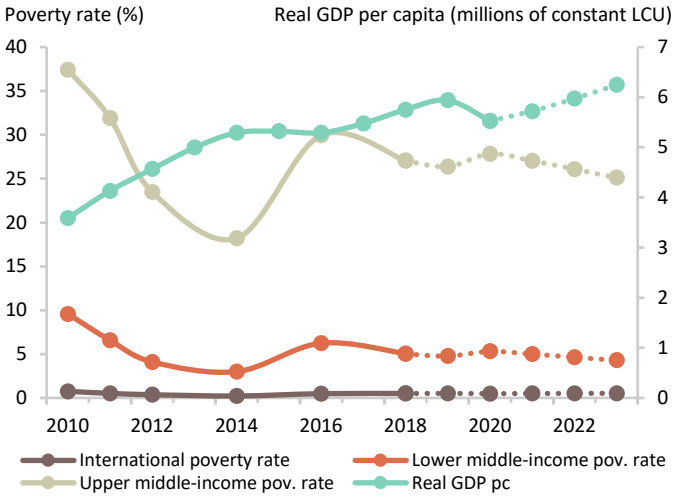
Mongolia's economic growth rebounded in the first half of 2021 to 6.1 percent (y/y) on the back of robust exports and a surge in private investment, mainly in the mining sector. In addition to a temporary improvement in the ore grade of a major mine, stronger Chinese demand for commodities and higher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

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



Sources: National Statistics Office and World Bank.

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



Source: World Bank. Notes: see Table 2.

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

Outlook

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

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

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

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

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

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

MYANMAR

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

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

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

Key conditions and challenges

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

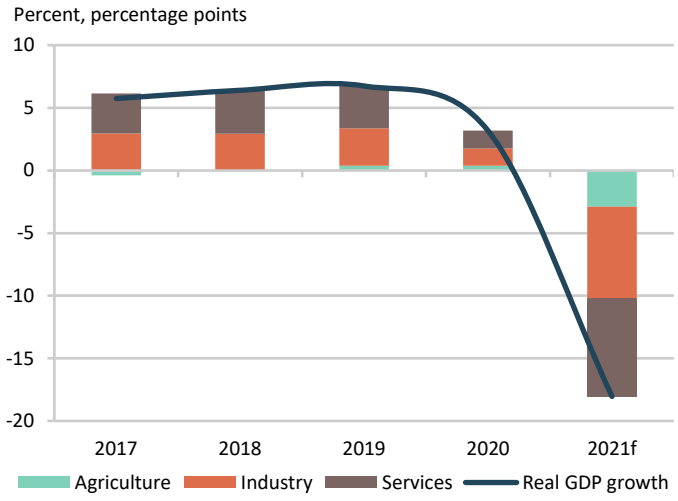
Financial sector disruptions and cash shortages have made it more difficult for businesses to access credit and pay employees and suppliers. Despite interventions from the Central Bank of Myanmar (CBM), including a resumption in the printing of kyat banknotes, physical currency remains in short supply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

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

Recent developments

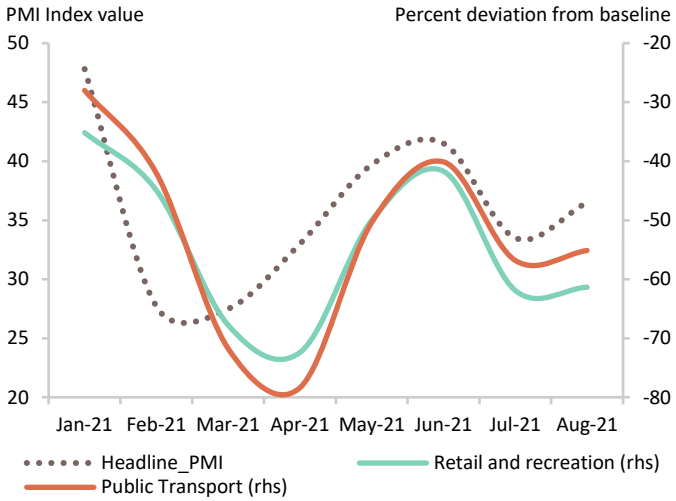
GDP is estimated to have fallen by 18 percent in FY2021, a sharp contrast to the 3.2 percent growth reported in FY2020. Despite some signs of improving conditions in May and June, overall economic activity has remained weak throughout the period since the February coup, and the

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



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

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



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

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

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

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

Outlook

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

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

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

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

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

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

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

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

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

NORTH PACIFIC ISLANDS

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

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

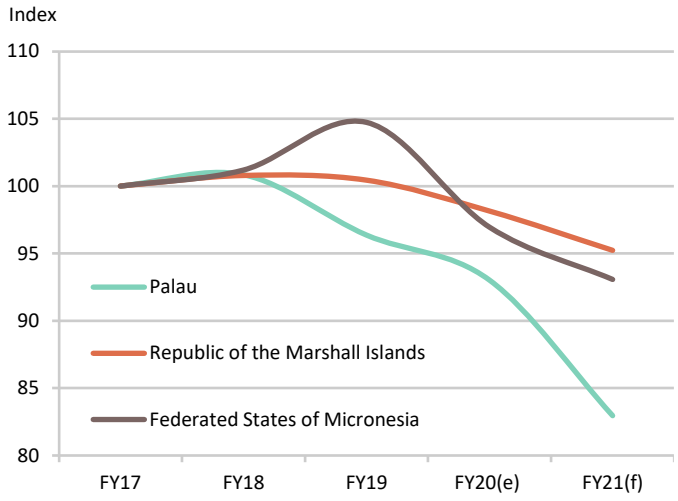
Remoteness has helped the North Pacific avoid a COVID-19 outbreak, but the prevention strategies have had severe economic consequences. Strict international border restrictions have been in place since early 2020. A fledgling quarantine-free travel bubble between Palau and Taiwan opened in April 2021,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

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

Recent developments

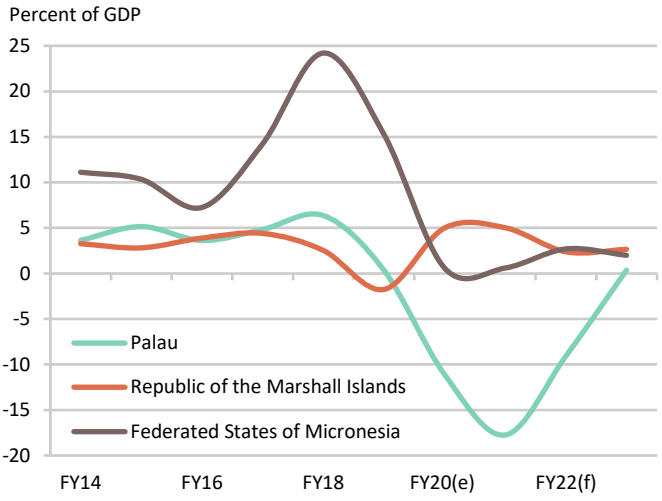
Prior to the pandemic, **FSM** and **RMI** had each registered five consecutive years of positive growth, and the longest period of sustained economic expansion since 2003. However, the economic impact of the pandemic drove both economies into recession in FY20. Output is expected to contract by a further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

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



Sources: National sources via EconMap and World Bank projections.

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



Sources: National sources via EconMap and World Bank projections.

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

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

Outlook

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

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

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

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

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

PAPUA NEW GUINEA

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

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

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

Key conditions and challenges

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

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

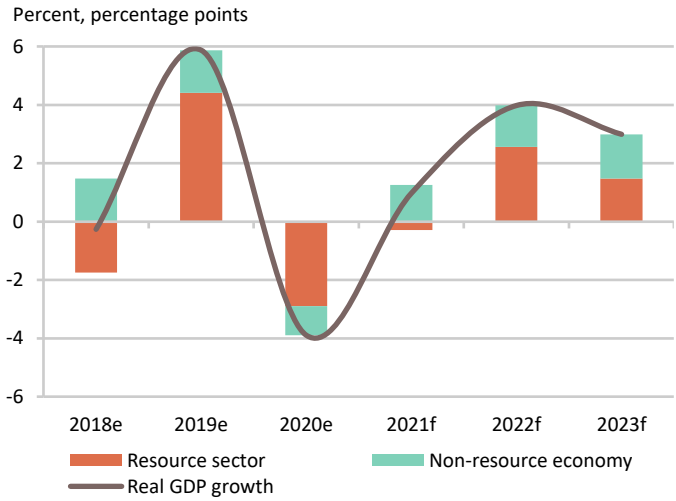
From global as well as regional perspectives, prevalence of extreme poverty in PNG is high. About 38 percent of the population in 2010 (the latest household budget survey available) lived under the international extreme poverty line of US$1.90 per day (2011 PPP terms). The national poverty rate was estimated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

Recent developments

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

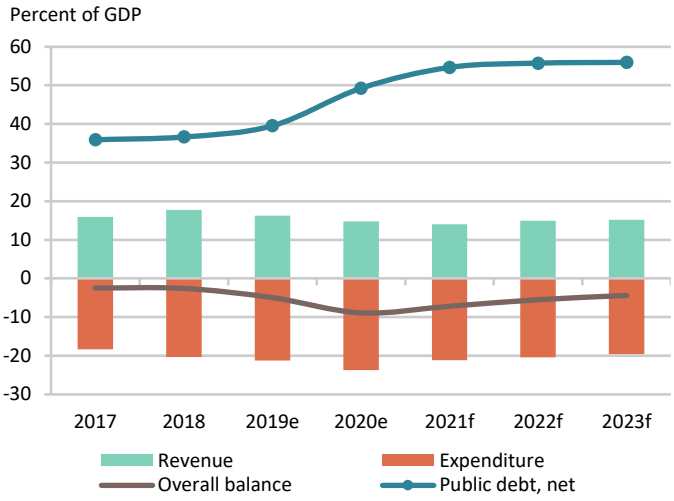
In 2021, economic recovery has been dragged by falling gold and LNG production and the reintroduction of Covid-19 restrictions. In the first half of 2021, gold output fell in the Lihir, Simbiri and Hidden Valley mines, while Porgera mine

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



Source: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Source: World Bank staff estimates and forecast.

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

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

Outlook

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

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

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

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

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

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

PHILIPPINES

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

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

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

Key conditions and challenges

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

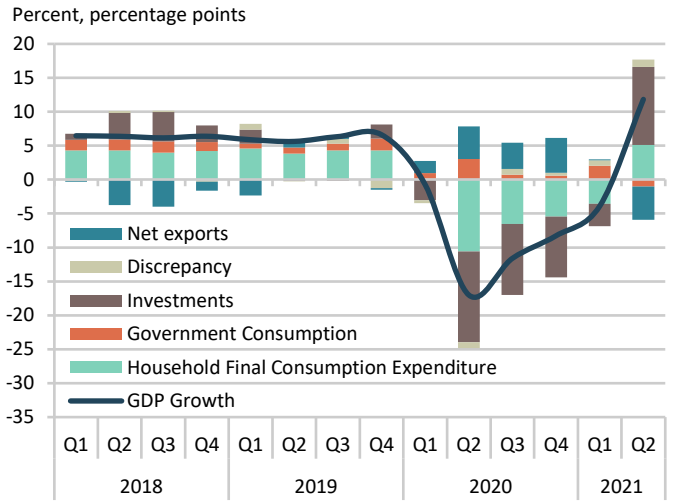
The government must pursue a well-timed and structured fiscal consolidation to support and safeguard the country's inclusive growth agenda. A strategy for consolidation may consider measures to improve tax policy and administration, and spending efficiencies. Preserving long-term economic recovery requires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

Recent developments

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

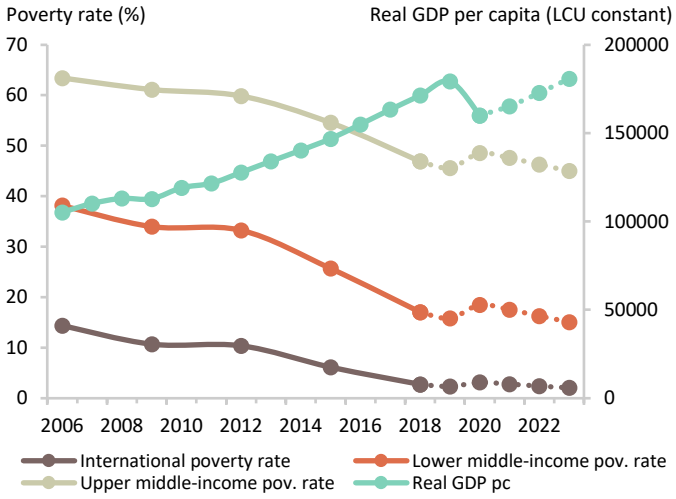
The fiscal deficit increased to 7.9 percent of GDP in H1 2021 fueled by an acceleration in public spending amid tepid revenue generation. Public spending increased

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



Source: Philippines Statistics Authority.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

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

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

SOLOMON ISLANDS

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

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

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

Key conditions and challenges

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

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

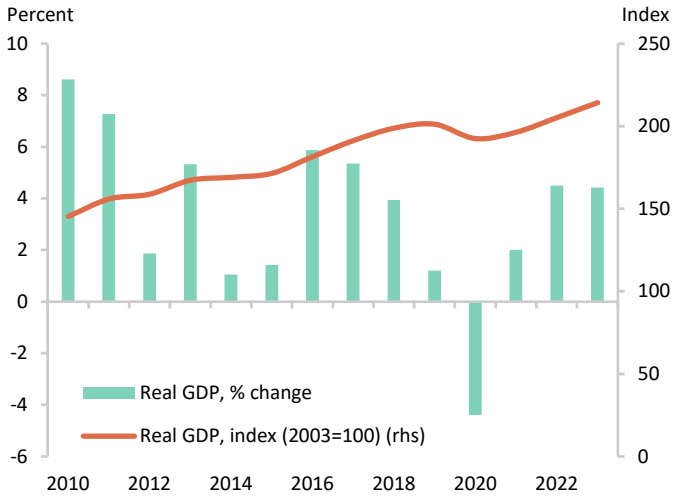
A concerted effort is required to support economic recovery and poverty reduction. Effective policy measures, strong social protection programs and labor-intensive public investment projects are important components to stimulate growth. At the same time there is a need to maintain macroeconomic and fiscal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

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

Recent developments

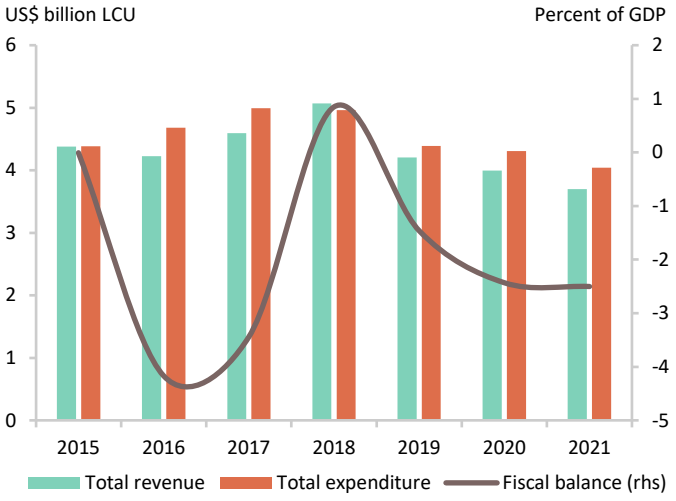
The economy contracted by 4.3 percent in 2020 due to COVID-19. Border disruptions, weak external demand and social distancing measures led to a significant drop in economic activity. Primary sector output dropped across the board. The industrial sector contracted deeply by 13 percent as key infrastructure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

FIGURE 1 Solomon Islands / Real GDP



Source: World Bank staff estimates.

FIGURE 2 Solomon Islands / Fiscal balance



Source: World Bank staff estimates.

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

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

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

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

Outlook

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

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

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

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

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

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

SOUTH PACIFIC ISLANDS

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

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

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

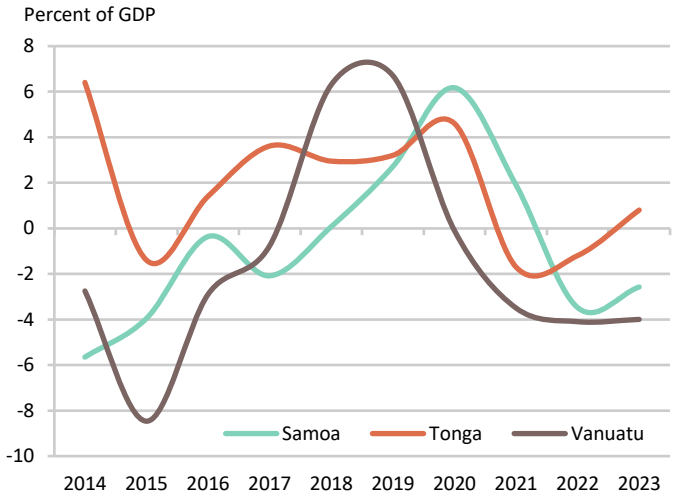
The main immediate challenges are to accelerate the rate of COVID-19 vaccine uptake and remain free of COVID-19. The near-term challenge will be to strike an appropriate balance between catalyzing a sustainable and inclusive economic recovery and maintaining macroeconomic sustainability in the face of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

Recent developments

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

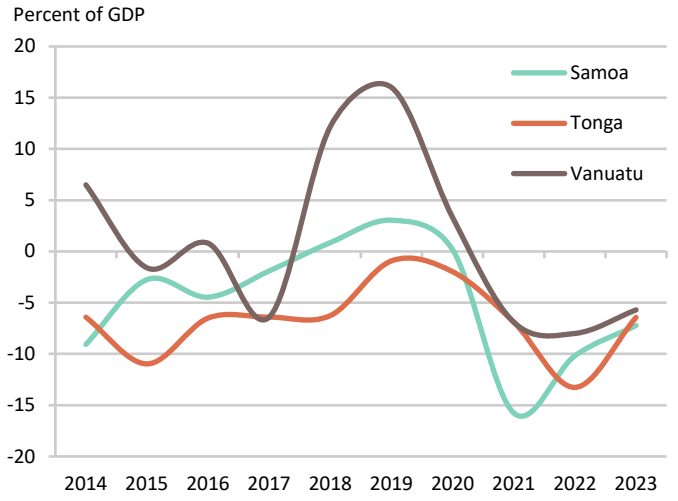
The **Samoan** economy is estimated to have contracted by 8 percent in FY21. While movement restrictions kept the pandemic at bay, tourism plummeted and generated knock-on effects on other sectors. The measures taken have saved lives

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and WB projections.

FIGURE 2 South Pacific Islands / Current account balance



Sources: National sources and WB projections.

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

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

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

Outlook

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

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

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

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

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

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

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

THAILAND

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

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

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

Key conditions and challenges

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

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

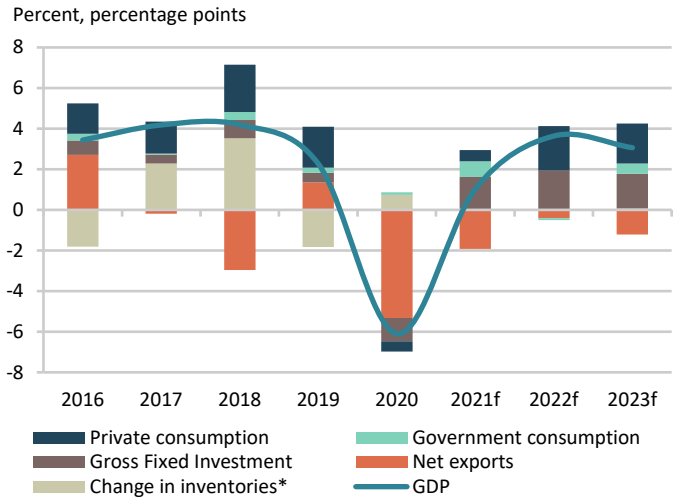
Raising productivity through structural reforms will be critical to support long-term growth. The liberalization of trade in services and other measures to promote economic openness could attract knowledge-intensive foreign direct investment (FDI). FDI will be critical for Thailand's integration into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

Recent developments

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

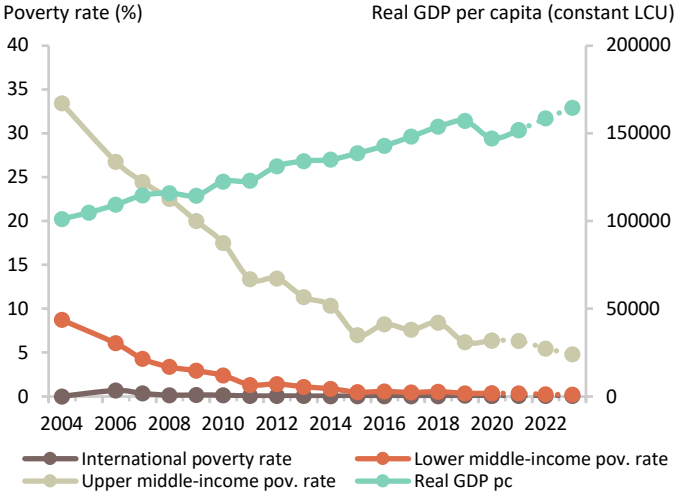
Delays in the COVID-19 vaccine rollout amid supply constraints have weighed on domestic activity and tourism recovery. At current rates of vaccination of 40 percent, Thailand is expected to reach its mass vaccination target of 70 percent by mid-2022, well beyond the government's end-2021 target. The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

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

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

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

Outlook

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

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

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

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

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

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

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

TIMOR-LESTE

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

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

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

Key conditions and challenges

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

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

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

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

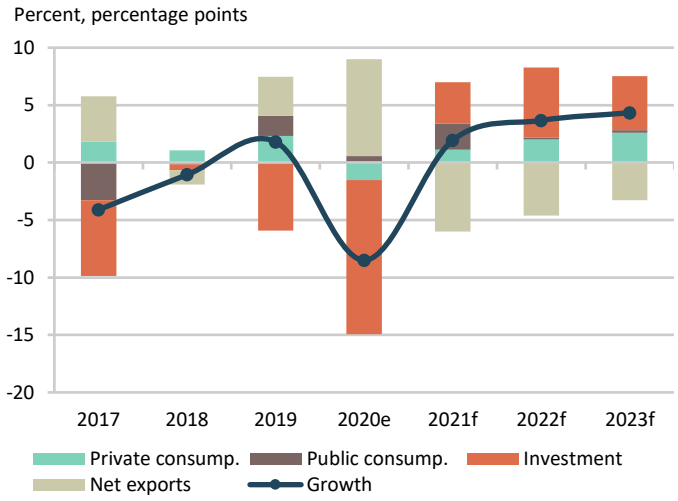
Recent developments

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

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

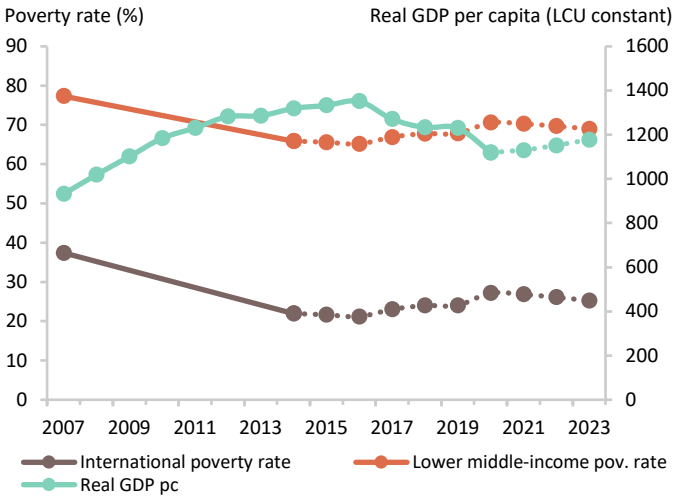
Despite a substantial fiscal package to mitigate the impact of COVID-19, the economy contracted sharply in 2020. Non-oil GDP declined by 8.5 percent in 2020. Public investment contracted by nearly 50 percent following long delays in passing the 2020 budget. Low production of coffee and international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

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



Sources: Ministry of Finance and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

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

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

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

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

Outlook

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

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

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

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

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

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

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

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

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

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

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

VIETNAM

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

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

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

Key conditions and challenges

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

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

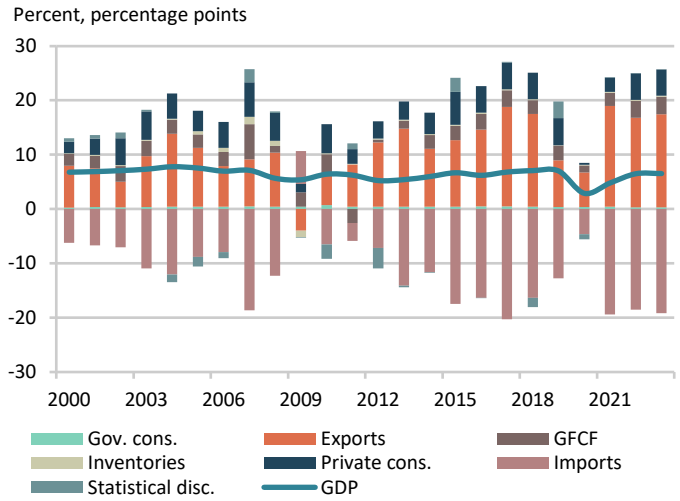
The economy also faces potential external risks. While Vietnam's main export markets – US, China, EU – appear to be on the recovery track, this recovery is subject to the uncertainties associated with emergence of new COVID-19 variants and the uneven global pace of vaccination. Additionally, Vietnamese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

Recent developments

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

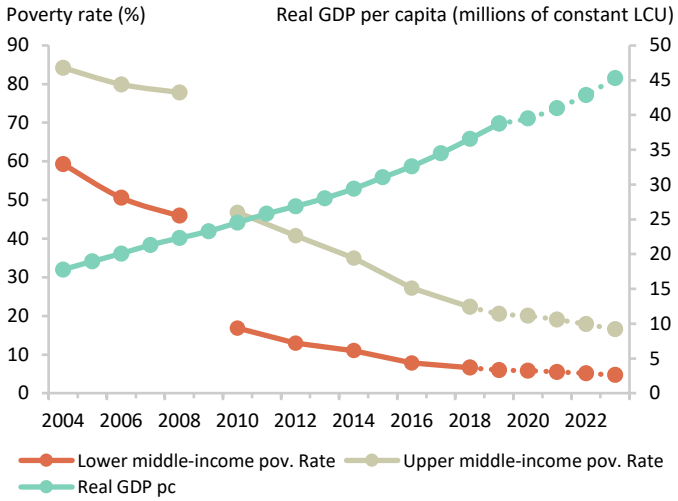
After relatively robust growth in the first semester, progressively more restrictive measures derailed the recovery. The Vietnamese economy expanded by 5.6 percent during the first semester of 2021, with the industrial sector reaching pre-pandemic levels (8 percent (year-over-year [y/y]), and services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

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



Source: World Bank.

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



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

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

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

Outlook

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

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

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

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

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

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

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

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

Europe and Central Asia

Annual Meetings 2021

Albania
Armenia
Azerbaijan
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Montenegro
North Macedonia
Poland
Romania
Russian Federation
Serbia
Tajikistan
Turkey
Ukraine
Uzbekistan

ALBANIA

Table 1	2020
Population, million	2.8
GDP, current US$ billion	14.9
GDP per capita, current US$	5321.4
Upper middle-income poverty rate ($5.5)[a]	33.8
Gini index[a]	33.2
School enrollment, primary (% gross)[b]	104.8
Life expectancy at birth, years[b]	78.6
Total GHG Emissions (mtCO2e)	9.8

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

The economic recovery in 2021 is stronger than anticipated, as travel, construction, and extractives bounced back following robust international demand. Private investment, consumption, and public spending have led growth. Macroeconomic policies have supported the recovery, although higher public spending has lifted the debt-to-GDP ratio for the second year. Employment and labor force participation have yet to recover, but rising incomes should lead to a modest fall in poverty. Uncertainty remains high as daily Covid-19 cases are increasing again.

Key conditions and challenges

In 2020, the pandemic hit Albania's economy hard. GDP fell by 4 percent, and the government incurred additional public debt to mitigate the economic losses through increased spending.

Activity has rebounded in 2021 and GDP is projected to increase by 7.2 percent, as restrictions are lifted and construction activity resumes, including the reconstruction following the 2019 earthquake.

However, economic prospects remain uncertain as daily cases have started increasing again. Further, by August 2021, the vaccination rate stood at around 20 percent only. If reinstated, new containment measures would delay the recovery of activity and employment, especially in services and manufacturing.

The government successfully met its financing needs by issuing Eurobonds in 2020 and plans to repeat this in 2021. To allow public debt to increase further in 2021, the government temporarily suspended the fiscal rule of a declining debt-to-GDP.[1] Still, the country's buffers remain low in case of a new pandemic wave. In the absence of fiscal consolidation, refinancing risks could arise if external financial market demand reverses and interest rates increase.

The structural conditions for sustained growth are still weak. Although growth averaged a healthy 3.3 percent in 2015-2019, stagnant productivity, a firm landscape dominated by Small and Medium Enterprises that employ low-skilled, low-wage labor, limited access to finance, burdensome logistics, and poor market integration discourage private investment. In addition, low public revenue mobilization at only 26.3 percent of GDP hinders much-needed investment in public infrastructure and human capital.

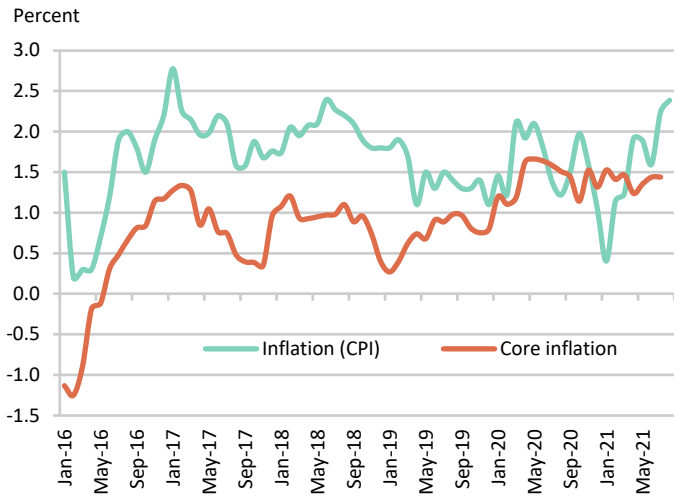
Recent developments

The Albanian economy has shown encouraging signs of recovery in 2021. Higher consumer confidence, external demand, and policy stimulus supported growth. Construction led GDP growth in the first quarter of 2021 and is expected to remain strong, thanks to reconstruction and new infrastructure projects. Strong external demand and favorable hydrologic conditions have boosted extractives and energy production and tourism exports.

Meanwhile, inflationary pressure is building up. Food and oil prices pushed average inflation to 1.8 percent in Q2, from 0.9 percent in Q1. While core inflation remains stable at 1.4, upward pressure could intensify with the expansion of demand and monetary and fiscal stimulus.

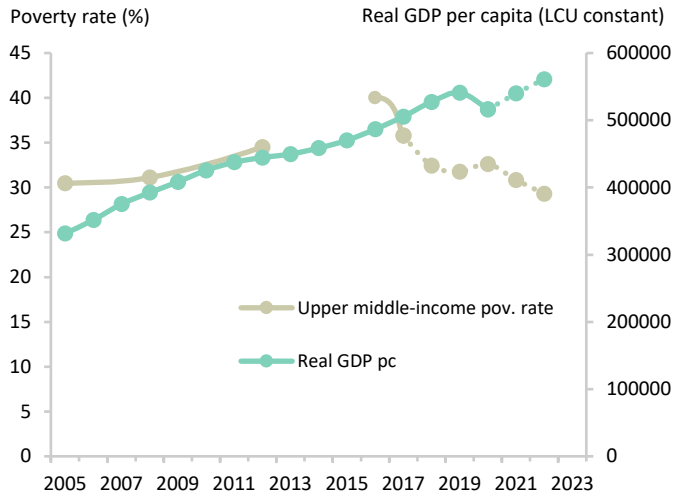
The labor market has not recovered yet. Labor force participation in Q2 2021 continues to be below Q2 2019. There is still a deficit of about 35 thousand jobs relative to Q2 2019. Unemployment started to decline slightly in Q2, especially for workers under 30. Formal real wages rose by 2.9 percent, partially because of an increase in

FIGURE 1 **Albania** / Headline inflation and core inflation



Sources: INSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

the minimum wage. Notwithstanding the labor market underperformance, the poverty rate (at USD 5.5 per day) is projected to fall in 2021 by 1.8 percentage points relative to 2020. Although the extent of the poverty increase in 2020 is not confirmed, projections suggest that by end-2021 the poverty rate could be 0.9 percentage points below its 2019 estimated value. However, this assumes employment recovers to long-term trends and food prices remain stable.

Higher fiscal revenue collection and new debt allowed the government to increase infrastructure spending. Fiscal consolidation and the achievement of a positive primary balance was postponed to 2024.

Outlook

The Albanian economy has shown encouraging The strong projected GDP growth rebound in 2021 is subject to a smooth vaccination rollout, no further lockdowns, and continued recovery in services, led by tourism, and construction. If labor participation and employment pick up again, poverty could continue to decline; in an optimistic scenario it could fall to 30 percent by 2022.

In the years following, private consumption is projected to return as the primary driver of GDP growth. Private investment could provide further support to growth if business climate reforms are implemented. Meanwhile, the current account deficit is expected to expand to 9.4 percent of GDP, as high infrastructure investment demand brings imports' growth to 29 percent in 2021. With exports bouncing back, the current account deficit should gradually shrink to 7.0 percent by 2023. Service exports, including tourism and fast-expanding business-process operations should narrow the trade deficit over the medium term.

Strong GDP growth is expected to help increase public revenues to 27.4 percent of GDP in 2022-2025. However, beyond 2021, spending will likely be constrained by limited fiscal space, as public debt is projected to increase to 78.6 percent of GDP in 2021, before declining gradually over the medium term. Fiscal space could further deteriorate in a downside growth scenario and if the tax base is further eroded. In this case, the government may need to cut capital spending to prevent an increase of the debt-to-GDP ratio. Moreover, with more reliance on external financing, exchange rate, interest rate, and refinancing risks remain elevated. A key medium-term reform priority is the need to boost revenue collection and achieve fiscal consolidation, while allowing for significant growth-enhancing spending.

1/ The fiscal rule includes an escape clause in the case of an emergency, which applied in 2020.

TABLE 2 Albania / 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	2.1	-4.0	7.2	3.8	3.7
Private Consumption	3.2	3.2	-2.4	3.1	3.2	3.2
Government Consumption	0.7	2.9	1.6	12.9	-3.7	3.2
Gross Fixed Capital Investment	2.3	-3.7	-2.0	13.3	-1.7	2.1
Exports, Goods and Services	4.0	2.6	-25.6	25.4	12.8	6.4
Imports, Goods and Services	2.4	2.3	-19.9	16.3	3.7	3.7
Real GDP growth, at constant factor prices	4.1	2.4	-3.4	7.2	3.8	3.7
Agriculture	1.2	0.6	0.3	1.5	1.5	1.5
Industry	9.9	0.9	-3.5	10.8	5.0	5.0
Services	2.6	3.8	-4.7	7.7	4.0	3.8
Inflation (Consumer Price Index)	2.1	1.4	2.2	2.6	2.9	2.8
Current Account Balance (% of GDP)	-6.8	-7.9	-8.8	-9.4	-8.1	-7.0
Net Foreign Direct Investment (% of GDP)	8.0	7.5	6.8	6.6	7.4	7.0
Fiscal Balance (% of GDP)	-1.7	-1.9	-6.8	-6.7	-2.8	-3.0
Debt (% of GDP)	69.5	67.4	77.2	78.6	76.7	74.9
Primary Balance (% of GDP)	0.5	0.1	-4.7	-4.6	-0.7	-0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	32.4	31.8	32.6	30.8	29.3	
GHG emissions growth (mtCO2e)	-2.2	1.3	-1.6	3.2	1.0	0.9
Energy related GHG emissions (% of total)	46.8	47.3	46.8	47.6	46.9	45.5

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

(a) Calculations based on SILC 2017-2019.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2022.

(b) Projection for 2021using sectoral GDP growth with pass-through =1for agriculture and services and 0.7 for industry.

ARMENIA

Table 1	2020
Population, million	2.9
GDP, current US$ billion	12.6
GDP per capita, current US$	4344.8
International poverty rate ($1.9)[a]	1.1
Lower middle-income poverty rate ($3.2)[a]	9.8
Upper middle-income poverty rate ($5.5)[a]	44.0
Gini index[a]	29.9
School enrollment, primary (% gross)[b]	91.8
Life expectancy at birth, years[b]	75.1
Total GHG Emissions (mtCO2e)	9.1

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

Due to the twin shocks of the pandemic and the conflict with Azerbaijan, Armenia's economy contracted sharply in 2020, which inflicted a significant welfare loss. The economic recovery in 2021 has been faster than anticipated, and the economy is likely to return to pre-COVID output levels by mid-2022. The slow pace of vaccinations, rising COVID-19 cases, and geopolitical fragility present important risks to the outlook.

Key conditions and challenges

Armenia's economy expanded rapidly between 2017 and 2019, with an annual GDP growth rate averaging 6.8 percent. An effective fiscal rule, an active inflation-targeting regime, and sound financial-sector oversight helped establish a track record of macroeconomic stability. The business environment gradually improved, with gains in market liberalization and pro-competition reform following the political realignment of 2018.

However, in 2020 the twin shocks of the pandemic and the military confrontation with Azerbaijan derailed the economy. GDP fell by 7.4 percent, one of the sharpest contractions in the region, and poverty rates rose sharply, especially in urban areas.

Emergency spending packages and limited tax breaks provided as part of the fiscal response to the pandemic, coupled with declining revenues, pushed public debt to 67 percent of GDP in 2020. However, the debt composition remains favorable. The current-account deficit narrowed in 2020, while increased borrowing kept reserves adequate. The banking sector is well capitalized, albeit with low profitability, though the impact of the 2020 shocks may yet unfold.

The 2020 conflict was followed by a period of heightened political uncertainty, but snap elections held in June 2021 have helped stabilize the situation. A tense geopolitical context, combined with unaddressed structural issues, continues to prevent the country from reaching its full potential.

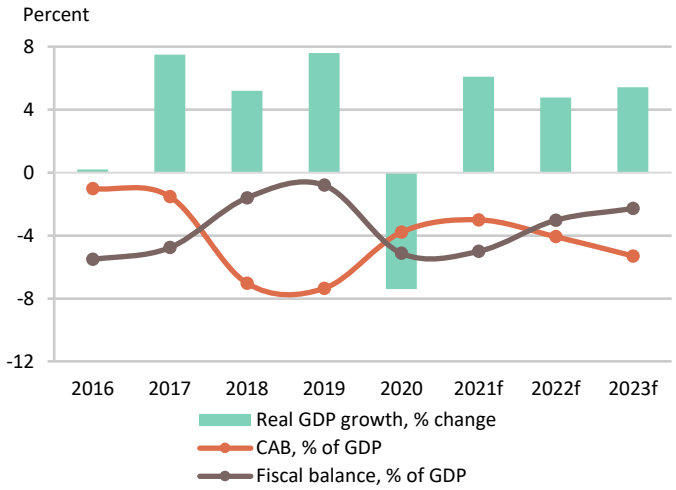
Recent developments

The economy expanded by 4.9 percent, year-on-year (y/y) in the first half (H1) of 2021, faster than anticipated, reflecting also the base effect of a contraction in H1 2020. Services led the recovery, benefiting from limited pandemic-related restrictions in 2021, while agricultural and industrial growth were more modest. Rebounding private consumption supported by greater mobility, recovering employment rates, and increased investment drove growth on the demand side. The unemployment rate fell by 2.7 percentage points y/y in the first quarter of 2021, albeit from a historically high base of around 20 percent.

Inflation has picked up to 8.8 percent y/y in August, its highest level since 2013 and well above the 5.5 percent upper bound of the Central Bank of Armenia's (CBA) inflation target range. High international food and energy prices and the pass-through effect of a more volatile exchange rate intensified inflationary pressures. In response, the CBA increased the policy rate by 300 basis points since end-2020 to 7.25 percent in mid-September 2021.

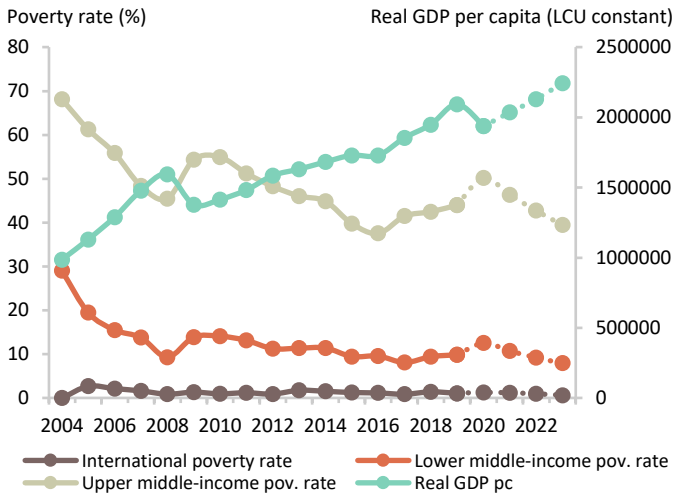
Fiscal revenues exceeded budgeted levels by 13 percent in H1 2021, as growth exceeded expectation, while expenditures were executed almost as planned. The budget deficit narrowed to 1.1 percent of

FIGURE 1 **Armenia** / GDP growth, fiscal and current account balances



Sources: Statistical Committee of the Republic of Armenia, Central Bank of Armenia and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

projected annual GDP in H1 2021, below the 2.6 percent deficit anticipated in the original budget.

The current-account balance continued to improve in H1 2021, y/y. Exports of goods recovered faster than imports in nominal terms (up 23 and 8 percent, respectively), as rising global copper prices added to the slow growth of export volumes. Rising tourist arrivals and the recovery of remittances improved the services and income balances, while FDI inflows expanded from a low base in 2020. An improving current-account balance and the issuance of a US$750 million Eurobond in February 2021 boosted international reserves to seven months of import coverage. Political uncertainty increased pressure on the Armenian dram in early 2021, but the exchange rate has stabilized since July.

After declining from March to July of 2021, daily COVID-19 infections have begun rising again, though as of mid- September reported infections remained below last two peak levels. The pace of vaccinations has been slow, hindered by vaccine hesitancy, and only 6.6 percent of the adult population was fully vaccinated by September 26th.

Outlook

Following a faster-than-expected recovery in H1, the projected GDP growth rate for 2021 has been revised to 6.1 percent, up from 3.4 percent in April 2021. In the absence of renewed lockdowns or serious domestic or regional instability, the economy is expected to return to pre-COVID output levels by mid-2022.

Private consumption will continue to drive the recovery as rising employment rates, wage levels, and remittance inflows bolster household incomes. Private investment growth is expected to accelerate, while fiscal consolidation may slow the growth of public investment. The government's medium-term expenditure framework anticipates a narrowing of the deficit from 5.1 percent of GDP in 2020 to around 2 percent in 2023, contributing to a decline in the public debt-to-GDP ratio from 67.4 percent at end-2020 to 63.4 percent in 2023.

While output is projected to rebound rapidly, the more gradual recovery of the labor market will attenuate the impact of renewed growth on poverty and inequality. Increased generosity of support measures and improved program targeting could help minimize the long-term impact of the economic shocks of 2020 on economic opportunity, household vulnerability, and gender parity.

The average inflation rate is forecast to remain above the CBA's target band in 2021, but it should converge with the 4 percent target in the medium term as monetary policy anchors inflationary expectations. Elevated inflation rates will adversely affect distributional equity and household welfare.

The current-account deficit is projected to narrow in 2021 and then widen over the medium term as imports fully recover. FDI inflows are expected to increase but will remain low.

Risks to the outlook are balanced. The key downside risks are limited progress in COVID-19 vaccinations, rising COVID-19 cases, geopolitical tensions, and a delayed recovery among major trading partners. On the upside, greater political certainty may enable renewed progress on the implementation of structural reforms while accelerating public investment.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.2	7.6	-7.4	6.1	4.8	5.4
Private Consumption	4.9	11.5	-13.8	6.0	5.9	6.4
Government Consumption	-3.0	12.9	15.2	4.1	-3.9	2.7
Gross Fixed Capital Investment	4.8	4.4	-8.6	6.2	8.1	8.2
Exports, Goods and Services	5.0	16.0	-32.4	6.5	10.2	12.5
Imports, Goods and Services	13.3	11.6	-31.7	5.6	9.5	12.8
Real GDP growth, at constant factor prices	4.9	7.7	-7.1	6.1	4.8	5.4
Agriculture	-6.9	-5.8	-4.1	6.4	4.0	3.9
Industry	3.7	10.5	-3.0	3.5	4.1	5.1
Services	9.0	9.7	-9.8	7.4	5.3	5.9
Inflation (Consumer Price Index)	2.5	1.4	1.2	6.3	4.2	4.0
Current Account Balance (% of GDP)	-7.0	-7.4	-3.8	-3.0	-4.1	-5.3
Net Foreign Direct Investment (% of GDP)	2.1	1.7	0.6	1.7	2.3	2.6
Fiscal Balance (% of GDP)	-1.6	-0.8	-5.1	-5.0	-3.0	-2.3
Debt (% of GDP)	55.7	53.7	67.4	66.9	65.8	63.4
Primary Balance (% of GDP)	0.7	1.6	-2.4	-2.5	-1.1	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b,c]	1.4	1.1	1.3	1.2	1.0	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b,]	9.4	9.8	12.5	10.7	9.2	7.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b,]	42.5	44.0	50.2	46.4	42.8	39.5
GHG emissions growth (mtCO2e)	0.8	5.1	-7.6	5.3	4.5	4.8
Energy related GHG emissions (% of total)	59.7	61.1	60.2	60.9	61.3	62.0

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

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

(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

(c) The poverty rates for 2019 are not strictly comparable with 2018 due to revisions on the ILCS starting in 2019.

AZERBAIJAN

Table 1	2020
Population, million	10.1
GDP, current US$ billion	42.6
GDP per capita, current US$	4217.8
School enrollment, primary (% gross)[a]	97.9
Life expectancy at birth, years[a]	73.0
Total GHG Emissions (mtCO2e)	73.2

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

After contracting in 2020, Azerbaijan's economy has rebounded strongly in 2021, with recovery in the nonoil/gas sectors combined with rising hydrocarbon production and prices. While the pandemic's evolution remains uncertain, solid progress on vaccinations and significant financial buffers are expected to help the economy reach pre-pandemic levels by end-2021, and support households to recover from the crisis. Structural weaknesses need to be addressed to sustain future growth.

Key conditions and challenges

Azerbaijan is an upper-middle-income country in the South Caucasus. Its over-reliance on hydrocarbon products as a major source of export and fiscal revenues remains its major vulnerability, especially given the declining oil production, the perpetual volatility of commodities markets, and the global transition away from fossil fuels.

Azerbaijan was hit hard by the COVID-19 pandemic, but substantial reserve buffers and low public debt levels have helped the country weather the ensuing economic crisis. Nevertheless, the pandemic has adversely impacted employment, wages, and poverty rates.

Over the medium and longer term, underlying structural weaknesses including an undiversified asset mix, heavy state economic footprint, institutional rigidities, an uneven private sector playing field, stagnating human capital indicators, and weak financial markets threaten Azerbaijan's continued growth. In 2021, the government presented its 2030 national development vision which aspires to address the country's structural challenges.

Regional geopolitical tensions eased following the signing of a ceasefire agreement between Azerbaijan and Armenia in November 2020. Although the security situation remains fragile, reconstruction efforts are underway, and the authorities approved a program to rebuild damaged infrastructure and restart socioeconomic development in the conflict-afflicted areas.

Recent developments

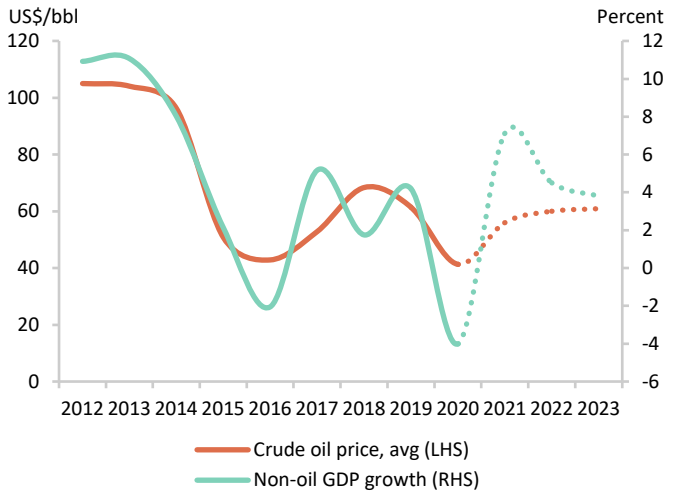
The COVID-19 pandemic continues to affect Azerbaijan. In the spring, the government's mitigation efforts shifted from strict mobility restrictions to vaccinations, and by mid-September about 63 percent of the adult population had received at least one vaccine dose. The authorities also began requiring COVID-19 passports to enter public spaces starting on September 1st.

Economic conditions improved after the lockdown was lifted in May and OPEC+ started gradually relaxing its oil-production quotas, and the overall economic growth rate reached 3.6 percent, year on year (y/y), in the first eight months of 2021. The nonoil/gas sector led the recovery, expanding by 5.7 percent over the period.

On the demand side, public and private investment remained weak, contracting by 10.1 percent y/y during January-August 2021, while the release of pent-up consumer demand coupled with counter-cyclical fiscal spending supported consumption growth. Net exports also increased significantly, as high global energy prices, recovering oil production, and expanding gas production more than offset a rise in imports.

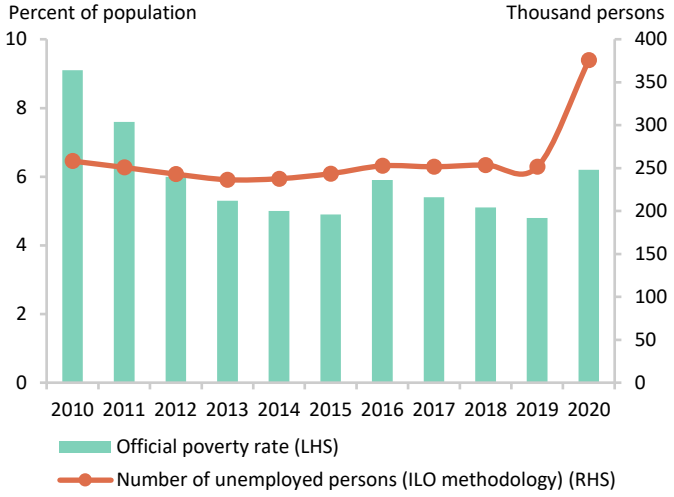
Rebounding domestic demand, rising global commodity prices, and increased administrative prices boosted consumer price inflation to 4.8 percent y/y in the first

FIGURE 1 **Azerbaijan** / Nonoil GDP growth and oil price



Sources: State Statistical Committee of Azerbaijan and World Bank staff estimates.

FIGURE 2 **Azerbaijan** / Official poverty rate and unemployment



Source: State Statistical Committee of Azerbaijan.
Note: The World Bank has not reviewed the official poverty rates for 2013–20.

eight months of 2021, prompting an increase in the policy rate.

Favorable terms of trade pushed the current-account balance from a 0.5 percent of GDP deficit at end-2020 to an 8 percent surplus in the first half of 2021. While financial-account outflows continued, CBA reserves were stable at US$6.5 billion, and the assets of the State Oil Fund (SOFAZ) rose by 2 percent y/y to US$44.1 billion (104 percent of GDP) in the first half of 2021. Easing currency pressure since March 2020 helped the CBA maintain the exchange rate at 1.7 Azerbaijani manat per U.S. dollar.

The consolidated budget balance posted a surplus of 7.1 percent of GDP in the first seven months of 2021, as the economic recovery increased fiscal revenue, while some crisis-response measures expired and budget execution slowed.

According to official data, the pandemic contributed to a sharp rise in unemployment, and between March 2020 and March 2021, the number of unemployed workers increased by 115,200. The official poverty rate also increased from 4.8 percent in 2019 to 6.2 percent in 2020, indicating that the government's response effort did not fully counter the pandemic's impact on poverty.

Outlook

The GDP growth rate is projected to rise to 5.0 percent in 2021, reflecting a strong recovery in both the energy and nonenergy sectors. This forecast assumes that the pandemic will remain controlled, and vaccination will continue at its current pace. Nonoil/gas GDP growth is projected to reach 7.1 percent in 2021, due to a low base effect, rebounding service-sector activity and robust growth in agriculture and nonenergy manufacturing. Output is expected to reach pre-pandemic levels by end-2021.

The annual GDP growth rate is projected to moderate to an average of 2.9 percent during 2022-23. The nonenergy sectors are expected to drive growth, supported by rising public investment, including post-conflict reconstruction. Energy-sector growth is projected to stabilize in line with predetermined OPEC+ quotas and anticipated expansion of natural gas production by end-2023, which will also increase energy-related greenhouse gas emissions and slow overall decline in emissions.

Following a marked rebound in 2021, consumption growth is expected to slow over the medium term amid declining fiscal spending. Investment is forecast to remain subdued amid lingering COVID-19 related uncertainty and persistent structural weaknesses.

Rapid increase in prices for imported food and nonfood items and recovering domestic demand is projected to boost inflation to 5.5 percent in 2021, close to the upper bound of the CBA target range. External inflationary pressures are expected to remain elevated in 2022 and moderate thereafter.

A significant external-account surplus is projected to persist through 2023, supported by elevated hydrocarbon prices and rising natural gas exports. Imports are estimated to increase gradually as demand recovers.

The fiscal balance is forecast to remain in surplus until end-2021 and to average 4.6 percent of GDP over the medium term, supported by favorable energy prices, increased revenue collection due to resurgent economic activity, and stable spending anchored by a new fiscal rule targeting the nonoil/gas primary balance that is expected to take effect in 2022.

TABLE 2 Azerbaijan / 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	1.5	2.5	-4.3	5.0	3.1	2.7
Private Consumption	3.0	4.2	-5.1	5.0	4.7	4.3
Government Consumption	1.5	7.9	4.8	4.8	4.4	3.0
Gross Fixed Capital Investment	-0.2	-2.4	-7.1	-5.0	2.5	1.0
Exports, Goods and Services	1.0	1.5	-8.1	5.6	1.8	1.9
Imports, Goods and Services	1.5	2.2	-10.5	2.5	2.7	2.8
Real GDP growth, at constant factor prices	1.5	2.5	-4.4	5.0	3.1	2.7
Agriculture	4.6	7.3	1.9	4.5	3.2	3.2
Industry	-0.7	0.4	-5.2	2.7	1.1	1.1
Services	5.1	5.1	-4.4	9.0	6.2	5.0
Inflation (Consumer Price Index)	2.3	2.7	2.8	5.5	4.5	4.1
Current Account Balance (% of GDP)	12.8	9.1	-0.5	6.9	6.4	4.5
Net Foreign Direct Investment (% of GDP)	-1.7	-2.9	-1.5	-0.5	-0.6	-0.6
Fiscal Balance (% of GDP)	5.6	9.0	-6.5	5.0	4.3	4.4
Debt (% of GDP)	18.9	18.8	18.4	17.6	17.9	17.5
Primary Balance (% of GDP)	6.8	9.7	-5.7	5.7	4.8	4.8
GHG emissions growth (mtCO2e)	-0.3	-1.6	-5.1	0.0	-0.7	-0.8
Energy related GHG emissions (% of total)	39.9	41.1	41.1	42.8	43.9	45.0

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

BELARUS

Table 1	2020
Population, million	9.4
GDP, current US$ billion	61.6
GDP per capita, current US$	6553.2
Lower middle-income poverty rate ($3.2)[a]	0.0
Upper middle-income poverty rate ($5.5)[a]	0.2
Gini index[a]	25.3
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	74.2
Total GHG Emissions (mtCO2e)	68.8

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

During the first half of 2021, the surge in commodity prices and boost in external demand helped to offset weaknesses in domestic consumption and investment, while rising deficit spending provided additional support to growth. The outlook for 2021-2023 is shaped by the impact of EU sectoral economic sanctions, while the scope for fiscal stimulus is determined by available financing options. Poverty rates have declined as real incomes continued to rise, but further improvements of household welfare depend on medium-term growth.

Key conditions and challenges

External factors continue to shape Belarus's growth trajectory, as the drastic improvement in external demand and commodity price surge of 2021 helped to temporarily overcome the 2020 pandemic-induced recession. Domestically, GDP growth has been supported by the absence of broad-based lockdown measures, coupled with subsidized lending in 2020 (at about 1.6 percent of GDP) and fiscal spending at a cost of a widening deficit in 2021. Going forward, the room for fiscal stimulus will largely depend on refinancing opportunities due to sizeable public debt payments (US$2.4 bn in 2022 and US$3.3 bn in 2023). Issuing bonds in the Russian markets is one of the options, as access to the EU financial markets is restricted by sanctions.

The major challenge is to adjust to sectoral economic sanctions targeting Belarus's commodity exports. Manufacturing production chains could be affected, too, as the foreign producers of components might restrict their supplies, making Belarusian manufacturers search for second-best substitutes.

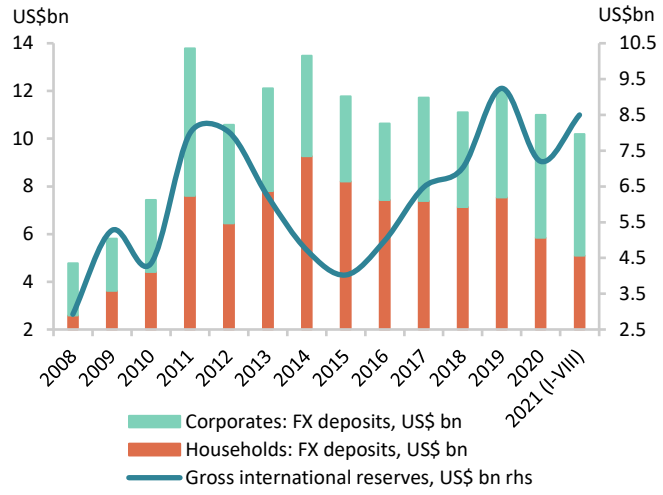
As structural economic deficiencies remain unaddressed, the medium-term recovery becomes dependent on the dynamics of the external environment. While enterprises remain cautiously optimistic, households display higher inflation expectations and continue to withdraw FX holdings from the banking system. In this context, reducing economic uncertainty and sending positive signals to economic agents are critical, along with maintaining prudent monetary and fiscal policies.

Recent developments

In January-June 2021, real GDP grew 3.3 percent y/y (vs. 1.8 percent decline in H1 2020) on the back of an exceptionally strong improvement in external demand and higher export prices. Over January-June 2021, merchandise trade revenues grew by 37.6 percent y/y in nominal US$ terms helping to narrow the goods trade deficit. This was offset by services export growth (by 17.6 percent y/y), especially of transportation and ICT, which contributed to a goods and services surplus and a stable BYN/US$ nominal exchange rate. Stronger exports led the 70.1 percent y/y increase in revenues from foreign trade taxes, while indirect tax revenues, such as VAT and excises, have also held up due to higher intermediate and consumption imports and increased VAT rates for selected goods. However, general government spending (28.1 percent of GDP) exceeded revenues (27.1 percent), resulting in a fiscal deficit of 1.4 percent of GDP.

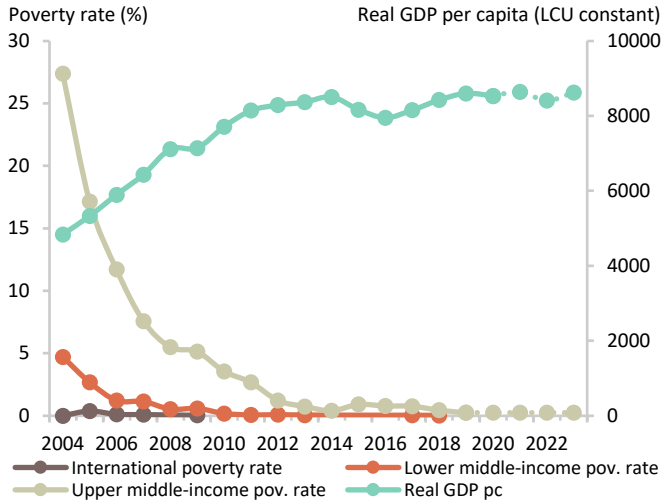
The National Bank kept money supply under control, with annual average broad money volume growth remaining below the annual nominal target of 7-10 percent. Nevertheless, since Q2 2021, consumer price inflation accelerated to

FIGURE 1 Belarus / FX Reserves and FX holdings



Source: National Bank.

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



Source: World Bank. Notes: see Table 2.

9.9 percent y/y in June 2021, double the annual target, due to an increase in administratively regulated prices, imposition of VAT for selected medicines, and imported inflation.

An outflow of household foreign currency deposits, which started in July 2020, continued during the first half of 2021. By July 1, 2021, the total volume of deposits shrank by 10 percent y/y, driven mainly by the reduction of household deposits (27 percent y/y), being partially offset by increased foreign currency holding by corporates (18 percent y/y). External public debt repayment pressures have been alleviated by refinancing from Russia and spending of reserves, which decreased by US$528.5 million over January-March 2021. Gross foreign reserves have since partially recovered by US$469.3 million in April-June and then boosted by the IMF SDR allocation in August, reaching US$8.5 bn, which is equivalent to 2.5 months of goods and services imports.

Outlook

While the surge in commodity prices and boost in external demand helped to offset weaknesses in domestic consumption and investment, the pace of recovery remains weak. A solid 32.7 percent increase in goods and services exports y/y in January-June 2021 follows the 14 percent decline during the same period of 2020. Measured against the first half of 2019, export volumes were just 10 percent higher. Under these circumstances, once the base effects due to the recession in 2020 have passed and sectoral sanctions will gradually take a toll, year on year growth is likely to stall in the second half of 2021, leaving full-year real GDP growth to reach 1.2 percent y/y.

As sectoral sanctions introduced by the EU are expected to hit commodity export revenues harder in 2022, real GDP is projected to decline by 2.8 percent y/y. While the impact on the current account would be cushioned by reduced imports, the restrictions introduced on access to the EU financial markets could negatively affect the financial account. Also, sanctions are likely to increase transaction costs not only for exporters, but also for companies operating in the domestic market.

Continued household welfare growth will depend on the extent to which economic growth can be maintained in a challenging external environment with constrained fiscal space.

TABLE 2 Belarus / 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	3.1	1.4	-0.9	1.2	-2.8	2.3
Private Consumption	7.9	5.1	-1.4	-1.0	-1.8	2.1
Government Consumption	-0.4	0.4	-1.1	-0.4	-0.8	1.1
Gross Fixed Capital Investment	4.4	6.2	-6.8	-2.8	-9.8	1.6
Exports, Goods and Services	3.8	1.0	-3.2	3.6	-3.7	4.2
Imports, Goods and Services	7.3	5.2	-7.9	7.4	-5.3	3.6
Real GDP growth, at constant factor prices	3.2	1.5	-0.9	1.2	-2.8	2.3
Agriculture	-3.4	3.0	4.9	-4.8	2.3	1.2
Industry	5.2	1.4	-0.7	5.7	-4.2	3.4
Services	2.9	1.3	-2.0	-1.1	-2.5	1.6
Inflation (Consumer Price Index)	4.9	4.7	7.4	10.5	7.1	5.7
Current Account Balance (% of GDP)	0.0	-1.8	-0.4	-0.9	-3.0	-2.6
Net Foreign Direct Investment (% of GDP)	2.4	2.0	1.0	1.0	1.0	1.0
Fiscal Balance (% of GDP)	4.0	2.5	-1.7	-2.9	-1.9	-1.4
Debt (% of GDP)	42.5	37.5	41.1	45.8	48.8	49.9
Primary Balance (% of GDP)	5.9	4.3	0.0	-0.9	0.3	0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	0.4	0.2	0.2	0.2	0.2	0.2

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

(a) Calculations based on ECAPOV harmonization, using 2019-HHS.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.

BOSNIA AND HERZEGOVINA

Table 1	2020
Population, million	3.3
GDP, current US$ billion	19.6
GDP per capita, current US$	5939.4
Life expectancy at birth, years[a]	77.4
Total GHG Emissions (mtCO2e)	23.9

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

Real GDP is expected to expand 4 percent in 2021 after contracting 3.2 percent last year, while headline inflation is set to remain below 1 percent. After the rebound following the COVID-19 crisis, growth should stabilize around 3 percent over the medium-term. Addressing the political deadlock would allow the implementation of delayed structural reforms that are also part of EU accession priorities. The latter would help address persistent high unemployment, which worsened during the pandemic, and is key to reducing poverty.

Key conditions and challenges

BiH has signed the Stabilization and Association Agreement with the EU and is a potential EU candidate country. Macroeconomic stability was maintained over the last decade facilitated by the currency board peg to the euro, which, together with the EU membership prospects, remains a critical economic anchor. Despite real income growing roughly over 3 percent per annum since 2015, per capita GDP continues to hover around one-third of the EU27 average. This income gap is significantly larger compared to other peers in the Western Balkans. With continued low investment rates and an economy driven by private consumption, achieving a more pronounced convergence toward the EU27 average will be challenging. While a full recovery to the 2019 real income level is expected in 2021, BiH is unlikely to catch up with the pre-pandemic growth trajectory, unless political bottlenecks are resolved (Graph 1).

Fiscal surpluses ranged between 2 and 3 percent of GDP over the past six years prior to the pandemic, which in turn helped rein in the current account deficits averaging below 4 percent since 2015. The external shortfall was largely financed by net FDI inflows, mainly into the foreign-owned banking sector, which remained stable during the pandemic.

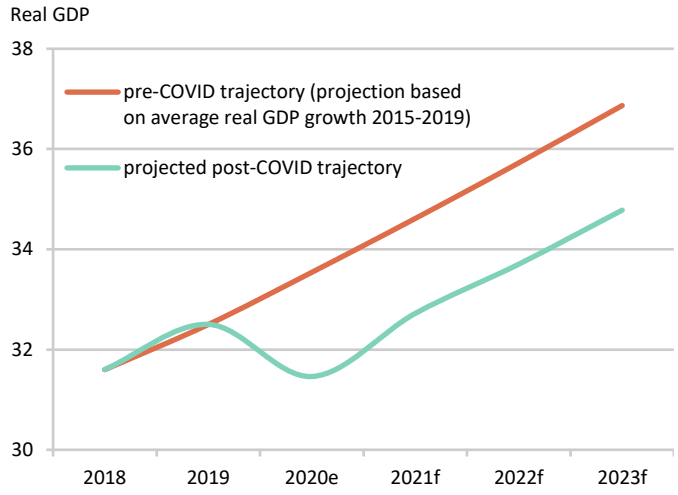
Steady, albeit low, economic growth has not translated into more and better jobs, with a large share of the workforce active in the informal sector. Hence, poverty rates do not seem to have improved, according to the latest official data from 2015.

Implementation of much needed structural reforms is sluggish due to political deadlock, pressures from frequent elections, corruption that pervades all levels of society, and a complex governing structure characterized by fragmentation of responsibilities between the two entities and Cantons. The pandemic has further highlighted shortages in institutional effectiveness resulting in the slow release of fiscal support to households and businesses, which has weighed on economic activity.

Recent developments

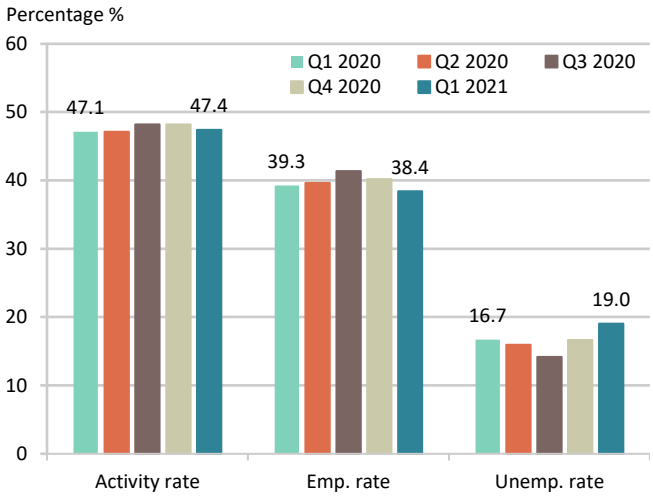
Real GDP contracted 3.2 percent in 2020, much less than previous official estimates of 4.3 percent suggested as manufacturing, wholesale and retail trade declined less than initially estimated. Moreover, driven by a surge in exports and robust private consumption, real GDP growth turned positive in the first quarter of 2021 (year-on-year) at an estimated rate of 1.5 percent. An acceleration in manufacturing translated into a surge in exports to neighboring CEFTA countries, whereas the increase in private consumption resulted from pent-up demand as well as higher lending to households, and the impact of delivery apps connecting consumers to goods. Stronger household and government consumption have driven inflation to 0.4 percent during the period

FIGURE 1 Bosnia and Herzegovina / Real income, in bill KM



Sources: BiH Agency for Statistics (BHAS), World Bank staff estimates.

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2020-2021



Sources: LFS 2020 - 2021 report, World Bank staff calculations.

January-July in 2021 compared to the same period last year, which followed about twelve months of deflationary pressures that started in April 2020.

The pandemic caused significant damage to the labor market. As Covid-19 cases remained high and some restrictions continued, the employment rate (15+) decreased to about 38 percent in the first quarter of 2021, while the unemployment rate (15+) increased to 19 percent. (Graph 2). Meanwhile, a slump in tax revenues and higher spending led to an estimated fiscal deficit of 1.8 percent of GDP in 2020, after a surplus of 1.8 percent of GDP in 2019. Higher public wages, and additional spending on goods and services as well as social benefits were aimed at countering the effects of the pandemic.

The sharp rise in exports narrowed significantly the traditionally large merchandise deficit, and as a result the current account deficit declined to 1.2 percent of GDP in the first quarter of 2021 compared to a 3.2 percent deficit during the same period last year. In 2020, the external shortfall improved marginally to 3.3 percent of GDP due to a larger drop in merchandise imports than exports as investments and household consumption fell. The resulting loss of jobs and earnings due to Covid-19, especially in the informal economy, have negatively affected household welfare in 2020.

Outlook

Real GDP is projected to grow 4 percent in 2021 and decelerate to around 3 percent over the medium term. The rebound will in part depend on how successful the authorities are in accelerating the share of the vaccinated adult population, which currently stands at 27.2 percent. As the impact of the pandemic subsides, the Socio-Economic Program, fulfilling priorities for EU accession, is expected to gain needed attention. Announced investments in energy and infrastructure are envisaged to lead the recovery phase together with a further pick up in private consumption fueled by remittances, tightening labor market, and domestic lending. Safeguarding the banking sector remains key as the full impact of loan repayment moratoria is yet to be assessed. Despite stronger private consumption, external balances are set to improve on the back of robust growth in exports. While revenues are set to recover gradually, the fiscal deficit is expected to return to surplus only in 2023. The planned investment push in energy, infrastructure, and tourism should support job creation after the crisis. With limited access to international markets, the authorities will continue relying on support from IFI.

As the economy recovers in 2021, improvements in labor market participation and employment will remain key for growth to translate into poverty reduction. Finally, addressing bottlenecks causing persistent long-term unemployment and EU accession priorities remain important challenges on the country's development path and road to EU membership.

Two main risks dominate the outlook: first, a prolonged adverse impact of the pandemic domestically and abroad could translate into slower growth rates over the medium term and the corresponding deterioration of jobs and household incomes; and second, the political deadlock could adversely affect the implementation of the adopted socio-economic program needed to address the development challenges.

TABLE 2 Bosnia and Herzegovina / 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	3.3	-3.2	4.0	3.0	3.2
Private Consumption	2.4	2.8	-4.5	4.5	3.0	3.2
Government Consumption	0.9	2.6	0.5	6.1	3.0	3.0
Gross Fixed Capital Investment	6.8	5.1	-21.0	-16.4	-4.9	7.2
Exports, Goods and Services	5.9	-0.3	-8.5	28.0	9.0	7.0
Imports, Goods and Services	3.2	0.2	-13.4	17.0	6.0	7.0
Real GDP growth, at constant factor prices	3.7	2.8	-3.2	4.0	3.0	3.2
Agriculture	9.1	2.9	-1.5	3.4	3.0	2.9
Industry	3.8	1.9	-3.0	2.0	2.6	3.2
Services	3.2	3.1	-3.5	4.9	3.2	3.2
Inflation (Consumer Price Index)	1.4	1.2	-0.5	0.7	0.7	0.8
Current Account Balance (% of GDP)	-3.7	-3.1	-3.3	-2.0	-0.6	-1.2
Net Foreign Direct Investment (% of GDP)	2.2	2.9	2.0	3.4	3.6	3.4
Fiscal Balance (% of GDP)	2.5	1.9	-1.8	-3.1	-0.9	0.4
Debt (% of GDP)	36.4	34.4	40.1	38.9	38.4	38.0
Primary Balance (% of GDP)	3.8	2.8	-0.5	-1.8	0.0	1.3
GHG emissions growth (mtCO2e)	-1.0	-1.0	-5.1	4.0	2.8	3.0
Energy related GHG emissions (% of total)	87.6	87.2	87.1	87.0	86.9	86.8

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

BULGARIA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	67.9
GDP per capita, current US$	9840.6
International poverty rate ($1.9)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	2.2
Upper middle-income poverty rate ($5.5)[a]	6.9
Gini index[a]	41.3
School enrollment, primary (% gross)[b]	87.4
Life expectancy at birth, years[b]	74.9
Total GHG Emissions (mtCO2e)	13.0

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

Bulgaria has embarked on a stronger-than-expected recovery, with growth projected at 3.7 percent in 2021. Yet, despite robust budget revenues, fiscal consolidation is likely to be postponed to 2022 due to continuation of support measures. Going forward, an ongoing political crisis suggests reform slack and slim chances of tapping EU Resilience and Recovery Facility before 2022. Also, slow inoculation rates imply that pandemic-related risks will remain high. In line with labor market improvements, poverty is expected to fall in 2021-2022.

Key conditions and challenges

Bulgaria remains the poorest and the most unequal country in the EU. Yet, as a result of the relatively milder impact of the pandemic on its economy in 2020, real incomes continued to converge to the EU average, reaching 55 percent of the average GDP per capita in PPP terms. Nevertheless, poverty kept edging up, reaching 23.8 percent in 2019 using the at-risk-of-poverty concept, with the trend expected to persist in 2020 due to the impact of COVID-19. This, together with Bulgaria historically registering the highest rates of inequality in the EU (40 percent) point to limited redistribution and ineffective social policies. Amidst rapid aging and population decline, convergence to the EU core can speed up only if the productivity gap shrinks markedly, while governance and institutional weaknesses are addressed decisively. Since late 2020, however, the country has been in a political crisis and has been unable to form a regular government despite two rounds of early elections. Although the caretaker government has taken steps to combat corruption and address some long-standing governance issues, deeper structural reforms will require a regular government with a parliamentary majority.

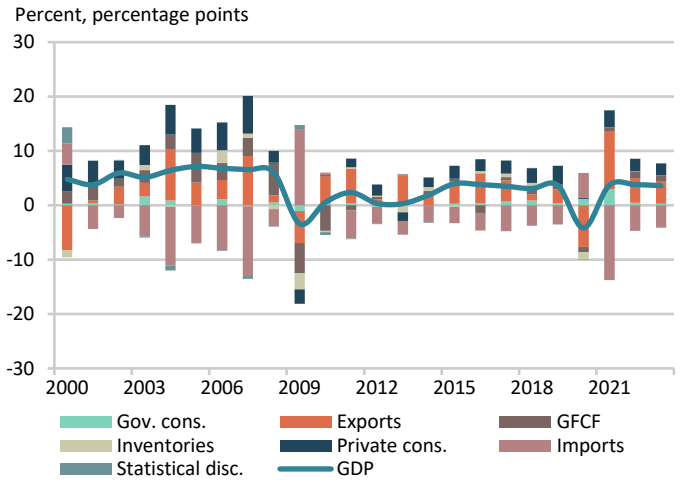
The pandemic has aggravated weaknesses in a number of public domains - with the most pronounced being in health care and education - and resulted in a moderate deterioration in the fiscal stance. Going forward, the authorities would need to engage in fiscal consolidation, including the challenging withdrawal of support measures, as soon as the recovery gains momentum. The planned conversion of some temporary social measures, such as pension supplements, into permanent support indicates the difficulty in unwinding anti-crisis measures. Over the longer run, the country's key development challenges remain its weak productivity, wide inequalities of income and opportunities, state capture by private interests, and a costly transition out of carbon dependency.

Recent developments

Following a contraction of 4.2 percent in 2020, economic recovery gained momentum in Q2/2021 with GDP growth going into positive territory at 9.6% yoy. The key growth drivers included a 20.3 percent rise in exports and a notable increase in domestic demand and investment growth. As imports have been recovering at a faster pace than export, the CA balance moved in the red in H1 and is likely to stay there in the medium run, shrinking to -3.4 percent of GDP in 2023.

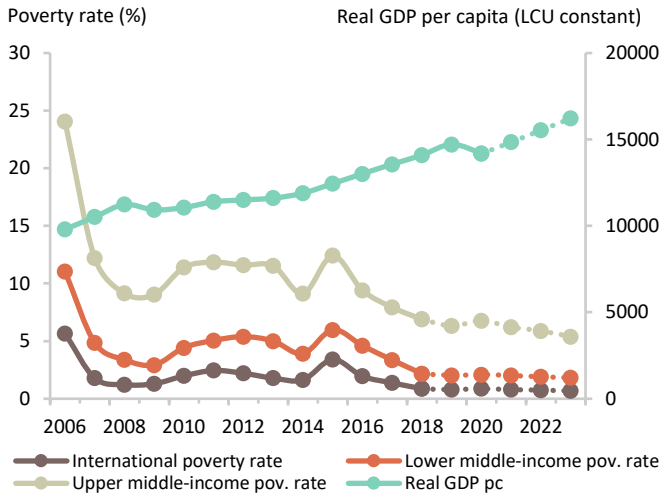
Inflation edged up to 3.0 percent yoy in July, due primarily to the fuel price spike. Yet, household incomes have been growing faster in H1 – by 7.7 percent yoy, due mostly to a significant increase in pension income. This suggests a real increase of incomes this year, which will become more pronounced going forward, because

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



Sources: World Bank, Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see Table 2.

of base effects. The labor market showed first signs of improvement only in Q2/2021 when unemployment declined to 5.6 percent. The banking sector remains stable with non-performing loans at 6.7 percent as of end-June 2021 against 8.1 percent a year ago.

The fiscal stance loosened notably in 2020 due to the economic downturn and the government's support measures. The deficit reached 3 percent of GDP in 2020 and is projected to widen further in 2021.

Poverty is anticipated to decline from 6.8 percent in 2020 to 6.2 percent in 2021 using the upper middle income US$5.50 PPP poverty line. The decline is largely attributable to improvement in household finances stemming from a rebound in the labor market, as evidenced by fewer reports of work stoppages, reduced hours and income, as well as continued government support in the form of wage subsidies and pension supplements. Despite improvements, poorer households continue to report higher levels of economic distress as the longevity of the crisis strains already limited economic resources.

Outlook

Economic growth is expected to rebound to 3.7 percent in 2021 but recovery to pre-crisis levels is likely to happen in 2022. In the short term, the biggest risk to the outlook is the slow pace of COVID vaccination – the slowest in the EU to date. With some 20 percent of the adult population vaccinated with at least one dose (and 18 percent fully vaccinated) as of mid-Aug compared with 75% with at least one dose in the EU, Bulgaria faces high risk of another peak of infections in early autumn, which may end up in new restrictions depending on the capacity of hospitals to handle the new wave.

Potential restrictions would also weigh heavily on an already stretched budget and may lead to further overshooting of the deficit above 4 percent of GDP. Even if budget revenues in 2021 are expected to exceed the plan due to improved economic growth forecasts for the year, some temporary anti-crisis policies are likely to be converted in permanent spending measures, putting off fiscal consolidation. Current government plans foresee that absorption of the Recovery and Resilience Facility (RRF) envelope for Bulgaria will start in 2021, boosting budget revenue by 1.3 percent of GDP. Yet, as the national RRF plan has not yet been approved, this scenario seems increasingly unlikely.

Another key risk in the short term is political instability. The country is heading towards another round of early elections in the autumn following snap elections in April and July 2021, which failed to produce a ruling majority.

Poverty is projected to decline further in 2022 to 5.9% as Bulgaria continues its economic recovery. However, this could be tempered by the slow pace of vaccination, restrained consumer spending in anticipation of worsening finances and the unwinding of government support.

TABLE 2 Bulgaria / 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	3.1	3.7	-4.2	3.7	3.8	3.6
Private Consumption	4.4	5.5	0.2	4.7	3.4	3.2
Government Consumption	5.4	2.0	7.5	16.7	2.3	1.5
Gross Fixed Capital Investment	5.4	4.5	-5.1	4.3	6.3	5.5
Exports, Goods and Services	1.7	3.9	-11.3	16.8	6.4	5.8
Imports, Goods and Services	5.7	5.2	-6.6	20.5	6.0	5.1
Real GDP growth, at constant factor prices	3.5	3.3	-4.3	3.7	3.8	3.6
Agriculture	-2.0	4.1	-5.3	3.4	1.0	0.5
Industry	-1.1	-0.5	-4.6	4.5	4.0	3.9
Services	5.8	4.6	-4.1	3.4	3.9	3.7
Inflation (Consumer Price Index)	2.8	3.1	1.7	3.2	3.3	3.4
Current Account Balance (% of GDP)	0.9	1.8	-0.7	-3.9	-3.7	-3.4
Net Foreign Direct Investment (% of GDP)	-1.3	-1.9	-3.2	-1.7	-1.8	-1.9
Fiscal Balance (% of GDP)	0.1	-1.0	-3.0	-3.5	-2.9	-2.2
Debt (% of GDP)	22.3	20.2	25.0	28.2	29.6	30.0
Primary Balance (% of GDP)	0.8	-0.4	-2.5	-3.2	-2.6	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	0.8	0.9	0.8	0.7	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.2	2.0	2.1	2.0	1.9	1.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	6.9	6.3	6.8	6.2	5.9	5.4

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

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

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

CROATIA

Table 1	2020
Population, million	4.0
GDP, current US$ billion	56.2
GDP per capita, current US$	14050.0
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	0.8
Upper middle-income poverty rate ($5.5)[a]	2.4
Gini index[a]	29.8
School enrollment, primary (% gross)[b]	94.6
Life expectancy at birth, years[b]	78.4
Total GHG Emissions (mtCO2e)	16.5

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

In the first half of 2021, Croatia's economy continued to recover from the deepest recession in the country's history. Abundant EU funds and an improved global outlook are expected to provide a strong boost to growth over the medium term, with output expanding by 7.6 percent in 2021. However, risks related to the pandemic remain and public debt is projected to remain elevated. The poverty rate is estimated to fall to 2.2 percent in 2021 and continue its downward trend.

Key conditions and challenges

Croatia has been hit hard by the COVID-19 pandemic in 2020 and has also suffered from two earthquakes. However, stronger than expected recovery is under way, reflecting robust foreign demand for domestic goods and services, particularly hospitality services, dynamic private investment and increased consumption supported by a strong labor market. The country is likely to return to its pre-crisis level of output in 2022. Nevertheless, at 64.1 percent of the EU27 GDP per capita in 2020 (in PPP), Croatia remains one of the least developed countries in the EU. Raising Croatia's economic growth over the medium term will crucially depend on the government's willingness and capacity to undertake structural reforms to boost productivity including the business environment, public administration, education system and judiciary. Against this backdrop, the EU structural and investment funds as well as the new facilities represent a unique opportunity for the country to accelerate income convergence with the rest of the EU. In July this year, European Commission (EC) endorsed Croatia's Recovery and Resilience Plan (NRRP) worth around 12 percent of 2019 GDP. Disbursement of EU grants from this facility is linked to the implementation of important reforms aimed at addressing the country's long-standing structural issues.

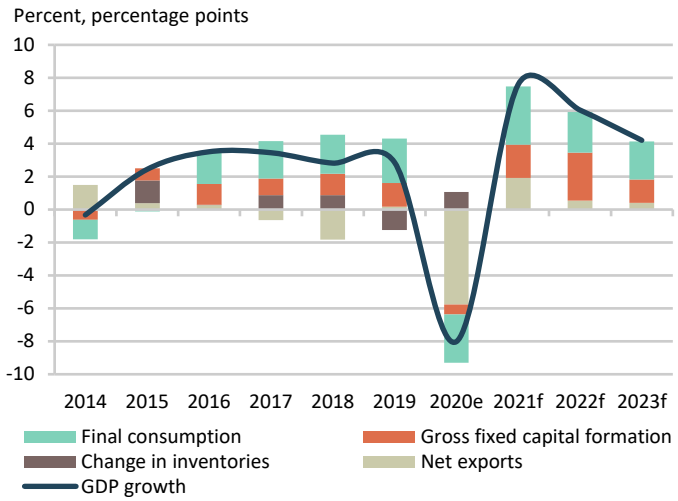
In addition, the economic outlook in the short run continues to depend on the course of the pandemic. While by the summer months the number of new cases had been strongly reduced partly due to social distancing restrictions, the reopening of the economy, inflow of foreign tourists and a still rather low share of fully vaccinated population could result in a surge in new infections by the yearend. This in turn could require further fiscal support, putting additional strain on public finances which are already stretched, if some social distancing measures were to be introduced.

Recent developments

Croatia's economy continued to recover in the first half of 2021, which together with a deep recession last year resulted in strong real annual GDP growth (7.5%) in this period. All components of aggregate demand positively contributed to recovery, reflecting less stringent social distancing restrictions, higher external demand, and improved labor market conditions. On the supply side, the services sector significantly strengthened albeit from a relatively low level, while manufacturing and construction, which already by the end of 2020 reached pre-crisis levels, continued to expand.

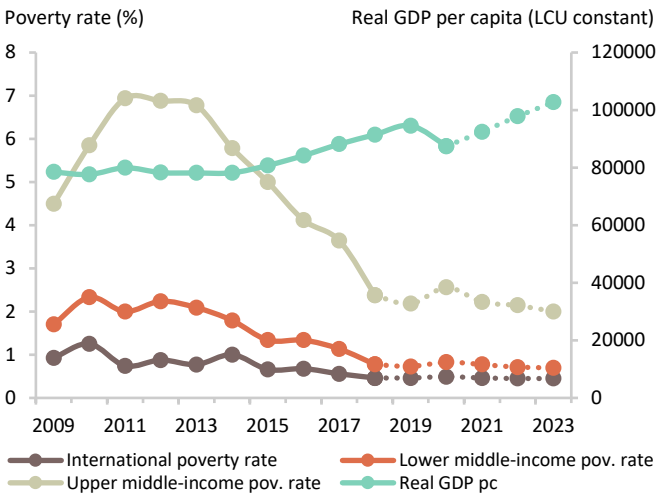
In line with improving economic conditions, employment increased compared to the first half of 2020, while the administrative unemployment rate declined to 7.5 percent in June 2021. At the same time,

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



Sources: CROSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

annual growth of nominal net wages accelerated, in part due to reduction of PIT from January 2021. However, rising inflation rate that has reached 2.8 percent in July 2021, has dampened the effects on real disposable income of households. The financial sector remains stable but risks to the real estate market need to be monitored.

The current account deficit remained broadly unchanged in the first quarter of 2021, compared to the same period last year (EUR 1.4bn).

On the fiscal front, in the first half of 2021, the budgetary central government deficit narrowed, following a strong increase in tax revenues, but remained elevated. Public debt at the end of May 2021 stood at 86.4 percent of GDP.

The recent Rapid Assessment Survey shows household income declines were less widespread than they were in the first wave of the pandemic as temporarily inactive workers returned to work and labor income partially recovered. As of June 2021, 19 percent of Croatian households reported a decline in income, marking a slight improvement from 2020. The share of the Croatian population living on less than $5.5 a day at 2011 revised PPP prices is estimated to have declined from 2.6 percent in 2020 to 2.2 percent in 2021.

Outlook

For the whole of 2021, Croatia is projected to achieve a robust economic rebound and real GDP is set to grow by 7.6 percent, after a fall of 8 percent in 2020. Under the assumption that a broadly favorable epidemiological situation continues in the future and social distancing measures remain relaxed, strong and broad-based growth is expected to continue over the 2022-2023 period with real GDP surpassing its pre-crisis level in 2022. Exports of goods and services are projected to provide the largest positive contribution to growth, following continued recovery of tourism and a favorable external outlook. Investments are also set to markedly increase which, however, depends upon the realization of an ambitious government investment program related to earthquake reconstruction and implementation of the NRRP. In such an environment, employment is projected to further increase while the unemployment rate is expected to fall below 6 percent. As a result, personal consumption will remain robust, increasing at an average rate of around 3.4 percent over the forecast horizon. Pick-up in inflation in 2021 is expected to be transitory as global supply bottlenecks and commodity price increases ease. The current account balance is projected to return to surplus (estimated at 2.4 percent of GDP in 2023), following improvements in the trade balance. The increase in tax revenues, following an increase in economic activity and discontinuation of the COVID-19 fiscal support measures, is projected to reduce the general deficit below 2 percent of GDP and bring public debt to below 77 percent of GDP by 2023.

Strong economic growth in 2021 is expected to reduce poverty to the pre-crisis level of 2.2 percent and decline further to 1.9 percent by 2023. However, the pandemic still disproportionately affects low-wage workers and women. Work stoppage compounded by a low rate of savings suggest a longer recovery process for these vulnerable population groups compared to others.

TABLE 2 Croatia / 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	2.8	2.9	-8.0	7.6	6.0	4.2
Private Consumption	3.3	3.5	-6.2	5.0	3.5	3.3
Government Consumption	2.3	3.4	3.4	2.5	2.3	2.3
Gross Fixed Capital Investment	6.5	7.1	-2.9	9.1	13.0	6.0
Exports, Goods and Services	3.7	6.8	-25.0	28.6	12.1	6.4
Imports, Goods and Services	7.5	6.3	-13.8	20.4	10.0	5.2
Real GDP growth, at constant factor prices	2.6	2.5	-6.3	7.6	6.0	4.2
Agriculture	6.2	1.2	3.7	4.5	3.5	3.5
Industry	1.4	2.3	-1.3	6.8	5.1	2.9
Services	2.8	2.7	-8.6	8.0	6.5	4.7
Inflation (Consumer Price Index)	1.5	0.8	0.2	2.3	1.5	1.7
Current Account Balance (% of GDP)	1.8	3.0	-0.4	1.6	2.0	2.4
Net Foreign Direct Investment (% of GDP)	1.6	6.3	1.6	1.6	1.6	1.6
Fiscal Balance (% of GDP)	0.2	0.3	-7.4	-3.4	-2.0	-1.6
Debt (% of GDP)	74.3	72.8	88.7	83.6	79.5	76.6
Primary Balance (% of GDP)	2.5	2.5	-5.4	-1.7	-0.5	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.5	0.4	0.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.8	0.7	0.8	0.7	0.7	0.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	2.4	2.2	2.6	2.2	2.0	1.9
GHG emissions growth (mtCO2e)	-4.4	-0.8	-8.6	7.3	5.8	4.3
Energy related GHG emissions (% of total)	87.2	86.9	86.1	87.0	87.1	87.0

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

(a) Calculations based on ECAPOV harmonization, using 2018-EU-SILC.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

GEORGIA

Table 1	2020
Population, million	3.7
GDP, current US$ billion	15.9
GDP per capita, current US$	4297.3
International poverty rate ($1.9)[a]	4.2
Lower middle-income poverty rate ($3.2)[a]	17.0
Upper middle-income poverty rate ($5.5)[a]	46.6
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	99.3
Life expectancy at birth, years[b]	73.8
Total GHG Emissions (mtCO2e)	15.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2020), 2011 PPPs.
(b) Most recent WDI value (2019).

The COVID-19 pandemic hit Georgia hard in 2020. While a robust recovery is underway, rising inflation and the persistence of the pandemic could exacerbate weak labor market outcomes. Supported by adequate macroeconomic policies and recovery among major trading partners, continued economic expansion should return poverty rates to pre-crisis levels by 2022. Key downside risks include slow progress on vaccinations, potential reintroduction of pandemic-related mobility restriction and renewed political tensions.

Key conditions and challenges

Georgia's economy expanded rapidly during the pre-COVID period, growing at a robust annual average rate of 5 percent from 2005 to 2019. Rapid growth contributed to halving of the national poverty rate between 2007 and 2019. Responsible macro policies, intensifying global integration, sound public investments, an attractive business environment, improving governance, and rising public spending underpinned the progress.

However, years of sustained growth had only a limited impact on quality job creation, and many Georgians continue to rely on low-productivity employment, especially in agriculture and the informal sector. Export volumes have increased, but exports remain unsophisticated, and firms face low growth and survival rates. These outcomes indicate an incomplete structural transformation and an economic divide between regions. Education outcomes remain poor, and workers are generally not equipped with the skills demanded by employers. Domestic political tensions are also a concern for the private sector.

The COVID-19 pandemic reversed some of Georgia's gains. After the country achieved early success in containing the spread of the disease, infections surged in late 2020, and by the summer of 2021 Georgia had one of the world's highest infection rates per capita. Economic output fell, contracting by 6.2 percent in 2020 as mobility restrictions were implemented and tourist arrivals collapsed.

This meant that, despite a robust fiscal response estimated at 7.5 percent of GDP, close to the ECA regional average, the poverty rate at the international upper-middle-income poverty line (US$5.50 per capita per day, 2011 PPP) increased from 42 percent in 2019 to an estimated 46.6 percent in 2020.

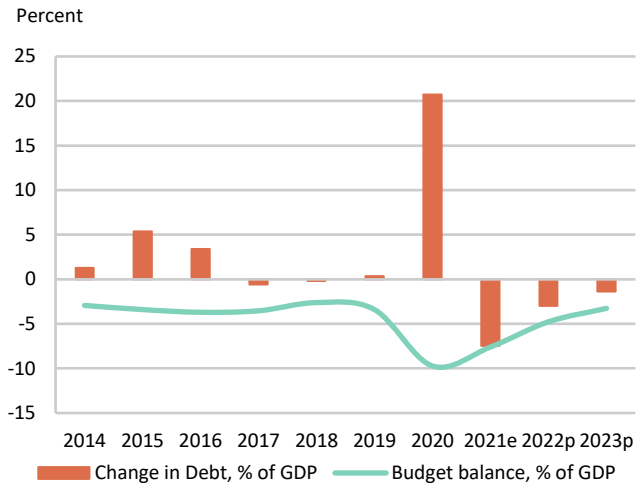
Recent developments

The Georgian economy grew faster than expected in H1 2021, with output expanding by 12.7 percent year-on-year (y/y) as pandemic-related restrictions were gradually eased. Economic acceleration—evident from rising mobility, trade volumes, tax collection, credit growth, and tourism revenues—returned GDP to pre-COVID levels. However, the labor market has been slow to recover. The unemployment rate remained high at 22.0 percent in H1 2021 as compared to 18.3 percent in H1 2020 and 17.3 percent in 2019.

Repeated waves of new COVID-19 infections threaten Georgia's recovery. The number of reported cases per capita was once again among the highest in the world with recovered cases reaching 15.5 percent of the population. Vaccination coverage rose but only 26 percent of the adult population was fully vaccinated as of mid-September.

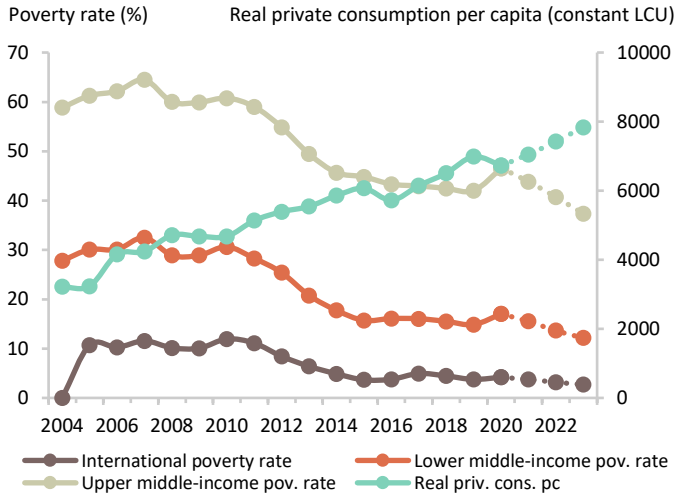
Driven by rising global food and oil prices and pass-through from the earlier depreciation of the lari, the inflation rate spiked

FIGURE 1 Georgia / Budget balance and change in debt



Sources: Ministry of Finance of Georgia and staff calculations.

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



Source: World Bank. Notes: see Table 2.

to 12.8 percent y/y in August, its highest level in over ten years. In response, the central bank increased its policy rate by a cumulative 200 basis points since March 2021 to 10 percent.

The current account deficit remained high at 11 percent of GDP in Q1 2021, as weak services exports, particularly from tourism, were only partially offset by strong remittances and an improved goods trade balance. FDI and portfolio investment covered 23 percent of the current account deficit, while public borrowing covered the rest and enabled accumulation of international reserves. The latter remained adequate at US$4.1 billion as of end-August 2021, covering over four months of goods and services imports.

The banking sector remained profitable, and the share of nonperforming loans (more than 90 days overdue) was low at 2.4 percent.

The fiscal deficit widened by 27 percent y/y in the first seven months of 2021, as rising public expenditures—including additional COVID-19 response measures—offset a 15 percent y/y increase in revenues. By end-July, the fiscal deficit had reached about 4 percent of annual GDP out of planned 7.6 percent, while public debt fell to 53 percent of GDP from 62 percent as of end-2020.

Outlook

Georgia's GDP growth rate for 2021 is now projected at 8 percent, up from 6 percent in April. In the baseline scenario, utput surpasses its 2019 level in 2021. This estimate assumes that some COVID-19-related restrictions will remain in effect for the rest of the year.

Over the medium term, GDP growth is expected to return to its potential rate of about 5.0-5.5 percent as the fiscal stimulus winds down, monetary policy normalizes, and tourism recovers. The baseline projection assumes no major new COVID-19-related restrictions in a context of rising vaccination rates. As growth recovers, and real wages and transfers increase, the poverty rate is expected to decline and reach pre-crisis levels by 2022.

The fiscal deficit is expected to remain elevated at around 7.6 percent of GDP in 2021 before gradually declining as revenues recover and emergency spending subsides. The deficit is projected to narrow to about 3 percent of GDP by 2023 in line with the fiscal rule.

Inflation is forecast to remain above the central bank's 3 percent target in 2021 and 2022 but should converge with the target over the medium term by end-2023 as transitory pressures subside, and monetary policy actions anchor inflationary expectations.

As service exports recover and rebounding economic activity causes imports to rise, the current-account deficit is expected to narrow to 10 percent of GDP in 2021 and continue shrinking over the medium term. Recovering FDI and sustained support from international financial institutions are expected to cover Georgia's external financing needs and help maintain a comfortable reserve cushion.

Delayed vaccinations, new mobility restrictions, and prolonged political tensions are the key downside risks to Georgia's outlook. These risks could slow the recovery and inhibit progress on poverty reduction and job creation.

TABLE 2 Georgia / 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	4.8	5.0	-6.2	8.0	5.5	5.0
Private Consumption	5.8	7.2	-4.0	4.5	5.0	5.2
Government Consumption	1.6	5.7	11.8	2.3	-2.4	-1.3
Gross Fixed Capital Investment	1.9	-0.1	-6.2	0.5	8.7	4.4
Exports, Goods and Services	10.1	9.8	-31.1	38.5	10.0	9.7
Imports, Goods and Services	10.3	6.6	-19.2	18.0	7.3	7.1
Real GDP growth, at constant factor prices	5.2	5.1	-5.9	7.6	5.6	5.0
Agriculture	13.8	-0.6	3.6	4.0	2.0	2.6
Industry	0.2	2.7	-2.8	12.0	6.0	4.0
Services	5.8	6.4	-7.7	6.8	5.9	5.6
Inflation (Consumer Price Index)	2.6	5.0	5.3	9.0	6.0	3.8
Current Account Balance (% of GDP)	-6.8	-5.5	-12.5	-10.2	-8.8	-8.7
Net Foreign Direct Investment (% of GDP)	5.3	5.9	4.3	3.3	6.0	5.5
Fiscal Balance (% of GDP)	-2.6	-3.4	-9.7	-7.6	-4.8	-3.3
Debt (% of GDP)	41.4	41.8	62.5	55.0	52.0	50.6
Primary Balance (% of GDP)	-1.4	-2.2	-8.2	-5.6	-3.3	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	4.5	3.8	4.2	3.8	3.2	2.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.5	14.9	17.0	15.5	13.7	12.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	42.5	42.0	46.6	43.8	40.7	37.4
GHG emissions growth (mtCO2e)	-1.7	-2.5	-3.4	7.4	3.3	2.6
Energy related GHG emissions (% of total)	52.4	50.8	50.6	51.7	52.5	52.8

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

(a) Calculations based on ECAPOV 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.

KAZAKHSTAN

Table 1	2020
Population, million	18.8
GDP, current US$ billion	171.2
GDP per capita, current US$	9106.4
Upper middle-income poverty rate ($5.5)[a]	4.6
Gini index[a]	27.8
School enrollment, primary (%gross)[b]	104.4
Life expectancy at birth, years[b]	73.2
Total GHG Emissions (mtCO2e)	272.1

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

GDP grew by 2.3 percent in 1H2021 supported by household consumption, reduced COVID-19 restrictions, and supportive fiscal measures. Higher food prices and release of pent-up demand raised inflation. The poverty rate is expected to fall in 2021 but remains above the pre-pandemic level. The economy is projected to recover further as restrictions ease and aggregate demand improves. The recovery pace remains vulnerable to the pandemic and external demand for hydrocarbons.

Key conditions and challenges

Since independence in 1991, Kazakhstan has experienced rapid growth, fueled by reforms and FDI into extractive industries, which reduced poverty and transformed the country into an upper middle-income economy. Real GDP per capita increased by more than 80 percent, as the country currently accounts for nearly two-thirds of Central Asia's GDP with a quarter of the population.

However, weak productivity growth is slowing down GDP growth and gains in living standards. Over-dependence on hydrocarbons and limited diversification pose significant development challenges.

Containing the pandemic, including by accelerating vaccination, is the key short-term priority. The second priority is improving competitiveness and attracting investment in the non-extractive sectors. The third priority is launching a transition to a low-carbon economy, supported by energy pricing, regulatory reforms, and public investments that facilitate the mitigation and adaption to climate change.

Recent developments

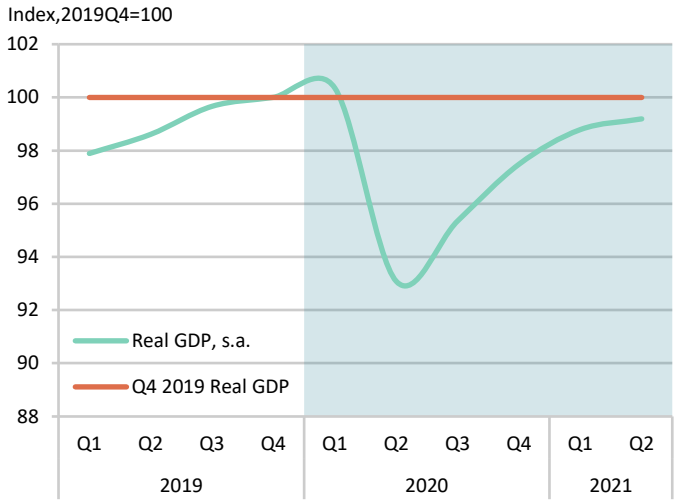
The economy is bouncing back from its pandemic-driven decline in 2020. GDP expanded by a 0.4 percent q-o-q (seasonally adjusted) in 2021 Q2, following a 1.3 percent growth in Q1. Real GDP in Q2 of 2021 was still 0.8 percent below the pre-crisis level.

Consumer demand supported by reduced COVID-19 restrictions and continued fiscal and credit support to households and enterprises have been the key drivers of GDP dynamics. Solid growth in retail trade by 7.6 percent suggests a strong rebound in household consumption in January–June. But investment has remained weak and contracted by 1.8 percent in 1H2021, mainly due to weak FDI inflow. Reopening the economy increases activity in service sectors while growth in housing and infrastructure projects is supporting construction and manufacturing.

A sizable outflow of profits from FDI-linked projects and a pickup in imports led to a 2.2 percent of GDP deficit of the current account in 1H2021. The National Bank of Kazakhstan (NBK) reserves in August reached $36.8 billion due to the $1.6 billion new SDR allocation. The tenge depreciated slightly through April but subsequently recovered some of its losses as oil prices rose.

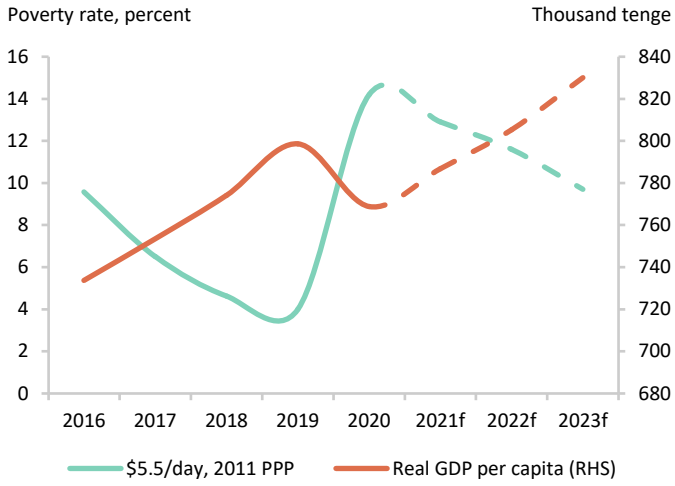
The fiscal policy remained supportive in 1H2021. In April, the government adopted a supplementary budget with an additional US$3.0 billion (1.7 percent of GDP) support package for COVID-19 measures and economic recovery. The authorities included an additional transfer from the Oil Fund in the package and financed the deficit by increased borrowing. As a result of higher spending, the deficit increased to 3.5 percent of GDP in 1H2021 compared with 2.8 percent in

FIGURE 1 **Kazakhstan** / Movement in real GDP



Sources: Statistical Office of Kazakhstan and World Bank staff estimates.

FIGURE 2 **Kazakhstan** / Poverty rates and real GDP per capita



Source: World Bank staff estimates.

1H2020. The government debt rose to 25.2 percent of GDP.

The yearly inflation rose to 8.7 percent in August 2021, up from a 7.5 percent in December. A surge in global food prices, logistical disruptions, and pent-up demand contributed to the rising prices across the board. The government set price caps on some staple food products and introduced export quotas on grain. The NBK tightened monetary policy and increased a policy rate by 0.25 p.p. to 9.5 percent in September.

The banking sector is weathering the COVID-19 crisis. In June 2021, banks recorded return to assets of 3.5 percent and maintained minimum capital adequacy requirements. The authorities continue the reform and revoked licenses of two small banks. Nevertheless, pre-existing vulnerabilities and risks coming from higher NPLs because of the COVID-19 crisis call for vigilance.

Employment level recovered, and real wages increased in Q2 2021. Although the rate of temporary leave among low-wage workers is still high compared to other income groups, it showed a declining trend. As a result, the poverty rate is expected to fall to 13 per-cent in 2021.

Outlook

Economic activity is projected to recover to its pre-pandemic level by end-2021, with growth of 3.2–3.7 percent in 2021 and 3.7 percent in 2022. Growth will be supported by the resumption of domestic activity, a supportive fiscal stance, and the rollout of vaccines. Improving growth prospects in foreign markets will buoy external demand for commodities.

Household consumption growth will continue, aided by an income rebound. Recovery in exports and improved prospects for FDI in the mining sector, which along with planned housing and infrastructure projects, is expected to restore investment growth.

Fiscal policy will remain supportive over the medium term. The budget will continue to prioritize spending on social assistance, education, human capital, infrastructure, and support to SMEs. Government debt is projected to increase further through 2023 as the authorities withdraw the fiscal support to the economy only gradually.

Inflation will remain above the target range of 4–6 percent in 2021 and is expected to decline gradually in following years, as the effect of the pandemic-linked temporary factors wanes. However, the rising cost of intermediate goods, real wage growth, and an expansionary fiscal stance with significant direct lending provisions can keep inflation high.

With only a third of the population fully vaccinated by end-August, the vaccine rollout remains a prime concern. Without higher coverage, COVID-19 will continue to threaten the recovery. Increasing prices and elevated levels of absence from work could delay the reduction in poverty. Volatile oil prices and uncertainty over the scale of global demand for hydrocarbons are other risks that could weaken export and pressure exchange rate. The recent increase in housing prices also makes homeownership less affordable and a steady rise in mortgage lending along with lifting of forbearance measures could expose the banking sector to higher NPLs in the event of future shocks. Moreover, with the heavily reliant on hydrocarbons, the country faces challenges arising from the emissions reduction and low-carbon transition.

TABLE 2 Kazakhstan / 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	4.1	4.5	-2.5	3.5	3.7	4.8
Private Consumption	6.1	6.1	-3.8	7.0	6.0	5.0
Government Consumption	-14.1	15.5	12.8	0.5	0.7	0.8
Gross Fixed Capital Investment	5.4	13.8	-0.3	0.0	3.6	3.7
Exports, Goods and Services	9.6	2.0	-12.1	-0.2	1.9	8.0
Imports, Goods and Services	6.6	14.9	-10.7	5.9	5.6	4.9
Real GDP growth, at constant factor prices	4.1	4.5	-2.5	3.6	3.8	5.0
Agriculture	3.8	-0.1	5.6	3.2	3.3	3.2
Industry	4.4	4.1	-0.4	3.3	3.6	6.5
Services	3.9	5.2	-4.5	3.8	4.0	4.2
Inflation (Consumer Price Index)	6.2	5.3	6.8	8.0	6.2	5.2
Current Account Balance (% of GDP)	-0.1	-4.0	-3.7	-2.7	-1.4	-0.4
Net Foreign Direct Investment (% of GDP)	2.7	3.1	3.4	3.4	3.3	3.3
Fiscal Balance (% of GDP)	-1.0	-1.3	-3.3	-3.0	-2.6	-2.3
Debt (% of GDP)	19.9	19.6	24.8	26.9	28.8	29.9
Primary Balance (% of GDP)	-0.1	-0.3	-2.2	-1.6	-1.3	-1.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	4.6	4.0	14.2	13.0	11.6	9.8
GHG emissions growth (mtCO2e)	-3.3	5.3	-4.7	5.4	1.1	2.8
Energy related GHG emissions (% of total)	79.8	81.3	81.4	80.5	80.4	79.8

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

(a) Calculations based on ECAPOV harmonization, using 2018-HBS.Actual data: 2018. Nowcast: 2019. Simulated results for 2020. Forecast from 2021to 2023.
(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.

KOSOVO

Table 1	2020
Population, million	1.8
GDP, current US$ billion	7.7
GDP per capita, current US$	4277.8
Upper middle-income poverty rate ($5.5)[a]	24.4
Gini index[a]	29.0
Life expectancy at birth, years[b]	72.5

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

Kosovo's economy is recovering rapidly, but risks to the outlook remain high as the country continues to grapple with the pandemic. Economic activity in 2021 is expected to expand by 7.1 percent against a rebound in diaspora visits, fiscal support measures, and higher consumer lending. Growth is projected to remain above 4 percent over the medium term. Maintaining the accelerated rate of vaccinations is a priority in the near term. In the medium term, Kosovo needs to transition to a more productivity-oriented growth model.

Key conditions and challenges

Kosovo grew at an average of 4.6 percent between 2014 and 2019. The economy contracted by 5.3 percent in 2020, but high informality likely conceals the full economic and social impact of the pandemic. Formal employment weathered the impact of the pandemic, but low labor force participation, especially for women, continues to be among Kosovo's key constraints. Poverty is expected to decrease in 2021 (about 2 percentage points) to 21 percent, reverting back to its 2019 level.[1]

Growth returned to positive territory during the fourth quarter of 2020 and gained momentum during the first half of 2021. Kosovo faced a new wave of infections in late August 2021. However, vaccinations picked up in April 2021, exceeding 1.2 million doses administered by September 2021.

Kosovo's growth model is largely consumption-based, with a significant reliance on diaspora financing. The trade deficit remains high, although merchandise exports started to pick up during the pandemic. Private investment added to growth in recent years, but was mostly concentrated in trade and construction industries, with limited productivity spillovers. Poor education and health outcomes limit the contribution of human capital to inclusive growth.

Given the rise of new virus variants and vaccination trends, both in Kosovo and globally, the pandemic risks remain elevated. Accelerated vaccination is the key priority in the near term. In the medium term, there is a pressing need to focus policies on tackling constraints to higher productivity growth and investing in human capital.

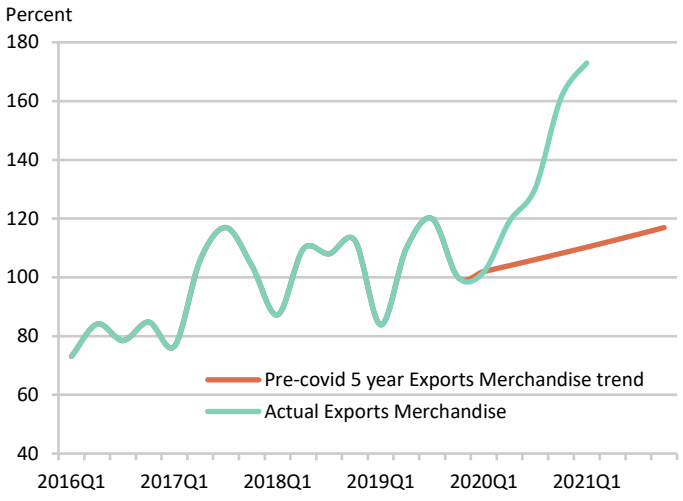
Recent developments

Growth gained momentum during the first quarter of 2021, reaching 5.6 percent. Economic activity is estimated to expand by 7.1 percent in 2021, with exports and private consumption expected to provide the highest contribution to growth.

Services exports exceeded 2019 levels by June 2021, and by year-end are estimated to exceed 2019 levels by 9.5 percent. The rebound in diaspora visits continues to fuel Kosovo's service exports and informal remittances. Merchandise exports have also been on the rise. Limited containment and fiscal support measures, and strong credit growth have bolstered private consumption.

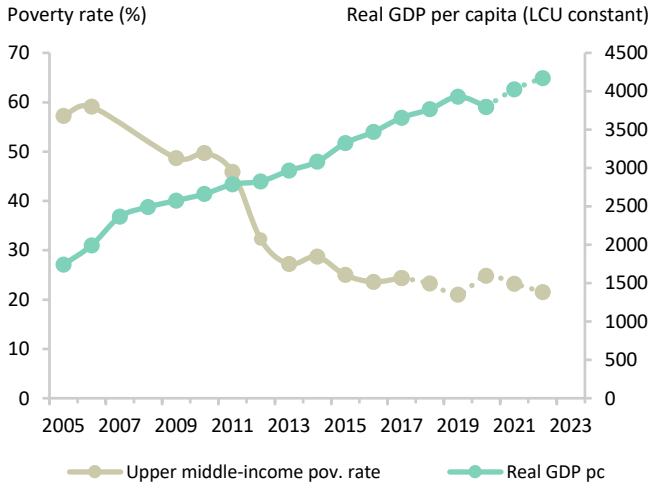
Although the information on the overall labor market is not complete due to a large share of informal jobs, there are significant gains in formal employment. The average number of active pension contributors increased by 13.6 percent during the second quarter of the year; representing about 40 thousand new formal jobs compared to the same period of both 2020 and 2019. During the second quarter of 2021, the number of registered jobseekers also dropped by more

FIGURE 1 Kosovo / Index of merchandise exports in USD, 2019Q4=100



Sources: Kosovo agency of statistics and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

than 30 percent compared to the same period of 2020.

Consumer price inflation, driven primarily by higher import prices, is expected to reach an annual average of 3.5 percent in 2021. Import prices are expected to accelerate, with the most pronounced increase on commodity imports. Should food prices increase above overall consumer prices, their impact on the poor and vulnerable could be significant.

Growth in exports is expected to outpace the rebound in imports. however, as imports grow from a higher base current account deficit is projected to reach 8.5 percent of GDP in 2021, up from 7 percent in 2020.

Public revenues will increase by almost 24 percent y-o-y in 2021, thanks to an increase in firm turnover and the rebound in imports, but also higher inflation and tax debt collection. Public expenditure is expected to decrease by 3 percent compared to 2020, driven mainly by public investment underspending. As a result, the fiscal deficit by year-end will be below 1 percent of GDP. PPG debt is expected to increase from 22.2 percent of GDP in 2020 to 23.8 percent in 2021, mainly driven by higher domestic debt.

The financial sector is experiencing strong credit and deposit growth. Capital adequacy remained above regulatory requirements while non-performing loans hovered between 2.5 and 2.7 percent from January to July 2021.

Outlook

Growth is expected to ease in 2022, but will remain above 4 percent in the medium term, contingent on the global course of the pandemic and its successful management. Thus, poverty is also projected to decline. Exports are expected to increase at a slower pace. Investment is expected to pick up, driven by accelerated public investment, restored business confidence and a deceleration of inflation, hence providing a higher contribution to growth alongside consumption. However, investment is expected to continue being focused mainly on construction activities. The current account balance is projected to marginally deteriorate, driven by higher import demand.

Public expenditure growth is projected to accelerate in the medium term, leading to higher fiscal deficits, fueled by an acceleration in public investment spending, but also increased current expenditure driven by the implementation of the Economic Revival Plan. As a result, fiscal deficit levels are expected to increase from 2021 reaching an average of 2 percent of GDP for the medium term, with PPG debt as a share of GDP rising from 23.2 percent in 2021 to 27.8 percent by end-2023.

Given that projections hinge on the assumption of limited economic activity restrictions in the medium term, the pandemic risks to the outlook continue to remain high for Kosovo. Prevalence of international travel restrictions from diaspora hosting countries during 2022 could weigh on growth and the fiscal position. In the medium-term, credible fiscal reforms should be implemented through rationalizing current expenditures and tax exemptions to provide fiscal space for developmental needs and to avoid faster accumulation of debt.

1/ Poverty is measured as the percentage of the population living with under $5.5 per capita per day (2011 PPP USD).

TABLE 2 **Kosovo** / 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	4.8	-5.3	7.1	4.1	4.4
Private Consumption	4.4	5.6	2.5	6.6	2.3	2.4
Government Consumption	7.0	10.1	2.1	-3.2	6.6	5.5
Gross Fixed Capital Investment	5.4	2.9	-7.6	6.4	7.7	7.6
Exports, Goods and Services	9.1	7.6	-29.1	63.0	7.5	6.5
Imports, Goods and Services	10.9	4.5	-6.0	25.2	5.5	4.5
Inflation (Consumer Price Index)	1.0	2.7	0.2	3.5	1.8	1.6
Current Account Balance (% of GDP)	-7.6	-5.6	-7.0	-8.5	-9.6	-9.2
Net Foreign Direct Investment (% of GDP)	3.4	-2.7	-4.1	3.8	4.1	4.5
Fiscal Balance (% of GDP)	-2.9	-2.9	-7.6	-0.9	-2.0	-2.1
Debt (% of GDP)	16.4	17.0	22.0	22.7	25.9	27.6
Primary Balance (% of GDP)	-2.6	-2.6	-7.1	-0.4	-1.5	-1.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	23.2	20.9	23.4	20.9	18.9	17.0

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

(a) Calculations based on ECAPOV harmonization, using 2017-HBS.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

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

KYRGYZ REPUBLIC

Table 1	2020
Population, million	6.6
GDP, current US$ billion	7.7
GDP per capita, current US$	1166.7
International poverty rate ($1.9)[a]	0.6
Lower middle-income poverty rate ($3.2)[a]	9.7
Upper middle-income poverty rate ($5.5)[a]	52.6
Gini index[a]	29.7
School enrollment, primary (% gross)[b]	106.0
Life expectancy at birth, years[b]	71.6
Total GHG Emissions (mtCO2e)	15.4

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

Real GDP contracted by 0.7 percent in January–August 2021 due to a fall in gold production. 2021 GDP should expand by 2.3 percent, driven continued growth of the non-gold economy in the remainder of the year. Inflation has increased sharply and should remain elevated in 2021–22. Strong revenue performance led to fiscal surplus in January–July 2021, but the budget should fall back into a deficit by year-end.

Key conditions and challenges

The economy remains heavily dependent on gold production (about 10 percent of GDP and 40 percent of exports), remittances (25 percent of GDP), and foreign aid. Economic and structural reforms lost momentum, and businesses are facing significant uncertainty because of the continuing COVID-19 pandemic and political uncertainty triggered by the protests after the parliamentary elections in October 2020. The ongoing revision of legislation after the adoption of the new Constitution in April 2021 and afresh parliamentary elections in November 2021 are adding uncertainty. Security threats arising from potential border conflicts and a regional tension due to developments in Afghanistan are also causing concerns.

Strong and sustainable economic growth requires institutional strengthening and policies to develop the private sector, spur international trade, and encourage fiscally sustainable energy production. Constraints to private investment and growth include the large infrastructure gap, weak rule of law and governance, poor business environment, and onerous regulations. The energy sector's financial weaknesses—stemming from the below-cost recovery tariffs- and failure to meet WTO and Eurasian Economic Union standards and technical regulations further limit the growth potential.

Recent developments

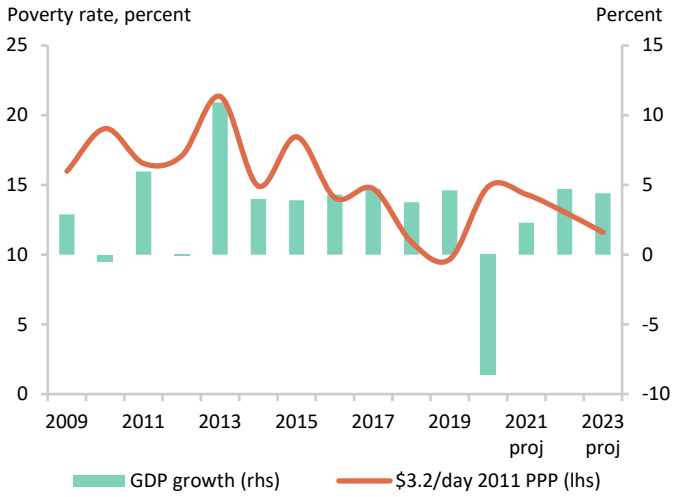
Real GDP contracted by 0.7 percent in January–August 2021, year-on-year, following a significant decline by 8.6 percent in 2020, as a result of a fall in gold production (-29 percent) while the non-gold economy is recovering (3.6 percent). The non-gold economy has been supported by increased remittance inflows and trade revival.

Twelve-month inflation rose to 14 percent in July, up from 9.7 percent in December 2020, driven by larger increases in prices for imported food and fuel, as well as a rising demand for goods and services owing to higher remittances. The trade deficit is estimated to have significantly widened to 41 percent of GDP in January–June 2021 from 18 percent a year ago. This reflects a decline in exports (9 percent in US dollars) mainly due to a fall in gold exports and strong growth in imports (41 percent in US dollars). Gross official reserves remained adequate at 6.2 months of imports at end-June.

In response to rising inflation, the central bank increased its policy rate three times by a cumulative increase of 250 basis points to 7.5 percent since the start of the year. Credit to the economy growth was strong (12.2 percent). The foreign exchange market has stabilized after central bank interventions in the first quarter.

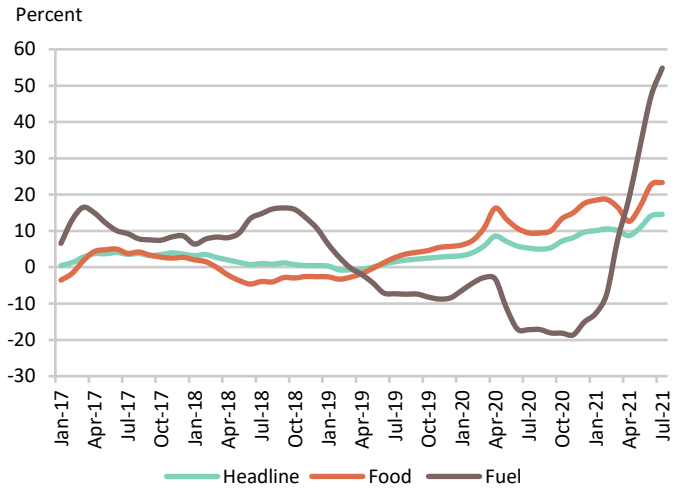
The budget surplus amounted to 1.4 percent of GDP in January–July 2021, owing to higher revenues and lower expenditures as a share of GDP. Revenues increased to 37.7 percent of GDP from 32.3 percent a year ago, thanks to tax and non-tax revenues.

FIGURE 1 **Kyrgyz Republic** / GDP growth and poverty rate



Sources: Kyrgyz authorities and World Bank staff estimates.

FIGURE 2 **Kyrgyz Republic** / Headline, food and fuel inflation



Source: Kyrgyz authorities.

Improved tax performance reflects increased tax revenues from imported goods—VAT on imports, customs duties and excises on imports—as well as taxes from mining companies owing to higher gold prices. Non-tax revenues increased thanks to the central bank profit transfers and a higher amount of receipts from public paid services. Expenditures declined to 36.3 percent of GDP from 38.8 percent a year ago, as wage bill, transfers and subsidies, and pensions fell as a share of GDP. Public debt declined to 66.4 percent of GDP from 68.1 percent at the end of December 2020.

The combined health and economic shocks of 2020 drove up poverty and diminished social welfare. A significant share of the population became poor or vulnerable due to lower incomes, higher food prices, or job losses. The poverty rate is estimated to have increased to 14.3 percent in 2020 from 9.7 percent in 2019 (US$3.2 a day, 2011 PPP).

Outlook

The economy is expected to grow by 2.3 percent in 2021, assuming a continued expansion in the non-gold economy in the remainder of the year. Growth is forecast to increase to 4.7 percent in 2022 and slow to 4.4 in 2023, reflecting gold production growth while non-gold economy stabilizes at its potential level. This scenario assumes a reduction of new COVID-19 cases as vaccines are deployed and political stability is maintained.

Inflation is projected to rise to 10.6 percent in December 2021 from 9.7 percent a year ago, driven by food and fuel prices. It is projected to moderate to the central bank's target range of 5–7 percent by 2023.

The current account deficit is projected at 6.1 percent in 2021, reflecting a recovery of imports and a decline in gold exports. As the latter picks up, the deficit is expected to narrow slightly in 2022–23.

While the budget ran a surplus in January–July, a deficit of 1.8 percent of GDP is projected in 2021 as a whole, reflecting planned increases in social assistance and pensions in October 2021. The deficit is expected to widen to 3.1 percent of GDP in 2022 because of the full year affect of these increases. Assuming expansion of the tax base, rolling back pandemic-related expenditures, streamlining nonpriority purchases, and reducing the wage bill as a share of GDP, the deficit is expected to narrow to 2.7 percent of GDP in 2023.

The poverty rate should remain little changed in 2021–22 as households continue to face price increases, health issues, and other pandemic impacts. In spite of planned spending increases for the social sector, they remain insufficient to support poor and vulnerable groups.

TABLE 2 Kyrgyz 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	3.8	4.6	-8.6	2.3	4.7	4.3
Private Consumption	5.0	0.8	-11.4	4.4	5.0	3.5
Government Consumption	1.3	0.5	1.3	1.9	1.7	0.3
Gross Fixed Capital Investment	6.9	7.1	-23.3	11.2	9.3	11.9
Exports, Goods and Services	-2.7	16.2	-18.5	-5.8	7.1	8.0
Imports, Goods and Services	7.4	6.1	-24.0	11.1	9.5	9.3
Real GDP growth, at constant factor prices	3.1	3.6	-8.6	2.2	4.7	4.3
Agriculture	2.6	2.5	1.1	0.0	2.2	2.5
Industry	5.1	6.6	-7.5	-2.8	8.4	8.7
Services	2.8	3.2	-17.0	6.8	5.5	4.0
Inflation (Consumer Price Index)	1.5	1.1	6.3	12.0	7.3	5.3
Current Account Balance (% of GDP)	-12.1	-12.1	4.5	-6.1	-5.8	-5.6
Net Foreign Direct Investment (% of GDP)	0.5	3.8	-7.5	0.7	1.0	2.0
Fiscal Balance (% of GDP)	-1.6	-0.5	-4.2	-1.8	-3.1	-2.7
Debt (% of GDP)	54.7	51.6	68.1	66.2	64.8	63.2
Primary Balance (% of GDP)	-0.5	0.5	-3.0	-0.2	-1.4	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.6	0.6	1.1	0.9	0.8	0.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	10.9	9.7	14.3	13.8	12.6	11.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	54.8	52.6	60.7	60.0	57.6	55.5
GHG emissions growth (mtCO2e)	14.5	8.8	-4.7	2.4	5.2	5.8
Energy related GHG emissions (% of total)	74.3	75.4	74.7	73.6	74.0	74.4

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

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

(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

MOLDOVA

Table 1	2020
Population, million	2.7
GDP, current US$ billion	11.9
GDP per capita, current US$	4407.4
International poverty rate ($ 19)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.9
Upper middle-income poverty rate ($5.5)[a]	12.8
Gini index[a]	25.7
School enrollment, primary (% gross)[b]	89.5
Life expectancy at birth, years[b]	71.9
Total GHG Emissions (mtCO2e)	12.8

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

Moldova is recovering swiftly, growth is expected to be above potential in the medium term. Short- and medium-term forecast is under the assumptions of the containment of the COVID-19 pandemic, implementation of a broad-based reforms program, and sustained fiscal support. In case of a resumption of the pandemic, the authorities should first and foremost focus on the health sector to manage the pandemic while striking a balance between long term reforms and mitigation measures.

Key conditions and challenges

Despite a solid economic performance in the past two decades, Moldova has fallen short of its aspiration to achieve faster convergence towards EU income levels. The economic model continues to be reliant on remittances-induced consumption, with an associated low productivity growth resulted from the persistence of deep structural and governance weaknesses, a significant state enterprises footprint, low competition, uneven playing field, and taxes distortions. The bank fraud of 2014 uncovered deep weaknesses in the financial sector. In addition, the economy is highly vulnerable to external shocks. While extreme weather events and the propagation of economic and financial crisis from the main trading partners have been a traditional risk for a small open economy like Moldova, the COVID-19 pandemic has recently raised concerns also about the health system.

Persistent inequality of opportunity continues to limit the ability of low-income households to access public services, reducing their resilience to shocks and cementing low intergenerational mobility. The contraction in 2020 resulted in an increase in poverty from 25.2% in 2019 to 26.8% in 2020 (based on the national poverty line), marking the second consecutive year in which poverty increased. Though poverty rates increased more in urban than in rural areas, rural areas remain much poorer with a poverty rate of 35.3% in 2020 (vs 14% in urban areas).

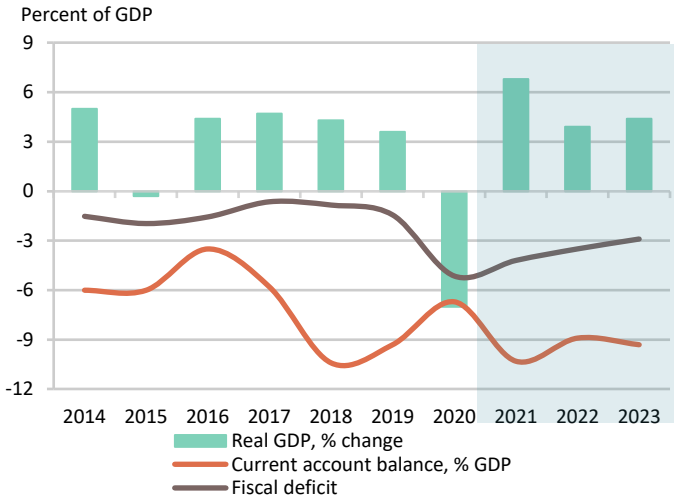
Against this background, the newly elected government is expected to implement an ambitious structural reforms program to improve competitiveness (justice reforms and strengthening the rule of law corruption together with actions towards rent seeking schemes, the regulatory environment, and the state footprint), while sustaining economic recovery with a stronger fiscal impulse. Striking the balance between cyclical and structural problems and ensuring fiscal sustainability will be an essential aspect be considered when designing short - and medium-term policy response.

Recent developments

The economic activity is expected to bounce back by 6.8 percent in 2021. A strong increase in wages, remittances and social transfers contributed to a robust increase in private consumption. Investments registered a 20 percentage increase on the back of favorable monetary conditions. Strong domestic demand and restocking after the lockdown led to significant drag on growth from net exports. All sectors of the economy signaled positive developments after a sharp contraction last year. However, agricultural sector was still is with a negative territory in the first half of the year due to heavy rains.

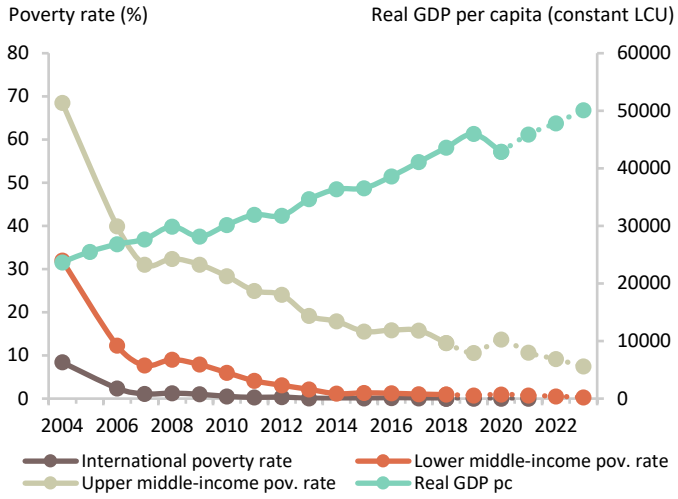
Higher prices on food products due to bad harvest, and increase in global energy prices, along with a strong domestic demand has increase inflationary pressure, forcing

FIGURE 1 Moldova / Projected macroeconomic indicators



Source: Author's calculations based on national statistics.

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



Source: World Bank. Notes: see Table 2.

the central bank to tighten the monetary stance by 100 basis points to 3.75 percent in July after almost 10 months of a record low rate. External position deteriorated as imports expanded quickly while exports remained latent despite terms of trade improvements. As a result, the current account deficit reached almost 13 percent of GDP as compared to 8.2 percent to the first quarter of 2020, financed primarily by cash and deposits in foreign currency. External debt moderated decreasing by 2.1 percentage points to 68 percent of GDP.

In the first seven months of 2021, health (+51 percent, y/y) and social protection (+14.5 percent, y/y) were the main drivers of spending increase (+ 16.4 percent, y/y). Spending on non-financial assets increased by 25 percent despite lower execution of capital investments. Revenue collection rebounded strongly (+20.5 percent, y/y) after the relaxation of restrictive measures. The fiscal deficit reached 2.8 percent of forecasted GDP and was mainly financed through domestic market. Public and publicly guaranteed debt increased by 8 percentage points of GDP to 35.2 percent of GDP.

In line with the economic rebound, Q2 of 2021 saw recovery in the labor market, with an increase in both employed population (1.9 percent in Q2 y/y) and in real wages (+11.8 percent), which aided household finances. Despite the general improvement in employment, certain vulnerable groups continued to experience the impacts of the crisis in the form of reduced work hours, involuntary part-time and remote work, and work stoppages, with disproportionate impacts on women. Recovery in the main trading partners led to strong remittance inflows which helped stabilize household consumption. However, rising food inflation is cause for concern among poorer households.

Outlook

Under the assumptions of a successful containment of the pandemic, a broad-based reforms program by the new government, and sustained fiscal impulse to the economy supported by development partners, growth is expected to continue in the medium term above potential. Consumer and investment confidence and all sectors are expected to register a strong growth, but their 2019 level will only be reached after 2022. Strong domestic demand and higher global energy prices are expected to propel current account deficit. Inflation is expected to fluctuate in the upper bound of the corridor in the second half of 2021, breach the corridor in 2022, and stabilize to 5 percent in 2023.

Fiscal deficit in the medium term is expected to remain higher than in pre-Covid -19 period with the 2022 Budget to reflect the promised increase in minimum pensions and new external resources from IMF, the EU and other development partners. As a result, public debt is expected to increase further, while remaining relatively low by international standards. Vulnerability from natural disasters is expected to remain high with the risk of derailing the fragile recovery and shifting government attention from long term reform to mitigation efforts.

In line with the recovery in the labor market and strong remittance receipts, poverty is expected to decrease from 13.7 percent in 2020 to 10.6 percent in 2021 as measured by the upper middle income US$5.50 PPP poverty line. Looking further forward, under the assumption of continued improvement in the labor market and strong remittance inflows, poverty is anticipated to continue to fall further to 9.2 percent in 2022. Downside risks to an inclusive recovery include the slow pace of vaccination, the possibility of the reintroduction of containment measures, the possibility of adverse climate events, and rising food inflation.

TABLE 2 Moldova / 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	4.3	3.7	-7.0	6.8	3.9	4.4
Private Consumption	4.5	3.2	-5.9	9.6	3.7	4.5
Government Consumption	-0.2	-0.5	-0.2	9.1	1.0	2.5
Gross Fixed Capital Investment	14.5	12.9	-1.7	13.7	7.3	8.9
Exports, Goods and Services	7.2	7.3	-15.5	6.3	7.6	7.5
Imports, Goods and Services	9.7	6.7	-8.9	16.1	6.3	7.6
Real GDP growth, at constant factor prices	4.4	4.0	-7.2	7.3	4.0	4.5
Agriculture	2.6	-2.3	-26.4	18.7	5.0	7.0
Industry	8.3	7.1	-4.3	5.6	4.8	5.4
Services	3.3	4.2	-4.1	6.0	3.4	3.6
Inflation (Consumer Price Index)	3.1	4.7	4.1	4.4	5.0	5.0
Current Account Balance (% of GDP)	-10.4	-9.4	-6.7	-10.3	-8.9	-9.3
Net Foreign Direct Investment (% of GDP)	2.4	4.5	1.3	3.4	3.6	3.4
Fiscal Balance (% of GDP)	-0.8	-1.4	-5.1	-4.2	-3.5	-2.9
Debt (% of GDP)	30.1	27.4	33.5	35.2	36.0	39.7
Primary Balance (% of GDP)	0.0	-0.7	-4.3	-3.4	-2.7	-2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0		
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.9	0.7	1.0	0.7	0.5	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	12.8	10.6	13.7	10.6	9.2	7.5
GHG emissions growth (mtCO2e)	3.7	3.6	-6.9	6.8	3.8	4.2
Energy related GHG emissions (% of total)	61.5	62.6	64.6	67.4	68.6	69.2

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

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

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

MONTENEGRO

Table 1	2020
Population, million	0.6
GDP, current US$ billion	4.8
GDP per capita, current US$	8000.0
Upper middle-income poverty rate ($5.5)[a]	16.0
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	100.6
Life expectancy at birth, years[b]	76.9
Total GHG Emissions (mtCO2e)	3.4

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

After the deep 2020 recession, Montenegro's economy is recovering faster than anticipated with a projected double-digit growth rate in 2021. Vaccination, health protocols, and open borders have helped revive tourism. However, unemployment remains high as the recovery has not ignited the labor market yet, which limits the pace of resumed poverty reduction. The large Eurobond issuance in December 2020 has relieved financing pressures in 2021, along with a reduced fiscal deficit. Still, careful fiscal management remains critical as uncertainties loom.

Key conditions and challenges

Montenegro's small, open, and tourism-dependent economy was hit very hard by the pandemic and it suffered the largest contraction in Europe of -15.3 percent in 2020, reversing several years of poverty reduction. The crisis has revealed and further exacerbated Montenegro's structural weaknesses.

Over the five years prior to the crisis, growth averaged 4 percent, driven by large public investments and strong growth in consumption. Over two-thirds of Montenegro's jobs are in services, which account for over 70 percent of value added. The current account balance shows a large structural deficit and averaged 15 percent of GDP over 2015-19, largely financed by net FDI and external debt. Montenegro's net international investment position at negative 170 percent of GDP is amongst the largest in the world. Due to weaker adherence to fiscal plans and debt-financed highway construction, public debt has doubled since independence and peaked at 105 percent of GDP in 2020. Montenegro aspires to join the EU, but significant rule of law challenges have slowed progress towards this goal and reflect a key development constraint.

With progress in vaccination and the lifting of restrictions, GDP is estimated to bounce back by 10.8 percent in 2021. Growth is stronger than previously estimated due to a swifter tourism recovery—tourism revenues are projected to rebound to 75 percent of their 2019 levels. Tourism will continue to drive the recovery but ta gradual transition towards greener tourism will be critical for sustainable and inclusive development.

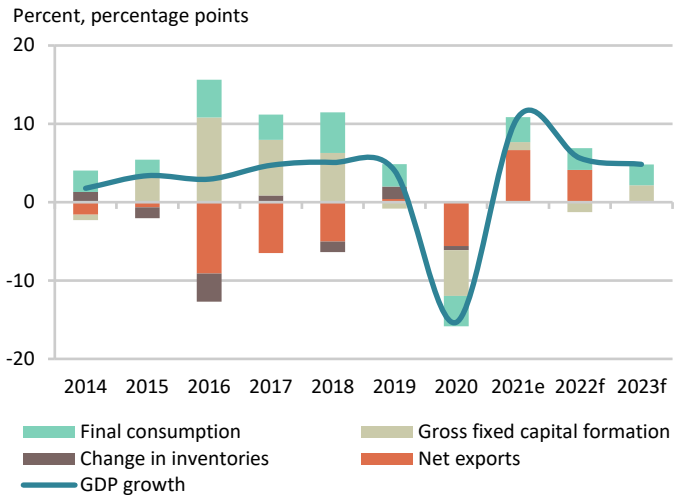
The political landscape is complex, reflected in high political polarization, which slows the reform process. The government has committed to accelerating reforms, strengthening the rule of law, and fighting corruption. These, coupled with strong fiscal and debt management and independent and accountable state institutions, would enable more inclusive, private sector-led growth and efficient service delivery to citizens.

Recent developments

The peak tourism season has been stronger than anticipated, with July tourist overnight stays reaching 90 percent of their 2019 level. Tourism has in turn supported retail trade, which, by June, strengthened by 6 percent, while electricity generation boosted industrial production by 10 percent.

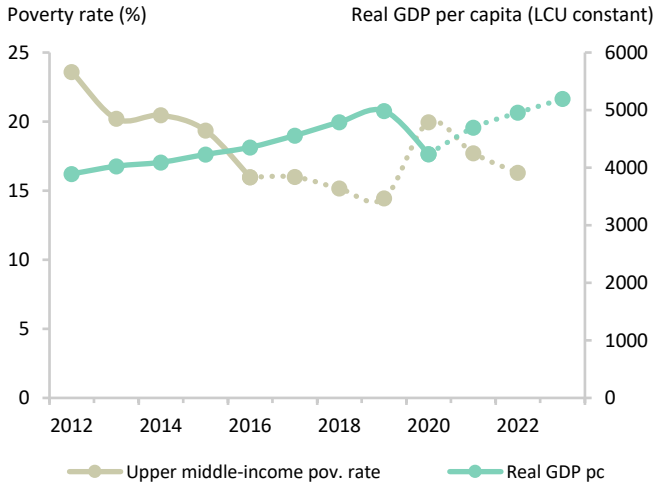
Nevertheless, administrative data show a persistent decline in employment that reached a record low in June. Registered unemployed rose from 41,890 in June 2020 to 55,703 in June 2021, with over 60 percent of newly registered being women. Poverty (income below $5.5/day in 2011PPP) is projected to decline slowly to 17.7 percent in 2021 but remain higher than its 2019 level.

FIGURE 1 Montenegro / Contributions to annual GDP growth



Sources: MONSTAT, World Bank.

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



Source: World Bank. Notes: see Table 2.

Stronger demand and higher oil prices have pushed up inflation, which by August averaged 1.7 percent y-o-y.

The financial sector has remained resilient thus far, with both outstanding loans and deposits reaching record highs in July. The June average capital adequacy ratio was at 19.2 percent, while non-performing loans increased to 6.3 percent of total loans from 5.6 percent in June last year. However, the full impact of the pandemic will be clearer once the loan moratoria expire.

By June, growth of exports outpaced that of imports, as tourism strengthened, while investment stalled. Net income accounts further reduced the current account deficit, which was largely financed by reserves and net FDI, although the latter declined. In July, international reserves covered 7.7 months of merchandise imports.

Higher revenues and fiscal discipline have helped reduce the fiscal deficit which is projected to decline from 11 percent in 2020 to 4 percent in 2021. By July, central government revenues increased by 11 percent, supported by robust VAT collection, while expenditures declined by 4.5 percent, driven by under-execution of capital spending and lower spending on goods and services. After the Eurobond repayment in March, public debt is expected to decline to 90 percent of GDP in 2021.

Outlook

Assuming a full recovery in tourism in 2022 and 2023, growth is projected to remain strong at 5.6 and 4.8 percent, respectively. Investments are expected to level off in 2022 as the highway construction is finalized by end-2021. The government has announced stronger public capital spending starting in 2022, which would further boost medium-term growth. However, public investment management challenges should be addressed in order to ensure stronger economic effects. The projections do not assume that the remaining sections of the highway will start by 2023, as fiscal space is limited. The fiscal balance is expected to turn into surplus in 2023, on account of contained expenditures and stronger revenues due to the economic recovery. Running a sustained primary fiscal surplus in the medium term will be critical for debt reduction. Public debt is expected to decline to 77 percent of GDP in 2022 and further to 70 percent in 2023, as about €500 million of debt is due for repayment in 2022-2023.

Given the expected full recovery of tourism, the poverty outlook depends on how fast job creation will pick up, especially for low-skill workers. The poverty rate is projected to continue its decline in 2022.

The outlook is surrounded with multiple risks. A new wave of infections in Europe could slow down Montenegro's economic recovery. Moreover, inflationary pressures in the US and the EU may accelerate monetary tightening which could translate into more expensive external financing. Domestic risks stem from vaccination hesitancy, whilst possible new restriction measures could delay the recovery. Political polarization remains high. In contrast, acceleration of structural reforms and a firm commitment to careful fiscal and debt management would reduce investment uncertainty and improve the growth outlook.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.1	4.1	-15.3	10.8	5.6	4.8
Private Consumption	4.6	3.1	-4.6	3.5	3.2	2.9
Government Consumption	6.3	1.0	0.8	-0.9	-0.6	0.5
Gross Fixed Capital Investment	14.7	-1.7	-12.0	2.2	-2.9	5.5
Exports, Goods and Services	6.9	5.4	-47.5	66.8	14.5	6.8
Imports, Goods and Services	9.2	2.4	-19.8	16.3	2.9	3.8
Real GDP growth, at constant factor prices	6.0	4.2	-14.4	10.8	5.6	4.8
Agriculture	3.3	-2.2	1.1	0.5	1.0	1.0
Industry	15.3	5.6	-12.0	8.0	3.0	5.0
Services	3.5	4.5	-16.9	13.3	7.1	5.2
Inflation (Consumer Price Index)	2.6	0.4	-0.3	1.9	1.6	1.2
Current Account Balance (% of GDP)	-17.0	-14.3	-26.1	-15.2	-11.2	-9.5
Net Foreign Direct Investment (% of GDP)	6.9	6.2	11.2	7.8	7.4	7.4
Fiscal Balance (% of GDP)	-4.6	-3.0	-11.0	-4.0	-0.9	1.1
Debt (% of GDP)	70.1	76.5	105.3	87.7	77.0	69.9
Primary Balance (% of GDP)	-2.4	-0.8	-8.3	-1.6	1.4	3.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	15.2	14.5	20.0	17.7	16.3	
GHG emissions growth (mtCO2e)	7.5	2.9	-12.8	8.6	0.7	0.7
Energy related GHG emissions (% of total)	68.8	70.6	70.1	75.8	77.5	78.7

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

(a) Calculations based on ECAPOV harmonization, using 2012-SILC-C, 2015-SILC-C, and 2016-SILC-C. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021 to 2023.
(b) Projection using point-to-point elasticity (2012-2015) with pass-through = 0.7 based on GDP per capita in constant LCU and simulations of Covid-19 impacts, with lower passthrough in 2021 reflecting the lag in labor market improvements.

NORTH MACEDONIA

Table 1	2020
Population, million	2.1
GDP, current US$ billion	12.3
GDP per capita, current US$	5857.1
Upper middle-income poverty rate ($5.5)[a]	17.9
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.8
Total GHG Emissions (mtCO2e)	9.6

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

A robust recovery is underway despite a prolonged adverse pandemic impact. Continued government support measures helped mitigate the impact on households and firms but are further increasing public debt—now above 62 percent of GDP. As the recovery takes hold, carefully balancing the withdrawal of fiscal support to restore public finance sustainability with structural and institutional reforms is key. The central bank will also need to find the right balance between supporting domestic demand and responding to rising inflationary pressures.

Key conditions and challenges

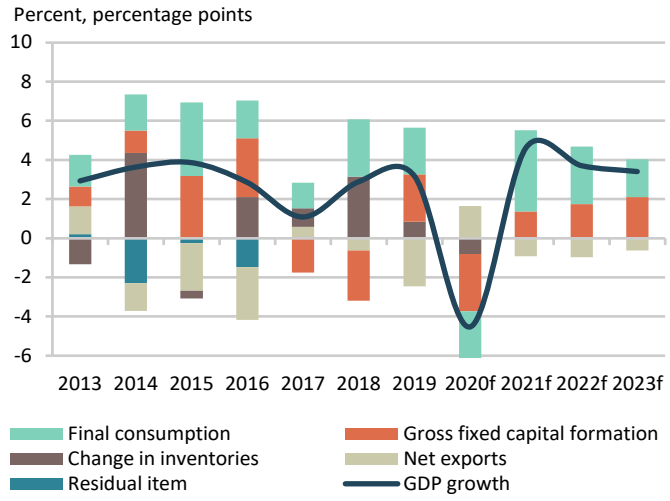
After a decade of a relative macroeconomic stability, accompanied by rising trade integration, especially in GVCs, an improved business environment and inflows of foreign direct investment, North Macedonia was hit hard by the COVID-19 pandemic. Output contracted by 4.5 percent in 2020, and the excess death rate remains one of the highest in Europe.

Poverty rate declined steadily from 35.8 percent in 2009 to a projected 16.9 percent in 2019, (based on the upper middle income class poverty line of $5.5/day in 2011 PPP). However, the COVID-19 crisis reversed recent progress in poverty reduction; it is estimated that poverty increased between 1 and 4 percentage points in 2020. Support measures introduced by the government (including subsidies and social security contributions to private firms and cash benefits and vouchers for vulnerable people) helped alleviate the impact of the pandemic on poverty. The economy resumed growth in 2021 helped by robust external demand and unlocked private consumption. Yet, while outlook for the near term remains positive, continued containment measures, a slow vaccine rollout, and unresolved structural bottlenecks pose challenges. Weak human capital development, and a low labor participation rate, have led to underutilized labor resources amidst demographic decline. Further, state involvement in the market through direct ownership, tax exemptions, and subsidies remains high. While this helps protect employment in the near term, it also derails fiscal sustainability. Countercyclical fiscal policies put in place to mitigate the impact of COVID-19, will need to be gradually withdrawn to address these sustainability concerns. Improving public investment management to help implement the government's Growth Acceleration Plan that eyes energy, environment, and transport investments, will be critical to avoid further fiscal sustainability concerns. Finally, further delays in the EU accession negotiations may lead to delays in efforts to improve governance, as well as anti-corruption reforms that are critical to unlocking the country's long-term growth potential.

Recent developments

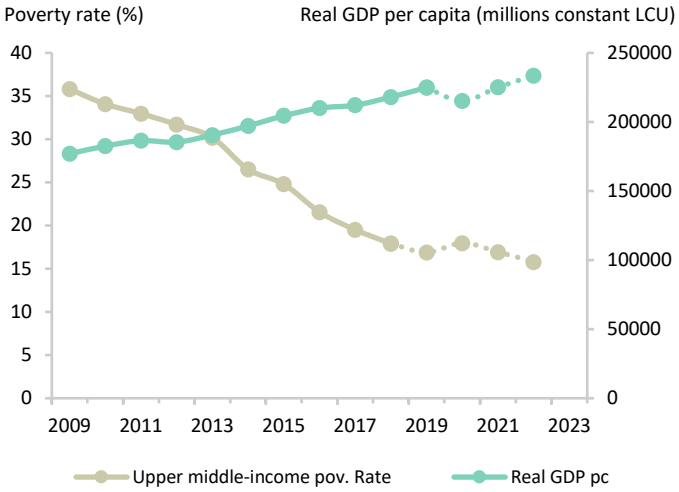
After declining in the first quarter by 1.9 percent, domestic output surged double-digit in Q2. As a result, growth in the first half of the year turned positive at 5.2 percent. Private consumption picked up, investment surged, while government consumption after dropping early in the year, resumed growth in Q2. Exports and imports increased as well, with the latter growing faster thereby worsening the trade balance. On the production side, growth was observed in nearly all sectors, given the low base effect, with the fastest recovery occurring in trade, transport and tourism, manufacturing,

FIGURE 1 **North Macedonia** / Contributions to annual GDP growth



Sources: North Macedonia State Statistics Office and World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

and ICT. Construction surprisingly declined in Q2.

The activity rate slowly picked up from its low in summer 2020, driven by an increase in male participation. The unemployment rate decreased to 15.9 percent by 0.2 pp since Q4 2020, while the employment rate increased by 0.5 pp, with women contributing to the rise as they moved from unemployment to service sector jobs. In June 2021 the government tightened labor restrictions by adopting changes to trade and labor laws that increase the hourly pay for Sundays and holiday work and reduce the number of working Sundays in the trade sector. In addition to these regulatory changes, wage pressures continued to rise, with the largest increases being in sectors that were most affected by the pandemic-related restrictions, such as transportation, food and accommodation, and other services, and which observed a resumed labor flight abroad.

The inflation rate reached 3.6 percent in August 2021—the highest growth rate since July 2013. The increase was primarily driven by energy and food prices. Cumulatively, inflation grew by 2.7 percent by August 2021 broadly within the central bank targets. Credit growth remains solid, providing support to both households and firms. The non-performing loans ratio, currently at 3.4 percent, might see an upward correction, as loan moratoriums are being phased out. However, the capital adequacy ratio remained high at 16.8 percent, as is the banking sector liquidity ratio that stood at 23 percent in Q1, with minimal adjustments since the start of the pandemic. Fiscal deficit almost halved in the first half of the year but is set to rise by yearend. Revenue growth was robust on the back of VAT collections. Expenditures have increased at a slower pace given more targeted COVID-support, and despite an uplift in capital spending. Public and publicly guaranteed debt increased to 64.4 percent of GDP in H1 given the new Eurobond issuance amid a retained sovereign issuer default rating of BB- with a stable outlook.

Outlook

Economic growth is expected to rebound to 4.6 percent in 2021 returning to the pre-pandemic output level by year-end. The baseline scenario is built on the assumptions that the pace of immunization continues, there are no further lockdowns in 2021, consumer and investor confidence remain high, and external demand continues to be supportive. Growth is expected to continue in 2022 as the economy gradually starts to stabilize. Poverty is projected to resume its decline modestly as expected economic growth rebounds in 2021.

Fiscal deficit is expected to very gradually decline, following the latest plans of the government to ramp up capital spending. Over the medium term, public and publicly guaranteed debt will remain on the rising path reaching 65 percent of GDP by 2023. As the recovery takes hold, the authorities will need to boost tax compliance, restructure and reprioritize spending, address long-term bottlenecks and enhance efficiency of the management of public finances. To boost potential growth, the country needs to redirect its attention to structural and institutional reforms, that can unlock growth by addressing legacies in state-owned companies and network infrastructure, investing in the human capital of the population, strengthening the accountability and independence of public institutions, as well as commitment to the rule of law, and promoting private sector innovation and competitiveness. Efforts to boost potential output through structural reforms will need to take place in the context of region-wide efforts to accelerate the low-carbon transition and reduce greenhouse gas emissions.

TABLE 2 North Macedonia / 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	3.2	-4.5	4.6	3.7	3.4
Private Consumption	3.7	3.4	-5.1	5.0	3.8	2.6
Government Consumption	1.5	-0.8	10.1	3.6	1.2	0.3
Gross Fixed Capital Investment	-8.9	9.5	-10.8	5.4	6.8	8.0
Exports, Goods and Services	12.8	7.2	-10.9	8.0	7.2	7.3
Imports, Goods and Services	10.2	8.3	-9.9	7.0	6.5	6.2
Real GDP growth, at constant factor prices	3.9	3.2	-3.7	4.6	3.7	3.4
Agriculture	8.6	0.6	1.7	2.7	2.5	2.0
Industry	0.2	4.6	-6.8	5.7	5.0	4.5
Services	4.9	2.9	-3.2	4.4	3.4	3.1
Inflation (Consumer Price Index)	1.4	0.8	1.2	2.4	2.0	1.8
Current Account Balance (% of GDP)	-0.1	-3.3	-3.5	-3.6	-3.0	-2.0
Net Foreign Direct Investment (% of GDP)	5.6	3.2	1.9	2.5	2.6	2.7
Fiscal Balance (% of GDP)	-1.1	-2.2	-8.3	-5.8	-4.9	-4.0
Debt (% of GDP)	48.4	49.4	60.2	62.7	64.7	65.5
Primary Balance (% of GDP)	0.1	-1.0	-7.0	-4.3	-3.5	-2.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.9	16.9	18.0	16.9	15.8	
GHG emissions growth (mtCO2e)	-4.6	-0.5	-8.4	5.0	0.5	-0.2
Energy related GHG emissions (% of total)	67.9	67.9	66.0	67.3	67.3	67.1

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

(a) Calculations based on ECAPOV harmonization, using 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021.

(b) Projections based on sectoral GDP growth at constant LCU.

POLAND

Table 1	2020
Population, million	38.0
GDP, current US$ billion	596.0
GDP per capita, current US$	15684.2
International poverty rate ($ 19)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	0.5
Upper middle-income poverty rate ($5.5)[a]	1.2
Gini index[a]	30.3
School enrollment, primary (% gross)[b]	96.9
Life expectancy at birth, years[b]	77.9
Total GHG Emissions (mtCO2e)	315.8

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

The Polish economy has recovered swiftly from the COVID-19 recession, with output recovering to pre-crisis levels by Q2 2021. The well-diversified economy and large economic and fiscal package facilitated the strong rebound and cushioned household impacts. With output expected to exceed potential GDP in 2021, a gradual withdrawal of the fiscal and monetary stimulus would help rebalance growth and rebuild fiscal space. A fourth COVID-19 wave is emerging, and a short-term challenge is sustaining the robust economic recovery.

Key conditions and challenges

The well-diversified Polish economy has proven to be one of the most resilient in the EU, with a 2.7 percent contraction in GDP in 2020, the first output contraction since 1991.

A sound macroeconomic framework, effective absorption of EU investment funds, a sound financial sector, and better access to long-term credit supported inclusive growth and poverty reduction. Real wage growth and a range of demographically targeted social programs ("Family 500+", "13th pension") fueled robust consumption growth until early 2020. With an improving business environment, Poland integrated well into regional value chains (RVCs). Higher private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

The unprecedented policy response to mitigate the impacts of the COVID crisis has narrowed available fiscal space and the key challenge is rebuilding this buffer once the recovery is on solid footing.

The full economic and social impact of COVID-19 remains uncertain as new variants emerge.

Spending efficiency is needed to rebuild fiscal buffers, accommodate higher spending on health, and the green transition, and to prepare for the growing fiscal burden arising from aging.

Over the medium term, a key challenge is a tightening labor supply made more acute by the aging population. Achieving decarbonization commitments is another challenge. Strengthening institutions is needed for sustained and inclusive growth and for narrowing regional disparities.

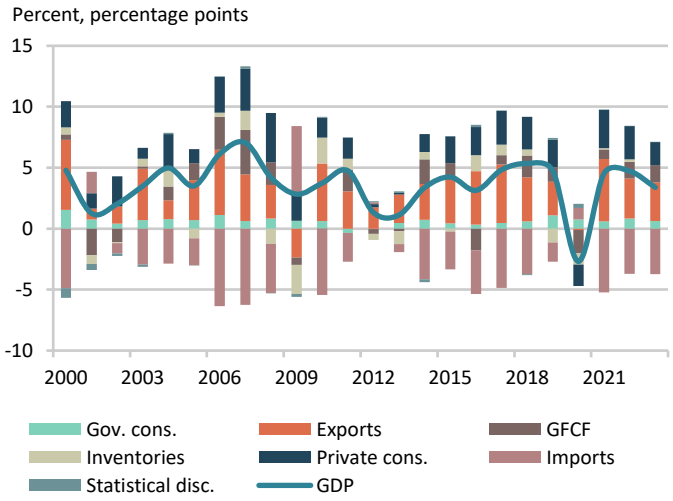
Recent developments

The economic recovery from the COVID-19 crisis was swifter than expected, with output expanding by 5 percent in the first half of 2021. The well diversified economy, exceptional fiscal stimulus and accommodative monetary policy helped contain the impact of the crisis.

Labor market, industrial production, and exports performed well, particularly following the relaxation of restrictions at the end of April 2021. GDP expanded by 2.1 percent in the second quarter, on a seasonally adjusted basis. Industrial output rebounded by nearly 16 percent year-on-year in the first half of the year, with manufacturing up by 18 percent. The transport sector expanded by 12 percent. Yet the recovery in sectors heavily affected by the pandemic (construction, accommodation and catering, and creative) is lagging.

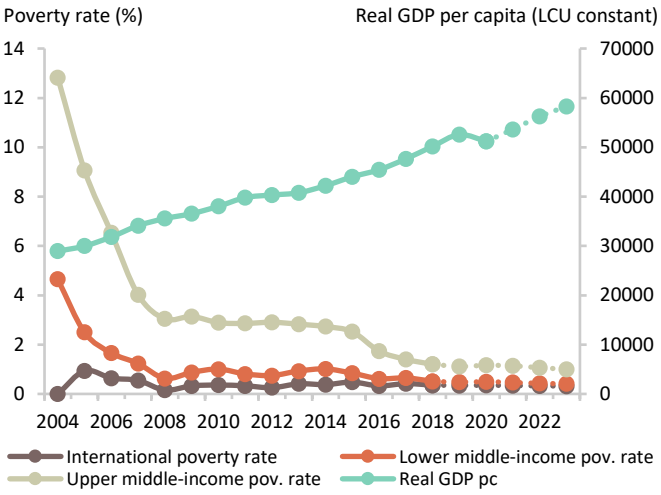
Pent-up demand, strong income growth in the context of the labor market recovery, and family support measures fueled a 6.3 percent growth in household consumption in the first semester, with a strong demand for durable goods. Investment recovery is lagging, however. Stronger export demand from EU supported the

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



Sources: GUS and World Bank.

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



Source: World Bank. Notes: see Table 2.

recovery in the industrial sector and exports. Exports rose 16 percent in the first half of 2021, year-on-year. Imports also rebounded strongly, however, translating into a negative contribution to growth of net exports.

Inflation has surged to 5.5 percent in August, a 20-year record, fueled by a spike in fuel prices, supply chain bottlenecks, pent-up demand and the large stimulus. Higher core inflation, strong domestic demand, and higher producer prices will put pressure on prices.

Household income and employment impacts of the pandemic were mitigated through multiple support measures and demographically targeted transfers. These measures included wage subsidies and support to domestic enterprises in the form of non-returnable transfers, loans, tax reliefs and deferrals. The unemployment rate was contained, and it retreated to 5.8 percent by July 2021, as the economy started to recover. Rapid assessments show that household income declines and work stoppages were more widespread and pronounced in the first pandemic wave but have moderated in subsequent waves. Work stoppages had a more pronounced impact on lower-wage workers and those with non-standard contracts, who were also less covered by protective policies. National extreme poverty increased and there was a notable rise in income inequality, reflecting the unequal labor market impacts.

The current account surplus narrowed to 1.9 percent of GDP in the first half of 2021, from 3.5 percent of GDP in 2020, as primary income outflows increased.

The fiscal stimulus and the recession caused the fiscal deficit to widen to 7 percent of GDP in 2020, from 0.7 percent in 2019.

Financial sector capital adequacy ratios remain adequate.

Outlook

Economic growth is expected to remain above potential in 2022, with output expanding by more than 4.5 percent and a widening of the output gap. A leveling of demand in the euro area will slow export growth, while improved confidence and investment execution, including through the National Recovery and Resilience Plan (NRRP), will support growth. Domestic demand will be supported by the proposed "Polish Deal", a new socio-economic program for 2021-30. The program calls for new PIT relief that will strengthen the progressivity of the PIT, increased spending on health care to 6 percent of GDP by 2023, as well as a large infrastructure and local public investment program, among others. The outlook incorporates the uncertainty arising from the new COVID-19 strains.

The crisis has put a financial strain on poor working households that are more vulnerable to reductions in hours worked and job loss. The share of the population at risk of poverty is expected to remain elevated through 2022.

Strong import demand, higher import prices, and higher primary income outflows are expected to reduce the current account surplus to below 2 percent of GDP in 2021.

To fund its NRRP Poland requested €23.9 billion in grants and €12.1 billion of preferential loans under the "Next Generation EU", which is yet to be approved. The NRRP would be implemented by 2023, with disbursements finalized by 2026.

The fiscal deficit is expected to narrow in 2021 by close to 2 percentage points, due to lower central government deficit. A gradual consolidation is expected over the 2022-2023 period, as economic growth accelerates, and the fiscal stimulus is withdrawn.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	4.7	-2.7	4.5	4.7	3.4
Private Consumption	4.5	3.9	-3.1	5.5	4.7	3.3
Government Consumption	3.5	6.5	4.4	3.2	4.5	3.5
Gross Fixed Capital Investment	9.4	6.1	-9.6	4.2	7.3	7.4
Exports, Goods and Services	6.9	5.2	-0.2	9.4	5.7	5.5
Imports, Goods and Services	7.4	3.0	-1.9	10.3	6.9	6.8
Real GDP growth, at constant factor prices	5.3	4.6	-2.8	4.5	4.8	3.3
Agriculture	-9.1	-0.8	-3.0	4.0	1.0	1.0
Industry	7.0	2.1	-1.0	6.1	3.7	3.3
Services	5.0	6.1	-3.7	3.7	5.4	3.4
Inflation (Consumer Price Index)	1.6	2.3	3.4	4.2	3.6	3.1
Current Account Balance (% of GDP)	-1.3	0.5	3.5	2.1	1.6	0.9
Net Foreign Direct Investment (% of GDP)	-2.6	-1.6	-1.4	-1.2	-1.0	-1.0
Fiscal Balance (% of GDP)	-0.2	-0.7	-7.0	-5.1	-3.2	-3.0
Debt (% of GDP)	48.8	45.6	57.5	57.6	56.5	56.1
Primary Balance (% of GDP)	1.2	0.7	-5.7	-4.0	-2.0	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.4	0.3	0.4	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.5	0.5	0.5	0.5	0.4	0.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.2	1.1	1.2	1.2	1.1	1.0
GHG emissions growth (mtCO2e)	-0.1	-3.5	-8.3	3.0	0.5	-0.4
Energy related GHG emissions (% of total)	87.5	87.2	86.9	87.4	87.6	87.6

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

(a) Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2018-EU-SILC. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

(b) Projection using point-to-point elasticity (2007-2018) with pass-through = 1based on GDP per capita in constant LCU.

ROMANIA

Table 1	2020
Population, million	19.2
GDP, current US$ billion	249.0
GDP per capita, current US$	12968.8
International poverty rate ($ 1.9)[a]	2.6
Lower middle-income poverty rate ($ 3.2)[a]	5.3
Upper middle-income poverty rate ($ 5.5)[a]	11.0
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	87.3
Life expectancy at birth, years[b]	75.5
Total GHG Emissions (mtCO2e)	75.5

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

Amidst relaxed containment measures and increased business and consumer confidence, economic recovery gathered momentum with real GDP growing by 6.5 percent in H1, 2021. The economy is projected to expand by 7.3 percent this year, amongst the highest in the EU, with output returning to pre-pandemic levels. However, the fiscal deficit will remain elevated in 2021, at around 7.4 percent of GDP. Poverty is expected to have declined to 11 percent in 2021.

Key conditions and challenges

Romania had a short-lived stint as a high-income country in 2020 (WB Atlas classification) following post-GFC growth averaging 5 percent per year. The pandemic-triggered crisis, however, pulled the country back into the upper-middle-income group. In the medium to long term, Romania needs to address its structural constraints, including persistent twin deficits, high inequalities, and weak growth fundamentals stemming from low productivity, labor quality issues, mainly due to shortcomings in the quality and inclusiveness of education and skills shortages, and labor quantity issues. Growth potential is further hindered by the shallow financial sector, limiting the availability of long-term finance.

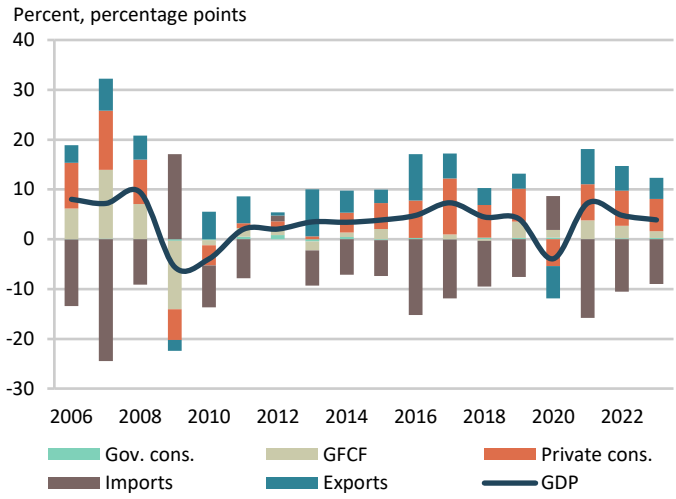
The Government provided one of the lowest fiscal stimuli in the EU to mitigate the impact of COVID-19, reflecting the limited fiscal space. In the first COVID wave, poor and vulnerable households were less supported by the fiscal response measures, which extended more directly to those in formal employment. Subsequent government programs for daily wage and seasonal workers extended protection to typically more vulnerable segments. As a result of these measures together with a robust economic rebound, the share of Romanian population living on less than $5.5 a day at 2011 revised PPP prices is estimated to have declined from 11.6 percent in 2020 to 11 percent in 2021.

The key challenge in the short term is to contain the COVID-19 crisis and limit its health, economic and social impacts. Romania is lagging in vaccination, with about 28 percent of the population having received at least one dose as of early September, which may jeopardize recovery. Increased inflationary pressures will trigger a more hawkish stance from the National Bank of Romania. Once recovery is firmly established, fiscal consolidation will be critical to avoid sharp increases in debt levels. Given Romania's limited fiscal space, maximal absorption of the EU Multiannual Financial Framework and Next Generation EU (NGEU) funds will be crucial for a sustainable recovery.

Recent developments

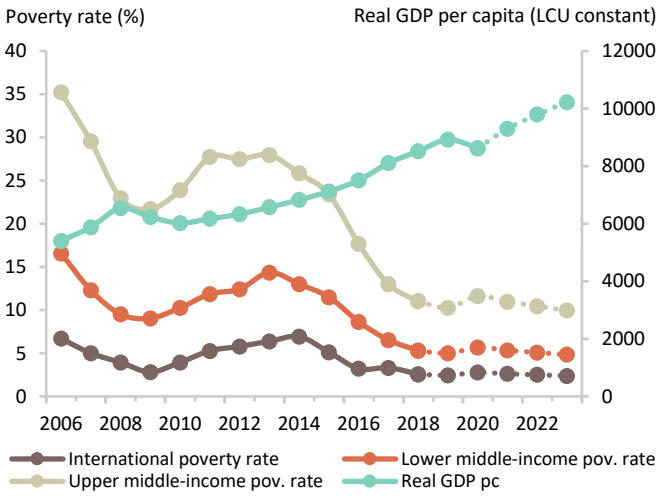
The Romanian economy grew by 6.5 percent in H1, 2021 on the back of better-than-expected Q2 performance at 13.0 percent yoy. Private consumption recovered strongly in H1, 2021 (up 5.2 percent yoy) led by robust demand for durable and household goods. Increased business and consumer confidence also supported higher investment (up 11.9 percent yoy). However, higher prices of raw materials could temper investment growth over the short to medium term. The trade deficit marginally decreased as both exports (up 16.8 percent yoy), and imports (up 20 percent yoy) recovered, benefiting from the gradual reopening of the EU economies and the low base effect. On the supply side, growth was led by industry (up 10.4 percent yoy), as

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



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

new industrial orders recovered strongly, signaling continued output expansion. The ICT sector (up 14.1 percent yoy) benefited from increased remote work needs. Strong economic recovery and labor supply constraints reduced unemployment to 5.2 percent in June from as high as 5.9 percent in January 2021. Labor shortages coupled with higher inflation expectations led to wage increases, with nominal net wages up by 7.4 percent yoy in June 2021. The National Bank of Romania kept the policy interest rate unchanged at 1.25 percent in August, signaling a more hawkish stance. Further cuts are unlikely this year, given recent inflationary pressures as the annual inflation rate accelerated to 5 percent in July 2021.

Results from the recent round of the Rapid Household Assessment show a lessening impact of the crisis on Romanian households as temporarily inactive workers returned to work and household income partially recovered. Poverty is anticipated to have declined to 11 percent in 2021 yet remains above the pre-crisis level. In March, 14 percent of Romanian households reported a reduction in income compared to 31 percent during the first wave of the pandemic. The persistent impacts of the pandemic on household income, despite an overall recovery in employment, mean that some vulnerable population segments, in particular lower-earning workers and those on non-standard contracts, continued to bear the brunt of the crisis.

The fiscal deficit reduced to 3 percent of GDP in H1 of 2021, 1.3 percentage points lower than in the same period of last year. Tax facilities and exceptional expenditures allocated to combat the effects of the COVID-19 pandemic totaled 8.1 billion Ron (1.2 percent of GDP in H1 2021). Higher revenues (up 20.6 percent yoy) on the back of strong economic recovery offset the 9.8 percent yoy increase in expenditure, but fiscal pressures remain significant.

Outlook

The economy is projected to rebound at 7.3 percent in 2021 on the back of the recovery in domestic demand, and growth will settle around potential (4 percent) over the medium term. The strength of the recovery will depend on tackling the low vaccination rate, which reflects high vaccine hesitancy, the evolution of the Delta variant, and the policy response to the health crisis. Romania's capacity to absorb the EU funds will be critical to a sustainable recovery process. In a scenario of 100% absorption of the Resilience and Recovery funds, Romania's real GDP growth will, on average, rise by one percentage point per year between 2021 and 2026. Private and public investment will benefit from the phasing in of projects financed by EU funds. Exports are set to recover, aided by the gradual recovery of global trade. As growth recovers, inflationary and current account deficit pressures are expected to strengthen, requiring an appropriate policy response.

The fiscal deficit will remain high in 2021, at around 7.4 percent of GDP, but risks are tilted to the upside as the recent budget revision increased the planned expenditures by 1.6 percent of projected GDP while being overly optimistic as to revenue increases. Renewed attention should be given to fiscal consolidation to avoid an unsustainable increase in public debt over the medium term.

An economic rebound is expected to gradually reduce poverty. Poverty is projected to decline to 10 percent by 2023. However, the triple hit in income in 2020 – the persistent pandemic, a prolonged drought, and declining remittance incomes – could mean a longer recovery process for vulnerable population segments compared to others in the coming years.

TABLE 2 Romania / 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	4.5	4.1	-3.9	7.3	4.8	3.9
Private Consumption	6.5	6.4	-5.1	7.0	6.8	6.1
Government Consumption	6.8	5.0	6.5	1.1	4.2	5.1
Gross Fixed Capital Investment	-1.1	13.0	5.6	12.5	7.8	4.2
Exports, Goods and Services	5.3	4.6	-10.0	11.6	7.8	6.5
Imports, Goods and Services	8.6	6.8	-6.0	14.2	8.9	7.3
Real GDP growth, at constant factor prices	3.9	4.0	-3.3	7.3	4.8	3.9
Agriculture	9.4	-5.0	-16.2	3.2	4.2	2.9
Industry	4.3	-0.6	-9.3	9.7	4.3	4.1
Services	3.2	7.6	0.9	6.5	5.1	3.9
Inflation (Consumer Price Index)	4.6	3.8	2.6	4.5	3.7	3.2
Current Account Balance (% of GDP)	-5.3	-4.7	-5.0	-6.1	-6.2	-6.4
Net Foreign Direct Investment (% of GDP)	2.3	2.3	0.9	2.7	2.6	2.6
Fiscal Balance (% of GDP)	-2.9	-4.4	-9.2	-7.4	-6.2	-4.7
Debt (% of GDP)	34.7	35.2	47.3	51.2	54.7	57.6
Primary Balance (% of GDP)	-1.8	-3.2	-7.8	-5.9	-4.3	-2.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	2.5	2.8	2.6	2.5	2.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.3	5.0	5.7	5.4	5.1	4.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	11.0	10.3	11.6	11.0	10.5	10.0
GHG emissions growth (mtCO2e)	0.5	2.2	-14.2	4.3	2.6	1.4
Energy related GHG emissions (% of total)	84.7	85.9	87.5	87.4	87.5	87.6

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

(a) Calculations based on ECAPOV harmonization, using 2007-EU-SILC, 2017-EU-SILC, 2018-EU-SILC.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.
(b) Projection is based on elasticities calibrated on 2007-2018 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.

RUSSIAN FEDERATION

Table 1	2020
Population, million	144.1
GDP, current US$ billion	1486.9
GNI per capita, US$ (Atlas method)	10690.0
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.4
Upper middle-income poverty rate ($5.5)[a]	3.7
Gini index[b]	37.5
School enrollment, primary (% gross)[b]	104.7
Life expectancy at birth, years[c]	73.1

Sources: WDI, MPO, Rosstat.
(a) Most recent value (2018), 2011PPPs.
(b) Most recent WDI value (2018).
(c) Most recent WDI value (2019).

Russia's economic recovery is set to exceed expectations this year. Rising commodity prices and buoyant external and domestic demand has boosted the projected GDP growth rate to 4.3 percent. However, persistent structural constraints are expected to slow growth in 2022 and 2023. Ably navigating the global low-carbon transition will be key to Russia's outlook in future years and will call for important public policy choices and economic diversification.

Key conditions and challenges

Significant macro-fiscal stabilization efforts undertaken by the government before the COVID-19 pandemic have underpinned Russia's ability to effectively respond to pandemic's adverse social and economic impacts. After providing substantial countercyclical fiscal stimulus and accommodative monetary policy to support the recovery, the authorities are now moving to phase out the stimulus and normalize Russia's policy frameworks. However, the negative effects of the pandemic on growth potential—including those stemming from learning losses, ongoing restrictions on certain service activities, and diminished migrant inflows—will require continued policy attention.

Russia's potential growth rate has been trending downward since the global financial crisis. Faster growth will hinge on the success of efforts to promote economic diversification, reduce the state's economic footprint, level the playing field for the private sector, and improve economic governance— especially as it pertains to state-owned enterprises. Moreover, the carbon intensity of domestic economic activity is about twice the world average, and Russia continues to rely heavily on earnings from fossil-fuel exports. In 2021, Russia announced its interest in stepping up international cooperation on climate change, and in June 2021 a new regulation on greenhouse gases was approved. However, a low-carbon transition will pose significant challenges for the Russian economy unless the government takes preemptive steps to facilitate people centered low-carbon growth.

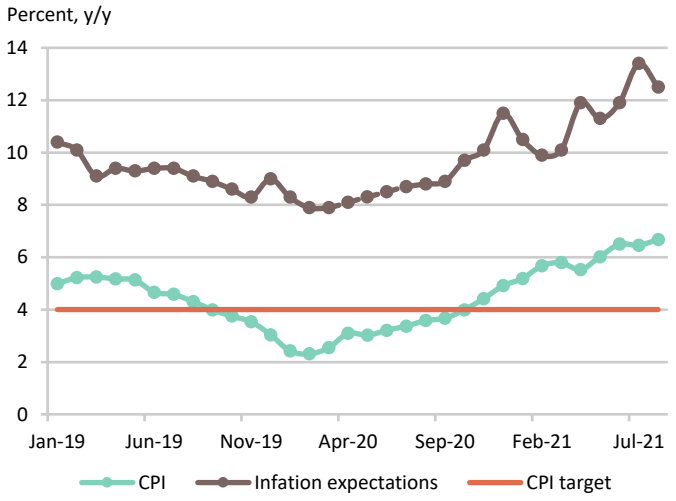
Recent developments

Russia's GDP grew strongly, by 10.5 percent year-on-year, in the second quarter of 2021, with GDP topping its pre-pandemic level. Relatively high commodity prices and external demand combined with a robust recovery in domestic demand as labor markets strengthened, credit growth was robust, and elements of social support were continued, built growth momentum this year.

Russia's third wave of COVID-19 infections peaked in mid-July, but the incidence of new cases remains elevated, and the number of new deaths related to COVID-19 is close to its peak. Vaccination rates are rising, but the share of the population that is fully vaccinated remains below both the world average and the levels of comparator countries.

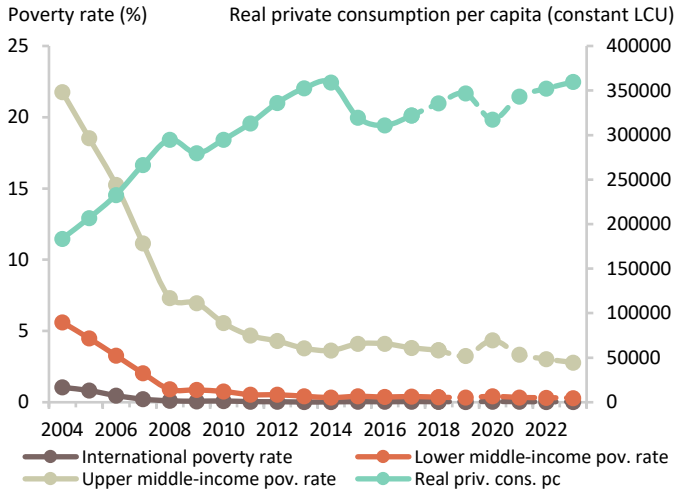
Crude oil extraction continues to be constrained by the OPEC+ production agreement and is not expected to return to pre-pandemic levels before May 2022. Government support programs have buoyed the construction industry, retail trade was supported by the economic recovery and new credit. High-frequency indicators for the third quarter show growth moderating as the output gap narrows. The Russian banking sector has successfully

FIGURE 1 Russian Federation / Consumer price index and inflation expectations



Sources: Rosstat and Bank of Russia.
Note: In April – July 2020, due to the self-isolation measures introduced by the government in connection with the spread of Covid-19 infection regular surveys of the population in the format of personal interviews were suspended.

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



Source: World Bank. Notes: see Table 2.

weathered the COVID-19 crisis. The banking sector's key credit-risk and performance indicators have remained largely stable since the beginning of the pandemic, with an overall capital-adequacy ratio of 12.4 percent (as of August 1, 2021).

In the first half of 2021, the general government registered a surplus of 2.4 percent of GDP compared to a deficit of 1.8 percent deficit in the first half of 2020. With the removal of emergency support measures primary expenditures dropped by 3.8 percentage points of GDP while economic rebound and higher commodities prices boosted receipts from oil/gas-sector taxes and VAT.

Rebounding domestic demand in a context of persistent supply bottlenecks and elevated global commodity prices pushed the annual inflation rate to a five-year high of 6.7 percent in August, and inflationary expectations are also elevated. These developments prompted the central bank to increase interest rate by a cumulative 250 basis points to 6.75 percent by September 2021.

The labor market has been steadily improving since August 2020, and the unemployment rate fell to 4.5 percent in July 2021, close to its pre-pandemic level. The official poverty rate reached 14.4 percent in the first quarter of 2021, as the impact of the pandemic endured while emergency safety-net measures were phased out. This rate is not strictly comparable to the previous series because of changes in methodology adopted by ROSSTAT in December 2020. In the second quarter, it fell to 13.1 percent, driven by improvements in the labor market and new support for low-income households with children.

Outlook

The GDP growth rate is expected to reach 4.3 in 2021 before declining to 2.8 percent in 2022. With the output gap closing in 2021, growth is expected to moderate toward its trend level and reach 1.8 percent in 2023. A continued global economic recovery, relatively high oil prices, and an improved COVID situation are expected to help consolidate the incipient recovery of domestic demand. A gradual easing of OPEC+ restrictions by end-September 2022 will boost the oil sector's output, while less-stringent COVID measures will benefit several services subsectors. Meanwhile, improved business confidence and high profits for resource-oriented companies will accelerate investment growth. Moderate pressure on bank capitalization is expected in the medium term, as the share of restructured loans is high at 13 percent of all loans. However, following the withdrawal of forbearance in July, asset-quality problems have now largely materialized and are adequately covered by reserves. Rising interest rates, recent changes to the subsidized mortgage-lending program, and new macro-prudential measures are expected to help slow the rapid growth of retail lending (22 percent, year-on-year), which has been driven by mortgages and unsecured loans.

The poverty rate at the upper-middle-income poverty line of US$5.5 per day is expected to decline in 2021 as the economy rebounds, but it is projected to remain above pre-pandemic levels until 2022.

Downside risks have intensified. With low vaccination rates, the evolution of the pandemic remains the primary source of immediate risk. New sanctions and an abrupt tightening of global financing conditions could also worsen Russia's outlook.

TABLE 2 Russian Federation / 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	2.8	2.0	-3.0	4.3	2.8	1.8
Private Consumption	4.3	3.2	-8.6	7.8	2.5	2.0
Government Consumption	1.3	2.4	4.0	-0.9	-1.0	1.0
Gross Fixed Capital Investment	0.6	1.5	-4.3	4.2	3.6	3.2
Exports, Goods and Services	5.0	1.4	-4.3	5.3	4.9	3.0
Imports, Goods and Services	2.7	3.4	-12.0	15.9	4.2	3.7
Real GDP growth, at constant factor prices	2.8	2.0	-2.7	4.3	2.8	1.8
Agriculture	1.7	3.5	0.2	1.1	1.8	1.8
Industry	2.9	1.5	-3.2	4.2	3.6	2.2
Services	2.8	2.2	-2.6	4.6	2.5	1.7
Inflation (Consumer Price Index)	2.9	4.5	3.4	6.2	4.8	4.0
Current Account Balance (% of GDP)	7.0	3.9	2.4	5.5	4.6	2.7
Net Foreign Direct Investment (% of GDP)	-1.4	0.6	-0.2	-1.1	-0.7	-0.5
Fiscal Balance (% of GDP)[a]	2.9	1.9	-4.0	-0.2	1.5	1.1
Debt (% of GDP)	14.6	14.7	20.4	21.1	21.2	21.4
Primary Balance (% of GDP)[a]	3.8	2.7	-3.2	0.6	2.4	2.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.0	0.0	0.1	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	0.4	0.3	0.4	0.3	0.3	0.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	3.7	3.2	4.3	3.3	3.0	2.8
GHG emissions growth (mtCO2e)	5.4	2.4	-6.5	2.7	3.1	1.3
Energy related GHG emissions (% of total)	95.2	91.6	92.7	91.8	90.4	89.7

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

(a) Fiscal and Primary Balance refer to general government balances.

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

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

SERBIA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	53.0
GDP per capita, current US$	7681.2
Upper middle-income poverty rate ($5.5)[a]	19.8
Gini index[a]	37.2
School enrollment, primary (% gross)[b]	99.6
Life expectancy at birth, years[b]	75.7

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

The Serbian economy is recovering well from the impact of COVID-19 pandemic that led to a mild recession of -1 percent in 2020 and poverty incidence remains close to its 2019 value at 17.1 percent. Growth will rebound in 2021 to an estimated 6 percent, and to stabilize around 4 percent over the medium term, but this is critically dependent on the recovery of the world economy, the ability to contain COVID-19 and the pace and depth of key structural reforms.

Key conditions and challenges

The focus of the Government of Serbia in 2020 was on supporting the economy to recover from the impact of the COVID-19 pandemic. The Serbian government approved a robust fiscal stimulus program – amounting to nearly 13 percent of GDP – at the outset of the pandemic. The program comprised direct budgetary measures (tax deferrals and higher spending) and guarantees, corresponding to 8 percent of GDP and 4.8 percent of GDP respectively. Thanks to the timely deployment of the program, the economy experienced only a mild recession (of -1 percent) in 2020. The impact of the program, however, came at considerable fiscal cost. The fiscal deficit reached 8.1 percent of GDP in 2020 and public debt increased to 58.2 percent of GDP.

The rate of economic growth averaged 1.9 percent annually in the decade prior to the pandemic and had started to increase just before the onset of COVID-19, with growth averaging 4.4 percent in 2018-19. Consumption was the main driver of growth while investment remained low, hovering around 19 percent of GDP during 2010-19.

Over the medium term the Serbian economy is expected to return to the pre-pandemic growth levels. However, Serbia still faces challenges that limit its potential growth both in the short and medium to long terms. Most importantly, Serbia needs to further remove bottlenecks for private sector investment. These include a deteriorating governance environment, lack of infrastructure and an unreformed education sector, which creates skills mismatches in the labor market. With limited space for future stimulus packages, structural reforms are needed to bring the economy back to sustained growth, boost jobs and incomes and strengthen resilience to shocks.

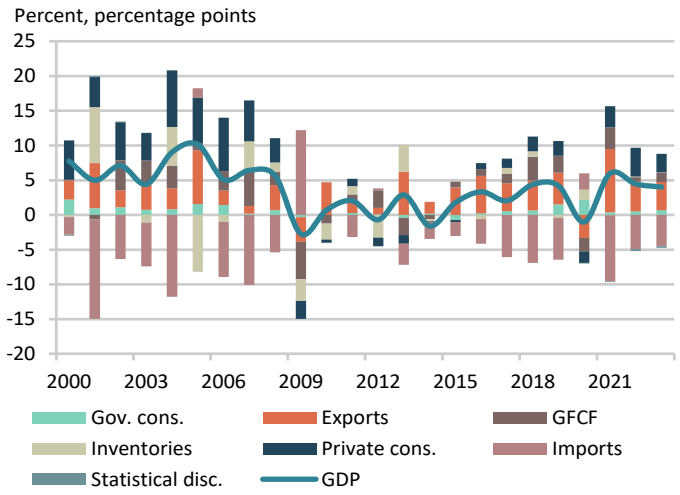
Recent developments

The Serbian economy started to show signs of recovery in the first half of 2021. After three consecutive quarters of decline (Q2-Q4 2020), the economy grew 1.8 percent y/y in Q1. Growth accelerated in Q2 and is estimated at 13.7 percent, well above expectations. As a result, projected growth for 2021 has been revised upwards from 5 to 6 percent.

The fast increase in exports underpinned the recovery in 2021: the contribution to growth of net exports was 5.2 percentage points in Q1. Exports increased across the board, with raw materials having the most significant impact; while consumption and investment contributed negatively to growth (-1.4 and -2.1 percentage points respectively) in Q1. During the second quarter, however, the drivers of growth changed with consumption having the main impact on GDP growth.

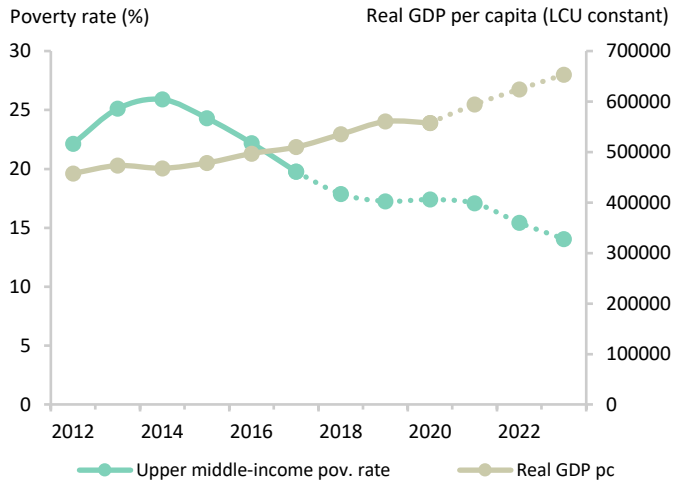
The wage subsidy and cash transfers to citizens in 2020 helped to avert a spike in poverty. Due to the support package,

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



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

limited labor market impacts, and growth in agriculture, poverty (defined as income under $5.5/day in revised 2011 PPP) is estimated to have only slightly increased from 17.3 percent in 2019 to 17.4 percent in 2020.

Despite an economic rebound, the labor market recovery has been sluggish. The Q1 and Q2 employment rates of 46.3 and 48.3 percent are down from 49.7 percent in Q4 2020 and lower than those in 2019, as measured by the Labor Force Survey. The unemployment rate increased from 9.9 percent in Q4 2020 to 12.8 and 11.1 percent in Q1 and Q2 2021. In the formal sector, average net salaries and wages increased by 6.2 percent in real terms in January - June 2021 compared to 2020.

The fiscal deficit increased significantly in 2020 to 8.1 percent of GDP. It is projected to decline to 6.9 percent of GDP in 2021, despite the continuation of an expansionary fiscal stance in 2021. Public debt is projected to increase to 60.3 percent by end-2021.

Inflation has been on the rise since April 2021 and reached a peak of 4.3 percent in August, with adverse effects on households' purchasing power. It is expected that by year-end inflation will stay at around 3 percent y/y. The dinar has remained broadly stable against the euro at around 117.6 RSD/EUR. The banking sector's performance remains robust even after the phasing out of two rounds of debt moratoria introduced in 2020 as part of the COVID-19 response measures. NPLs stood at 3.6 percent as of June 2021. The current account deficit decreased significantly – from 6.9 percent of GDP in 2019 to 4.3 percent in 2020, primarily due to improved primary income balance – and reached 0.9 percent of GDP in the first half of 2021 which is likely to result in the CAD falling to below the originally projected 5 percent of GDP.

Outlook

The economic recovery is expected to continue in the second half of the year, with growth expected to reach 6 percent for 2021. A package of measures to support citizens and the economy – worth around 4.5 percent of GDP – will support growth. Over the medium term, growth is expected to be around 4 percent, driven mainly by consumption while investment will recover only slowly, with possible adverse repercussions on employment and wages. This medium-term outlook crucially depends on the recovery of the world economy, the ability to contain COVID-19, the pace and depth of structural reforms and political developments.

Among immediate priorities for action, lowering the cost of doing business and improving the quality of infrastructure figure prominently. In the medium to long term, challenges include managing an ageing population and climate change. An aging and shrinking population will leave Serbia with a smaller labor force. Labor shortages, combined with skills mismatches, could significantly hurt the competitiveness of the Serbian economy. In addition, more frequent and severe droughts and floods can adversely impact agriculture and food production and will increase the cost of maintaining infrastructure.

The pace of labor market recovery will be critical for resumed poverty reduction. Poor and vulnerable households, who tend to depend more on self-employment and less secure jobs, may take longer to regain their income levels. Labor market challenges could also exacerbate the ongoing brain-drain. With the lag in labor market improvements in early 2021, poverty is projected to remain close to its 2019 level, at 17.1 percent.

TABLE 2 Serbia / 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	4.4	4.2	-1.0	6.0	4.5	4.0
Private Consumption	3.1	3.1	-2.5	4.6	6.3	4.0
Government Consumption	3.7	8.7	11.8	1.9	2.5	3.5
Gross Fixed Capital Investment	17.8	11.2	-8.2	14.5	2.6	5.8
Exports, Goods and Services	8.3	8.5	-5.9	17.1	7.4	6.7
Imports, Goods and Services	11.6	9.5	-3.5	14.7	7.0	6.2
Real GDP growth, at constant factor prices	4.5	4.2	-1.0	6.0	4.5	4.0
Agriculture	15.2	0.0	4.2	-0.5	1.0	1.0
Industry	2.8	0.2	0.0	5.2	4.4	4.5
Services	4.1	6.8	-2.1	7.2	4.9	4.2
Inflation (Consumer Price Index)	2.0	2.2	1.6	2.5	2.8	2.6
Current Account Balance (% of GDP)	-5.2	-6.9	-4.4	-5.0	-5.0	-4.9
Net Foreign Direct Investment (% of GDP)	3.8	6.3	4.8	4.9	5.5	5.2
Fiscal Balance (% of GDP)	0.6	-0.2	-8.1	-6.9	-3.0	-1.8
Debt (% of GDP)	55.6	52.9	58.2	60.3	58.9	56.1
Primary Balance (% of GDP)	2.7	1.4	-7.1	-5.7	-0.9	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.9	17.3	17.4	17.1	15.4	14.1

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

(a) Calculations based on ECAPOV harmonization, using 2013-EU-SILC and 2017-EU-SILC.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.
(b) Projection using point-to-point elasticity (2013-2017) with pass-through = 0.7 based on GDP per capita in constant LCU, and lower pass through in 2021reflecting the lag in labor market improvements.

TAJIKISTAN

Table 1	2020
Population, million	9.5
GDP, current US$ billion	8.2
GDP per capita, current US$	863.2
International poverty rate ($ 1.9)[a]	4.1
Lower middle-income poverty rate ($ 3.2)[a]	17.8
Upper middle-income poverty rate ($ 5.5)[a]	50.5
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	71.1
Total GHG Emissions (mtCO2e)	16.9

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

Tajikistan's economy rebounded strongly from the 2020 pandemic, supported by solid exports of gold, strengthening remittances, and investment inflows. While the overall poverty rate has been falling, climbing inflation exacerbated food insecurity among the most vulnerable. Over the medium term, GDP growth at around 5 percent a year is expected to reduce the poverty rate further; however, downside risks prevail.

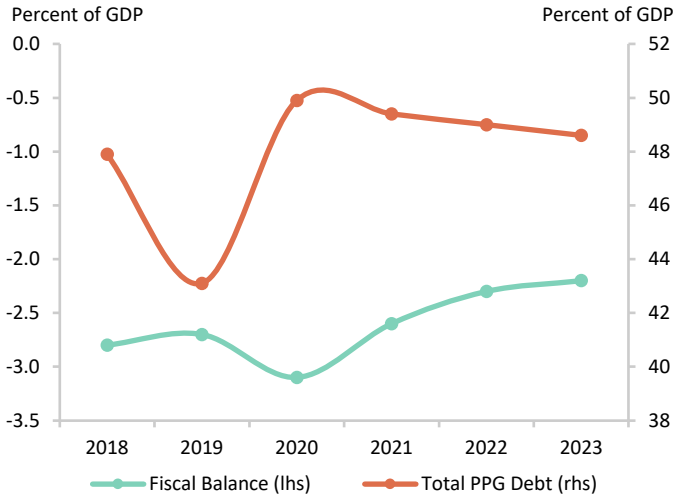
Key conditions and challenges

Tajikistan's robust economic growth in the past 10 years translated into significant poverty alleviation. The officially reported real GDP growth averaged 6.9 percent per year during 2011–20, benefiting from solid remittance inflows and externally financed public investments. During the pandemic, in 2020, the Tajik economy showed resilience by registering a growth rate of 4.5 percent. However, despite the strong economic performance, Tajikistan still struggles to eliminate food insecurity and overcome domestic structural bottlenecks to create jobs. This primarily concerns an environment unconducive to private investment, inefficient governance of the state-owned enterprises (SOE), imprudent management of public finances, and weak institutional capacity. Most SOEs are loss-making, and the government regularly bails them out by clearing their arrears to suppliers and creditors and writing off tax obligations. Unbalanced prioritization of budgetary spending, mainly due to the energy sector crowds out investments for human capital development and creates substantial pressure on the state budget by pushing the public debt level to the verge of sustainability. Generous tax exemptions on one side and onerous revenue mobilization efforts on the other side have washed away the level playing field for healthy competition for the private sector. Moreover, the business environment has been suffering from weak institutional capacity to protect property rights and enforce contracts and the rule of law.

Recent developments

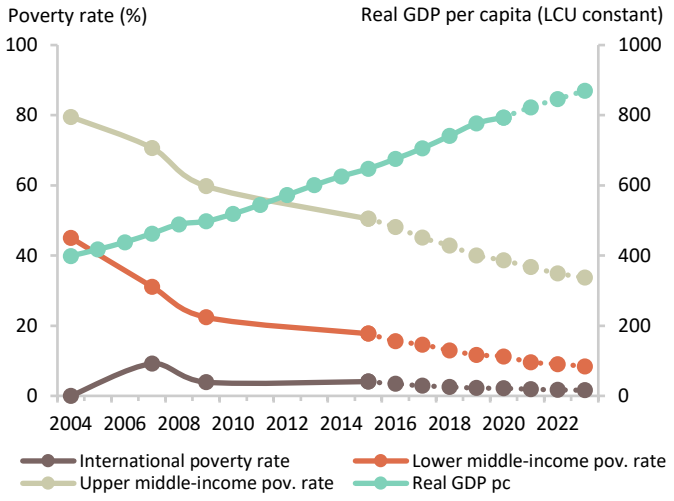
After the economic slowdown in 2020, Tajikistan's GDP grew at an annual rate of 8.7 percent in the first half of 2021. The continued sharp increase in the export of precious metals and a pickup in private investment and consumption supported this solid economic rebound. The resumption of air traffic with Russia allowed migrants to resume traveling abroad and restore the inflow of remittances. The share of households with at least one migrant abroad reached 40 percent in August 2021, compared with 34 percent a year earlier.
Driven by large increases in gold exports, Tajikistan's current account surplus increased to 6.2 percent of GDP in the first quarter of 2021 from 4.1 percent in 2020. The export of precious metals attained a new height, $709 million, followed by the export of minerals and textiles. Higher remittance inflows, a stable exchange rate, and the release of pent-up demand strengthened consumer and capital goods imports. Foreign investments rose by about 35 percent (y/y) in the first eight months of 2021, primarily because of strong Chinese interest in the mining industry. In mid-2021, the central bank's net foreign assets stood at about seven months of import cover.

FIGURE 1 Tajikistan / Fiscal balance and total public and publicly guaranteed (PPG) debt



Sources: Ministry of Finance, World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

Following expansionary fiscal policy in 2020, the government pursued budgetary consolidation during 2021. The fiscal deficit amounted to 1.5 percent of GDP compared with 3.1 percent a year earlier. External donor support in infrastructure projects financed the budgetary gap. At about 50 percent of GDP, Tajikistan's public debt remains at high risk of debt distress. The country did not extend its participation in the 2021 Debt Service Suspension Initiative after suspending $42.8 million of debt service in 2020.

To combat rising inflation, the authorities gradually increased the policy rate from 10.75 percent at the end of last year to 13 percent by August 2021. Due to rising fuel and food prices, the 12-month inflation stood at 9.4 percent in August 2021—above the central bank's medium-term inflation target of 6 percent (+/-2). Solid economic activity improved the financial sector's overall performance, with the share of overdue loans in the total lending portfolio declining to 15.5 percent by mid-2021 from 23.8 percent in 2020. Some improvement in asset quality is also attributed to the liquidation of two insolvent banks with relatively higher shares in bad loans.

Despite a strong economic rebound, the share of households reporting reduced food consumption increased to 33 percent in August 2021 compared with 28 percent a year earlier. A sharp increase in consumer prices coupled with falling household wage incomes increased food insecurity, particularly for vulnerable households without remittance income. The government plans to further enhance its support to the most vulnerable, starting in the fourth quarter of this year, by providing additional emergency transfers to women-headed families with children and those with disabilities.

Outlook

The economic outlook hinges on the pace of the vaccination rollout and the resiliency of the global economy. The government expects new deliveries of vaccines in the remainder of 2021 and next year through donations and self-procurement. Real GDP is projected at 6.0 percent in 2021 and moderate in the medium term. Remittances and foreign investment are projected to rise, reflecting a better growth outlook in Russia and China. Commodity and food prices will exert upward price pressure. Poverty is projected to fall in 2021, thanks to economic recovery and improvements in household income.

The fiscal deficit is projected to narrow to about 2–2.5 percent of GDP in the medium term. The most pressure on the state budget is likely to come from COVID-19-related spending on healthcare, social protection, and development projects in infrastructure, particularly energy and transport.

There are substantial risks to the outlook. Growth prospects are affected by possible new flareups of COVID-19, the precarious situation in neighboring Afghanistan, and the unresolved border dispute with the Kyrgyz Republic. Top domestic challenges include inefficient SOEs, insufficient development of the private sector, and weak institutional capacity. The newly developed tax code is expected to establish a better dialogue between the state and the private sector in the medium term.

TABLE 2 Tajikistan / 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	7.6	7.4	4.5	6.0	5.0	5.0
Private Consumption	7.2	7.1	-4.4	2.8	4.0	3.8
Government Consumption	3.8	3.5	0.4	4.2	2.7	3.0
Gross Fixed Capital Investment	7.9	-6.4	-6.6	9.4	6.0	7.6
Exports, Goods and Services	2.2	3.5	9.6	9.3	3.4	3.6
Imports, Goods and Services	3.3	2.2	-2.8	7.5	2.7	2.9
Real GDP growth, at constant factor prices	7.8	8.7	4.3	5.8	5.0	5.0
Agriculture	4.0	7.1	8.8	5.6	5.5	5.0
Industry	11.8	13.6	9.7	9.5	7.0	6.5
Services	6.3	4.9	-4.0	1.4	2.2	3.1
Inflation (Consumer Price Index)	3.9	8.0	8.6	7.8	7.0	6.5
Current Account Balance (% of GDP)	-5.0	-2.2	4.1	1.9	1.1	-0.4
Net Foreign Direct Investment (% of GDP)	3.3	2.3	0.4	1.8	2.1	2.3
Fiscal Balance (% of GDP)	-2.7	-2.7	-3.1	-2.6	-2.3	-2.2
Debt (% of GDP)	46.8	43.1	49.9	49.4	49.0	48.6
Primary Balance (% of GDP)	-1.6	-1.7	-2.2	-1.4	-0.7	-0.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	2.3	2.2	2.0	1.8	1.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	13.0	11.7	11.3	9.6	9.1	8.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	42.9	40.1	38.7	36.7	35.0	33.7
GHG emissions growth (mtCO2e)	7.3	7.2	4.4	5.4	5.2	5.2
Energy related GHG emissions (% of total)	45.6	46.0	44.5	45.1	45.3	45.6

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

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

(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

TURKEY

Table 1	2020
Population, million	83.4
GDP, current US$ billion	720.0
GDP per capita, current US$	8633.1
Upper middle-income poverty rate ($5.5)[a]	10.2
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	94.9
Life expectancy at birth, years[b]	77.7
Total GHG Emissions (mtCO2e)	489.1

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

Turkey's economic growth was the second highest among G-20 countries in 2021Q2, driven by strong domestic and external demand, and effective control of COVID-19. GDP is expected to grow by 8.5 percent in 2021 but regaining monetary policy credibility and containing inflation will be the major challenges. Poverty is projected to decline following sharp increases in 2019-2020, and further poverty reduction hinges on ensuring an inclusive recovery with adequate support for vulnerable groups.

Key conditions and challenges

Turkey enjoyed high growth rates between 2002-17, which propelled the country to the higher reaches of upper-middle-income status. But productivity growth has slowed, as reform momentum waned over the last decade, and efforts have turned to supporting growth with credit booms and demand stimulus, exacerbating internal and external vulnerabilities. High private sector debt, persistent current account deficits, high inflation, and high unemployment, have been exacerbated by macro-financial instability since August 2018. Turkey entered the pandemic with lower buffers than its peers.

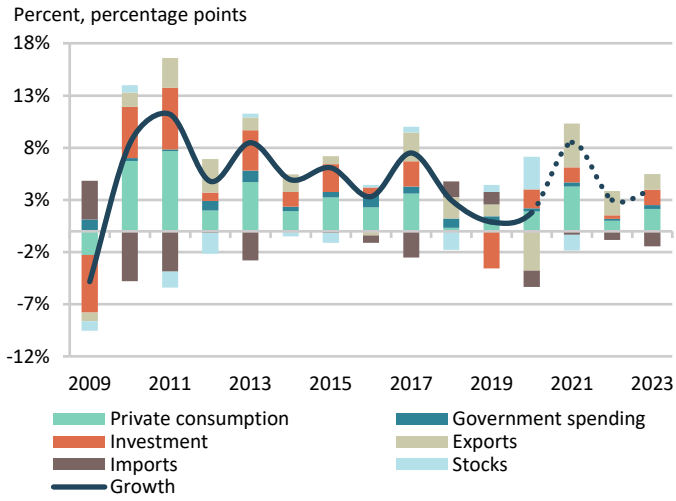
The government's economic policy response to COVID-19 was swift but focused on loose monetary policy and rapid credit expansion. Turkey's economy was one of the few in the G20 and OECD to experience positive growth in 2020. A favorable base effect, an easing of restrictions permitted by accelerated vaccinations, and supportive external demand led to double digit GDP growth in 2021H1, returning the economy and employment to pre-crisis levels. But inflation has risen to nearly 20 percent, while external financing needs have remained elevated and met largely through short-term portfolio flows. Going forward, efforts to rebuild policy credibility and macro stability coupled with reforms focused on labor, product, and financial markets and on strengthening the way institutions work are needed to attract foreign investment and revive productivity growth. Moreover, the high energy and carbon intensity of the economy makes it vulnerable to global and regional decarbonization policies.

Recent developments

Turkey's economy grew by 21.7 percent in 2021Q2 – the second highest among G-20 countries. Good progress in expanding vaccination coverage allowed pandemic-related restrictions to be relaxed in May, supporting a recovery in domestic demand. Private investment and consumption of durables, and increasingly services, have been major contributors to growth, despite the persistently high cost of borrowing and easing of fiscal support. Exports were buoyed by a strong recovery in external demand, currency depreciation, and an opportunity for Turkey to gain market share in the EU as Asian exporters grappled with rising logistic costs and global supply chain constraints.

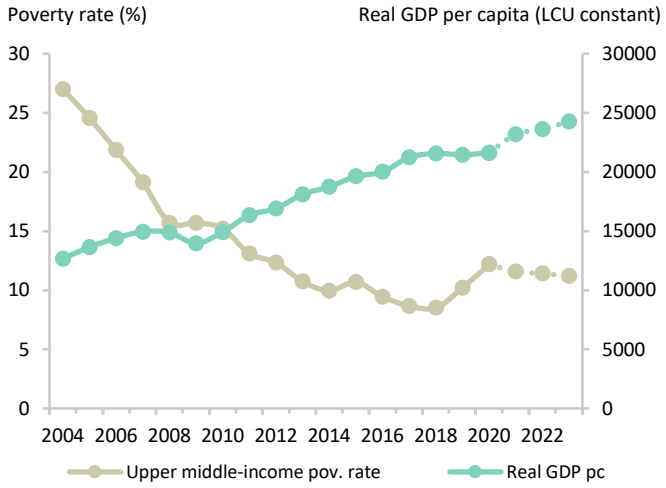
Yet, inflation continued to rise with the weakening of the Lira, rising international commodity prices and demand-side pressures. In August, consumer price inflation reached 19.3 percent and food prices soared by 29 percent whilst producer price inflation rose 45.5 percent. Despite this, the Central Bank reduced the policy rate to 18 percent, resulting in negative real interest rates, and raising policy uncertainty among investors already conscious of frequent

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

changes of central bank governor. Following a credit push in 2020 through public banks, credit growth declined from 30.9 percent at the end of 2020 to 9.3 percent in August in annualized FX-adjusted terms. As forbearance measures are still in place, NPLs are still low at 3.7 percent.

Despite a rising interest burden and elevated Covid-related expenditures, the central government fiscal deficit declined to 1.6 percent of GDP in H1 2021, thanks to strong tax revenue growth driven by buoyant domestic demand. On the other hand, general government debt stock rose from 32.7 percent in 2019 to 39.8 percent in 2020.

The 12-month rolling current account deficit narrowed to 3.9 percent of GDP as exports recovered sharply and gold imports declined. This, combined with new swap deals and the global IMF SDR expansion, supported an increase in gross FX reserves to $122 billion in September. However, reserves net of short-term drains remains negative at -$21.1 billion.

Supported by economic growth, nearly 3 million jobs were generated in January-July 2021, returning employment to pre-crisis levels. Nevertheless, despite new entrants, labor force participation remains low, at 52.1 percent.

Turkey has successfully vaccinated nearly 54 million people (86.5 percent of the eligible population) with their first dose. However, a recent surge in provinces with low vaccination rates has led to daily cases and deaths of close to 20.000 and 250 respectively.

Outlook

While the growth momentum is expected to wane in 2021H2, the economy is still expected to grow by 8.5 percent in 2021 before returning to a path of 3 percent and 4 percent in 2022 and 2023. These baseline projections assume no further COVID-19 restrictions in Turkey or its major export markets or excessive flareups in macro-financial conditions.

Inflation is forecasted to stay high but gradually decline from 17.7 percent in 2021 to 15 percent and 13 percent in 2022 and 2023. As tourism and exports recover, the current account deficit is expected to narrow to 3 percent of GDP in 2021. The general government deficit is projected to decline to 3.4 percent in 2023 as temporary tax reductions and COVID-19 related transfers are reined in.

External risks are balanced, with the upside of a quicker-than-expected recovery in global demand being netted out by potential global financial market disruptions caused by future tightening expectations and supply chain constraints. The continuation of loose monetary policy could further weaken investor confidence, heighten market volatility, and threaten macro-financial stability in the upcoming period. The banking sector remains highly capitalized and with adequate foreign exchange buffers. However, expected removal of forbearance measures are likely to put pressure on banks' balance sheets.

Simulation analysis of the pandemic impacts suggests that Turkey had 1.6 million more poor people in 2020 than 2019, reaching the highest poverty rate since 2012. Swift early government action, including household support measures prevented worse outcomes. However, some job and income protection measures expired as of July 2021 and rising COVID-19 cases may require additional support to protect vulnerable households. The strong rebound in economic growth, the labor market and household incomes are expected to reduce the poverty rate from 12.2 percent in 2020 to 11.6 percent in 2021. Further poverty reduction hinges on ensuring an inclusive recovery with adequate support for vulnerable groups.

TABLE 2 Turkey / 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	0.9	1.8	8.5	3.0	4.0
Private Consumption	0.6	1.5	3.2	7.2	1.7	3.7
Government Consumption	6.5	4.1	2.2	2.8	1.4	2.5
Gross Fixed Capital Investment	-0.2	-12.4	7.2	5.5	1.3	6.0
Exports, Goods and Services	8.8	4.6	-14.8	19.7	10.0	6.0
Imports, Goods and Services	-6.2	-5.4	7.6	1.5	4.0	7.0
Real GDP growth, at constant factor prices	3.3	1.0	1.1	8.5	3.0	4.0
Agriculture	2.1	3.3	5.9	2.8	1.4	2.0
Industry	0.5	-2.9	1.0	13.5	3.0	3.7
Services	4.8	2.7	0.6	6.9	3.2	4.4
Inflation (Consumer Price Index)	16.3	15.2	12.3	17.7	15.0	13.0
Current Account Balance (% of GDP)	-2.8	0.9	-5.2	-3.0	-2.4	-3.1
Net Foreign Direct Investment (% of GDP)	1.2	0.8	0.6	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-2.4	-3.0	-3.9	-4.0	-3.8	-3.4
Debt (% of GDP)	30.2	32.7	39.8	38.2	38.0	37.3
Primary Balance (% of GDP)	-0.2	-0.5	-1.1	-0.9	-0.6	-0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	8.5	10.2	12.2	11.6	11.4	11.2
GHG emissions growth (mtCO2e)	0.0	0.9	2.3	8.7	2.2	3.3
Energy related GHG emissions (% of total)	80.2	79.8	79.4	80.0	79.7	79.7

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

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

(b) Projection using point-to-point elasticity (2011-2019) with pass-through = 1based on GDP per capita in constant LCU.

UKRAINE

Table 1	2020
Population, million	44.0
GDP, current US$ billion	140.9
GDP per capita, current US$	3202.3
International poverty rate ($ 1.9)[a]	0.0
Lower middle-income poverty rate ($ 3.2)[a]	0.2
Upper middle-income poverty rate ($ 5.5)[a]	2.5
Gini index[a]	26.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	71.8
Total GHG Emissions (mtCO2e)	232.0

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2019), 2011 PPPs.
(b) WDI for School enrollment (2014); Life expectancy (2019).

A slow recovery from the COVID-19 shock is underway, supported by high commodity prices and rising government spending. Above-target inflation and rising fiscal spending pressures require continued prudent monetary and fiscal policy. The outlook hinges upon global economic and financing conditions, and implementation of critical reforms to reduce the state's economic footprint and ease investment bottlenecks. COVID-related poverty impacts were relatively muted thanks to pensions and wage growth; the poverty rate is expected to decrease to 1.6 percent in 2023.

Key conditions and challenges

Benefiting from reforms implemented following the 2014-16 crisis, Ukraine's economy has shown greater resilience to the COVID-19 outbreak than initially anticipated. COVID-response measures adopted by the Government have also been somewhat effective in cushioning the poor from the shock, while Ukraine's financial sector has entered the COVID-19 crisis stronger and more resilient than any previous crisis.

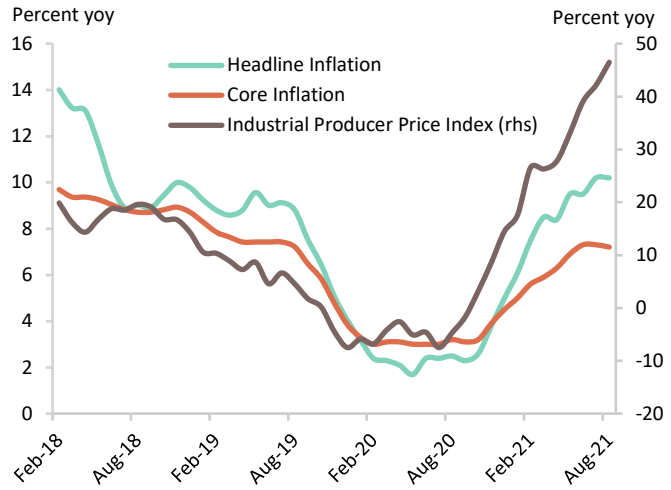
However, COVID-19 has exacerbated existing socio-economic challenges and partially set back some gains made since 2014/15. The growth recovery also remains weak, underpinned by low investment-to-GDP ratios, an export structure heavily dependent on commodities and significant institutional challenges that have dragged on economy-wide productivity and investment. The poverty rate, based on the national poverty line, marginally increased in 2020 following four years of steady decline. The labor market recovery that started in 2017 was upended, with employment declining by over 660,000 in 2020 and the unemployment rate hitting 9.9 percent – higher than during the 2014/15 crisis.

A broad-based recovery requires completing key reforms to stimulate private sector-led growth and inclusive job creation, by addressing structural bottlenecks to investment while safeguarding macroeconomic sustainability. The implementation of reforms in land markets, banking, demonopolization and concession projects should improve the environment for private investment, but major challenges remain with respect to weak rule of law and institutions. The direct participation of the state in the economy (via some 3,500 SOEs many of which are poorly managed) is excessive and restricts the role of market forces, and SOE reforms need to be accelerated. Judicial reform is in the early stages and timely implementation of recent laws adopted will be critical. Finally, rebalancing fiscal spending towards investment, and tax reforms to ease competition distortions that undermine investment, can also support capital deepening and accelerate growth.

Recent developments

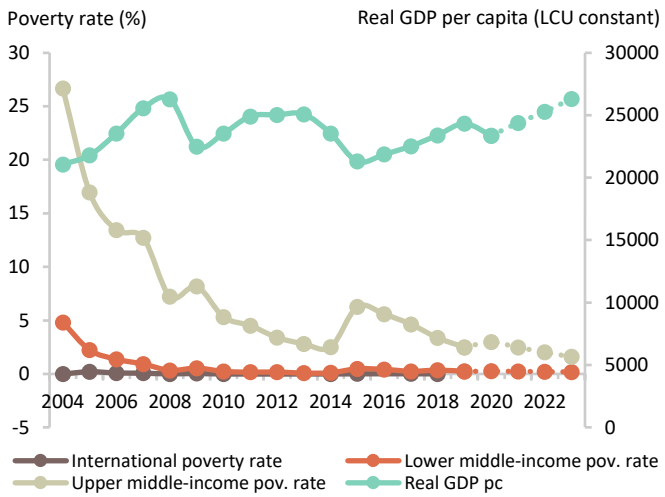
Following a 4 percent contraction in 2020, the recovery during the first half of 2021 has been hampered by supply-side constraints and a second wave of infections. Base effects and a partial recovery in the industrial and services sector lifted GDP growth to 5.4 percent y/y in Q2 2021 (vs -2.2 percent in Q1); however, on a sequential basis, the economy contracted by 0.8 percent (sa qoq) in Q2. The labor market also deteriorated in Q1, with unemployment rising to 10.9 percent. High frequency retail and industrial production indicators, however, point to strengthening domestic demand; a record harvest is also anticipated in the H2 2021.

FIGURE 1 Ukraine / Consumer and producer price indices



Source: State Statistics Service of Ukraine.

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



Source: World Bank. Notes: see Table 2.

After steadily accelerating over the past year, headline inflation remained flat at 10.2 percent y/y in August, double the inflation target of 5 percent. Base effects, food inflation, and gas price adjustments have been major drivers while expansionary wage policies, notably a 27 percent increase in minimum wages, have also played a role. However, inflation momentum has begun to ease owing to weakening base effects, a strengthening currency and a proactive tightening of policy rates (by 250bp since April to 8.5 percent) by the central bank which also terminated anti-crisis monetary tools in September.

Helped by strong external demand, favorable terms of trade and rising wages, fiscal revenues have performed better than anticipated, with consolidated revenues in H12021 rising by almost 16 percent y/y. However, expenditures grew faster, by 17.4 percent y/y, driven by rising goods and services and public wage expenditures, while capital expenditures fell 8.2 percent. On a general government basis, the deficit was twice (1.4 percent of GDP) the size of the consolidated deficit (0.6 percent) in Q1 and has been financed by costly short-term domestic and Eurobond issuances.

The current account surplus reached a record $5.2bn in 2020 and has since remained positive (although narrowing) due to strong services net exports and higher global commodity prices. Already ample at nearly $29 bn (4 months of imports), reserves have been further supplemented by the $2.7bn IMF SDR allocation in August. Ukraine has successfully retained access to market financing despite volatility in global markets.

Outlook

Activity should continue recovering in H2 2021, helped by better harvests, strengthening consumer demand, and a supportive external environment. Growth is projected at 3.8 percent in 2021 underpinned by positive base effects in agriculture, and relative to last year's economic contraction. The forecast takes into account the possibility of further temporary lockdowns and additional tightening by the central bank to anchor inflation expectations.

Inflation is expected to moderate to the target rate in H2 2022 supported by monetary tightening and as base effects and supply shocks fade. The 2021 budget deficit (including arrears to the private sector and recapitalization requirements) is estimated at 5 percent of GDP. Together with 9.1 percent of GDP debt amortization this will increase total fiscal financing needs to 14.1 percent of GDP (vs 15.2 percent of GDP in 2020) that are expected to be met through domestic and international borrowing. Coupled with rising public wage expenditures (expected to reach over 11 percent of GDP in 2021), medium term spending pressures are increasing and continued prudent fiscal policy is needed to safeguard fiscal sustainability. Downside risks stem from an uncertain global economic and financing environment amidst an ongoing pandemic and flagging of domestic reform efforts.

The poverty rate based on the US$5.5 a day threshold is expected to decrease to 2 percent in 2022 and 1.6 percent by 2023, though the outlook is uncertain given rising COVID-19 cases both domestic and abroad and the slow vaccination pace. Accelerating critical reforms will be key to support the recovery and create more and better jobs.

TABLE 2 Ukraine / 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	3.2	-4.0	3.8	3.5	3.7
Private Consumption	8.9	11.9	1.6	4.6	4.5	3.5
Government Consumption	0.1	-5.0	-3.0	1.5	0.0	0.0
Gross Fixed Capital Investment	14.3	15.0	-24.4	10.4	8.4	7.5
Exports, Goods and Services	-1.6	6.7	-5.6	3.4	2.0	4.4
Imports, Goods and Services	3.2	6.3	-9.6	7.5	5.7	4.8
Real GDP growth, at constant factor prices	3.3	3.4	-4.0	3.9	3.4	3.7
Agriculture	7.8	1.3	-11.5	5.0	4.5	5.0
Industry	2.0	-2.0	-4.0	2.0	3.0	4.5
Services	3.0	5.7	-2.7	4.3	3.4	3.2
Inflation (Consumer Price Index)	9.8	4.1	4.8	9.5	6.0	5.0
Current Account Balance (% of GDP)	-3.2	-0.9	4.1	1.5	-0.2	-0.7
Net Foreign Direct Investment (% of GDP)	1.9	2.1	2.1	2.2	2.2	4.9
Fiscal Balance (% of GDP)	-2.0	-2.0	-6.0	-5.0	-3.5	-2.5
Debt (% of GDP)	60.6	50.4	60.6	59.3	58.1	56.8
Primary Balance (% of GDP)	1.4	1.1	-2.4	-0.9	0.2	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.4	0.2	0.3	0.2	0.2	0.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	3.4	2.5	3.0	2.5	2.0	1.6
GHG emissions growth (mtCO2e)	4.2	-2.8	-9.0	2.9	2.7	3.1
Energy related GHG emissions (% of total)	69.9	70.0	69.5	70.1	70.7	71.0

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

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

(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

UZBEKISTAN

Table 1	2020
Population, million	34.2
GDP, current US$ billion	59.9
GDP per capita, current US$	1751.5
School enrollment, primary (% gross)[a]	102.2
Life expectancy at birth, years[a]	71.7
Total GHG Emissions (mtCO2e)	237.4

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

Economic growth is expected to rebound in 2021 as Uzbekistan strengthens its pandemic management. Health and social assistance costs have continued elevating the fiscal deficit. These pressures are mitigated by greater fiscal discipline and strong external buffers. The outlook for growth is favorable but contingent on improving global economic conditions and progress with structural reforms to increase private sector growth, reduce state dominance in the economy, and increase economic inclusion.

Key conditions and challenges

Reforms are beginning to address structural constraints such as absent factor markets and the state's economic dominance. These reforms will create more room for competition and business growth and help create more jobs and incomes that help accelerate Uzbekistan's market transition.

Job and income displacement from COVID-19 has amplified the importance of inclusion. About 9 percent of citizens live below the World Bank's lower-middle-income poverty line ($3.2 a day, PPP 2011 adjusted); many more live close to this line. The national poverty level (based on minimum food intake) increased to 11.5 percent in 2020 from 11 percent in 2019. Expanded social assistance has provided some relief to Uzbekistan's affected households, as has the swift recovery in employment following the economy's reopening. Uzbekistan's rebounding economy will support a return to poverty reduction in 2021.

Over the medium-term, in addition to growth, faster poverty reduction will require stronger safety nets, labor market conditions, and health and education services.

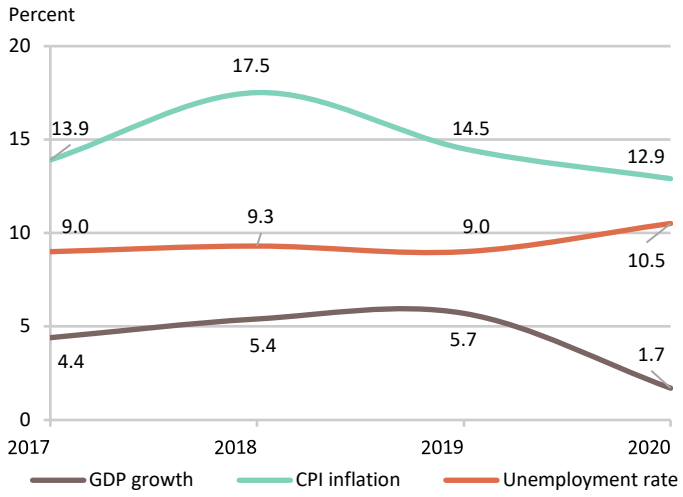
Recent developments

GDP growth increased to 6.2 percent in H1 2021 after slowing to 1.7 percent in 2020. Strong industrial and services growth tempered weaker agricultural production. Robust increases in household incomes and domestic investment, and the continuation of anti-crisis spending and tax relief measures, also contributed to this year's strong growth.

A decision to reduce gold export volumes led to a wider current account deficit of 10 percent of GDP in H1 2021 (from 7.3 percent in H1 2020). Exports of other goods, however, such as copper, textiles, fertilizers, food, and machinery, recovered from weaker trading partner demand in 2020. Total exports increased by 12.3 percent year-on-year. Imports grew by 14.3 percent in H1 2021 due to higher private consumption and a rebound in demand for capital goods. This led to a wider trade balance deficit of 18.8 percent of GDP in H1 2021 from 16.2 percent in H1 2020. Sustained inflows of personal remittances (8.7 percent of GDP in H1 2021) helped offset the negative trade balance.

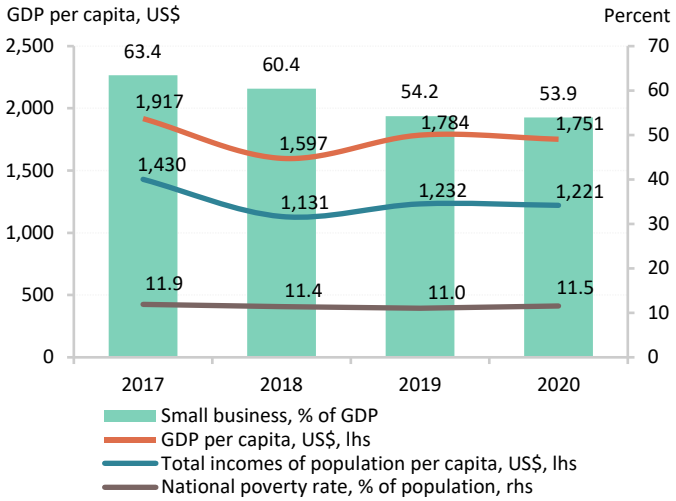
The fiscal deficit was within budget at 5.4 percent of GDP in H1 2021. Lower policy-based lending and higher tax revenues from a rebounding economy offset higher budget spending on social support, health, and public infrastructure. Though the deficit was financed through an increase in public debt, robust nominal GDP growth contributed to a slightly lower ratio of public debt to GDP of 38.5 percent of GDP in 1H 2021, compared with 38.9 percent at end-2020. The Government remains on track with its 2021 debt ceiling of $5.5 billion. Official reserves reached $34.1 billion in July 2021, an increase of $1.8 billion compared with July 2020.

FIGURE 1 Uzbekistan / GDP growth, inflation, unemployment



Source: Uzbekistan official statistics.

FIGURE 2 Uzbekistan / Poverty, GDP per capita, and small business development



Source: Uzbekistan official statistics. Due to the lack of data access, the Bank cannot validate the official figures. Note: The national poverty line is based on a minimum food consumption norm of 2,100 calories per person per day that exclude non-food items.

Inflation has continued to trend lower, reaching 11 percent in June 2021 (compared with 14.7 percent in June 2020), but remained in double digits due to high food prices. Given an uncertain inflationary outlook, the central bank has left its reference interest rate unchanged since September 2020 at 14 percent. Credit growth in June 2021 slowed to 24 percent from 34 percent in June 2020, and 52 percent in 2019. This reflected weaker demand from higher real lending rates and a reduction in government-subsidized lending. The banking sector's capital adequacy ratio fell to 17.4 percent in June 2021 from 18.5 percent in January 2021 and 20.8 percent in June 2020. This was partly due to a rise in nonperforming loans due to COVID-19, which increased to 4.6 percent in June 2021 from 2.2 percent in June 2020. Nevertheless, Uzbekistan's financial system remains sufficiently capitalized to absorb potential credit shocks. From August 1, 2021, to further reduce financial sector risks and dollarization, commercial banks will face increased reserve requirements on foreign currency bank deposits in banks from 14 to 18 percent.

Alongside a recovering economy, the unemployment rate declined to 10.2 percent in H1 2021 from 13.2 percent in H1 2020 and 10.5 percent at end-2020. The unemployment rate has not yet returned to pre-pandemic levels (of about 9 percent) and remains disproportionately high for women and youth.

Outlook

Growth is projected to accelerate to 6.2 percent in 2021. However, this forecast remains subject to uncertainties about the continued impact of further COVID-19 waves on global and domestic economic conditions. A recovery of investment, trade, and remittances will support the economic growth and reduce unemployment and poverty in 2021. Growth is projected to remain strong at 5.6 percent in 2022 as the pace of vaccinations accelerates and global disruptions ease further. The current account deficit is projected to be 5.9 percent of GDP in 2021 as capital imports for investment projects recover and as gold exports fall from record levels in 2020. Foreign direct investment is expected to remain subdued in 2021 and partially recover in 2022. The continued expansion of social assistance and public investments to improve rural infrastructure, and vaccination costs, will continue to elevate public spending in 2021. This will be partially offset by higher tax, mining, and privatization revenues, leading to a projected overall fiscal deficit of 5.5 percent of GDP in 2021. Increased public debt will finance this deficit, and public debt is projected to reach 40.6 percent of GDP by end-2021. COVID-19 uncertainties and a forthcoming VAT rates reduction in 2023, are likely to contribute to a higher medium-term fiscal deficit. A robust economic recovery, the gradual withdrawal of anti-crisis measures, and tax administration reforms to widen the tax base are projected to help consolidate public finances and stabilize debt at about 42 percent of GDP by end-2023.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	5.7	1.7	6.2	5.6	5.8
Private Consumption	3.8	5.3	-1.2	4.1	5.3	5.5
Government Consumption	3.8	5.7	2.0	9.5	5.7	3.7
Gross Fixed Capital Investment	18.0	7.6	2.8	8.3	8.4	8.8
Exports, Goods and Services	10.7	16.2	-20.0	10.4	17.4	15.5
Imports, Goods and Services	26.8	19.5	-21.0	11.6	20.7	17.9
Real GDP growth, at constant factor prices	5.4	5.7	1.7	6.2	5.6	5.8
Agriculture	0.3	3.1	3.0	1.9	2.9	3.1
Industry	11.5	8.9	2.5	6.8	4.7	5.0
Services	5.2	5.2	0.4	8.6	7.8	7.9
Inflation (Consumer Price Index)	17.5	14.5	12.9	10.9	10.5	8.5
Current Account Balance (% of GDP)	-7.1	-5.6	-5.0	-5.9	-5.3	-5.1
Fiscal Balance (% of GDP)	-2.1	-3.8	-4.3	-5.5	-4.4	-3.7
Debt (% of GDP)	20.3	29.3	36.4	40.6	42.5	42.2
Primary Balance (% of GDP)	-1.7	-3.3	-3.8	-5.1	-4.0	-3.4
GHG emissions growth (mtCO2e)	0.3	1.9	0.4	3.4	3.1	3.2
Energy related GHG emissions (% of total)	46.6	46.4	45.8	46.7	47.6	48.6

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

Latin America and the Caribbean

Annual Meetings 2021

Argentina
The Bahamas
Barbados
Belize
Bolivia
Brazil
Chile
Colombia
Costa Rica
Dominica
Dominican Republic
Ecuador
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Saint Lucia
Saint Vincent and the Grenadines
Suriname
Uruguay

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

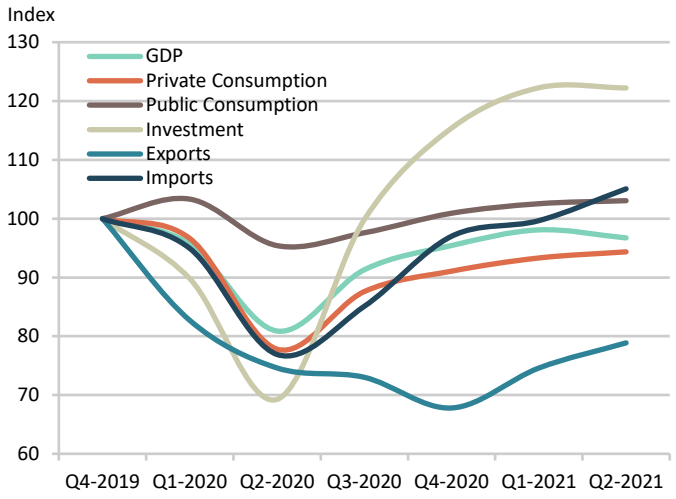
Argentina is struggling to return to sustained growth following a three-year recession amid stubborn levels of COVID -19 contagion and following almost a decade of stagnation. The economy was 8 percent below its previous peak when the pandemic hit, reducing GDP per capita to 2004 levels by the end of 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

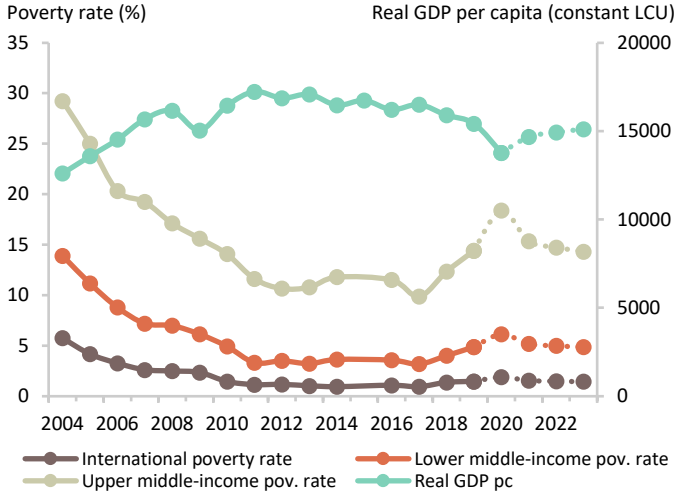
After a strong rebound at end-2020, growth momentum has slowed. Economic activity has slowed down in the beginning of the year and further contracted in Q2 as renewed confinement measures were imposed. High frequency indicators are pointing to a rebound in June, as COVID-19 cases dropped and mobility 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.

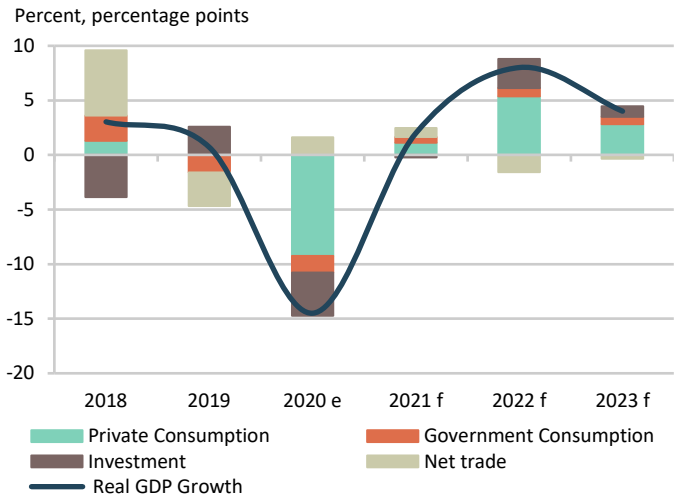
Vulnerability to climate change and global health risk jeopardize the country's development trajectory. Sea-level rise associated with increasing temperatures threatens The Bahamas' low-lying islands. In addition to the severe impacts of Hurricane Dorian in 2019, the country faces an average annual loss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

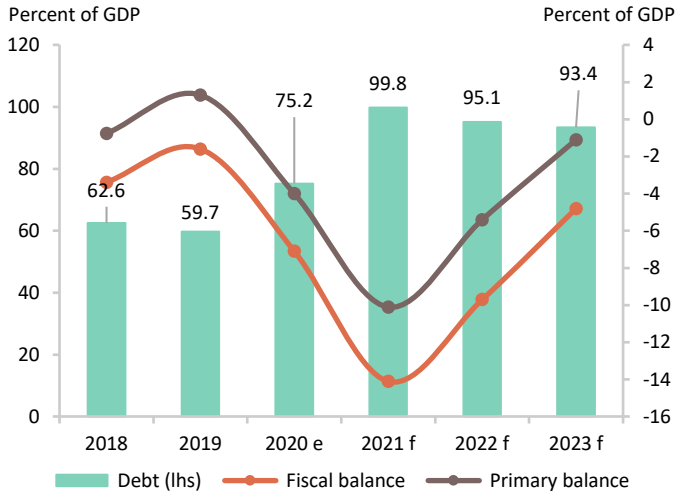
After shrinking 14.5 percent in 2020, GDP growth declined further (y-o-y) the first half of 2021 weighed down by the repercussions of Covid-19 pandemic. Unemployment in 2020 was estimated at 14.4 percent, up from 10 percent in 2019, and about 5 percent of the working age population dropped out of the 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.

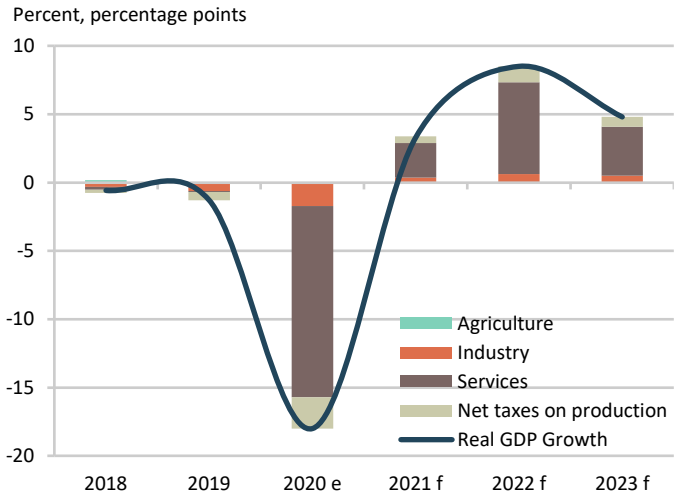
The pandemic, which brought the tourism and construction sectors to a standstill, translated into significant job losses, particularly for the less well-off and women. Thus, in 2020, poverty rate is expected to have increased significantly compared to the 17 percent reported for 2016. However, if it 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.

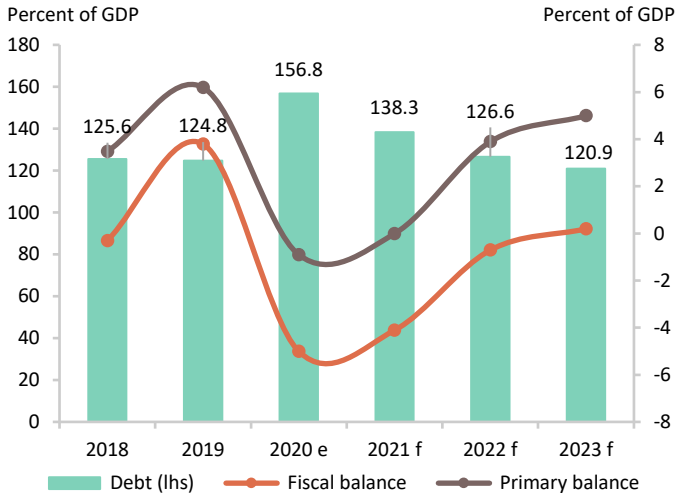
The lower demand for agricultural products from subdued tourism combined with the impact of the eruption of La Soufriere volcano resulted in a 12 percent contraction of agricultural production in

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.

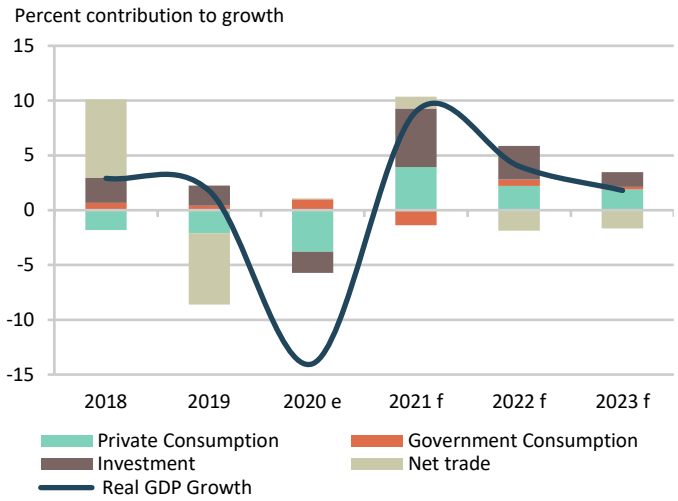
Key risks are related to the emergence of new COVID-19 variants, higher oil prices, exposure to extreme climate-related shocks, high public debt, and social tensions.

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.

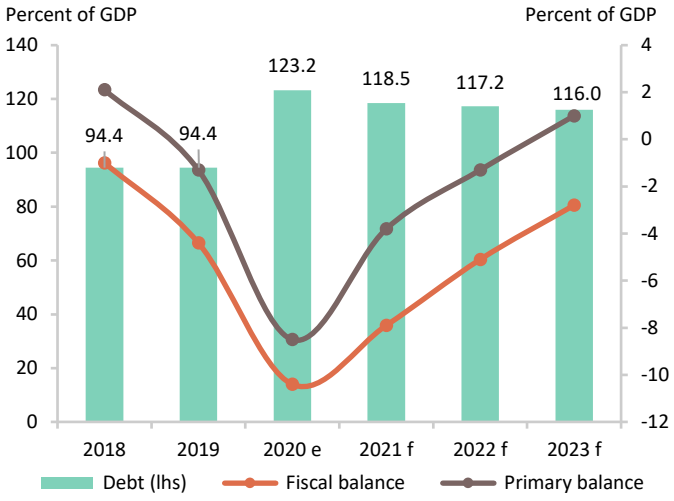
The current account deficit (CAD) narrowed to 7.2 percent of GDP in 2020 due to the deferral of quarterly interest payments to bondholders since August 2020 and an increase in remittances from abroad. Foreign direct investment (FDI), donations, and multilateral lending financed the CAD. By the end of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

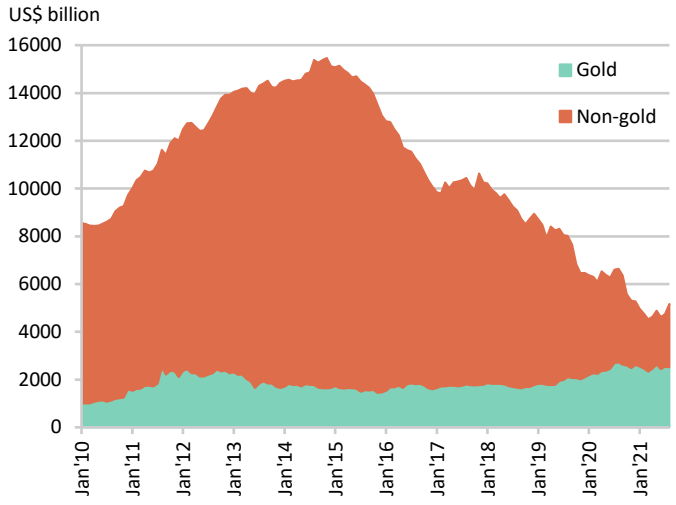
Given its high public debt and fixed exchange rate regime, it will be critical for Bolivia to implement a credible plan to address fiscal and external imbalances. Fiscal consolidation efforts could rely on improving fiscal policy efficiency and progressivity while safeguarding social expenditure to improve 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.

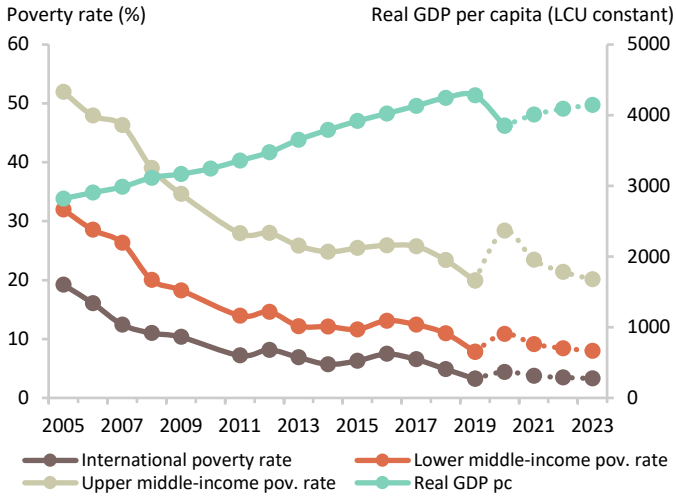
Despite the Government's efforts to reignite public investment, the fiscal balance improved in the first four months of 2021 due to the tax and hydrocarbon revenues rebound. However, with limited external financing, the Government has increasingly

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.

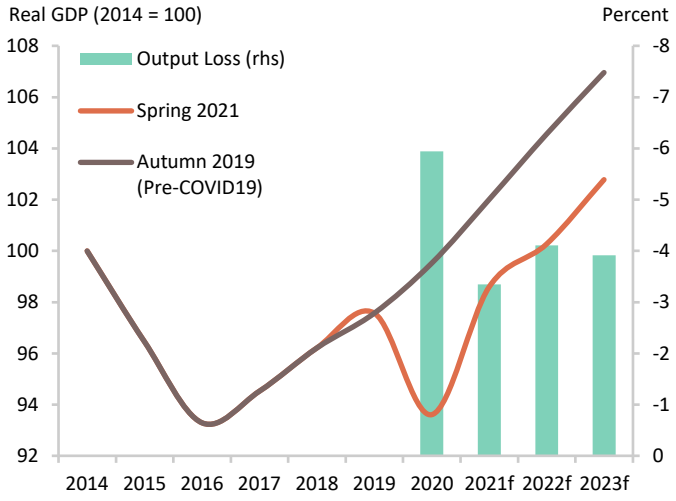
Through the emergency program *Auxílio Emergencial* (AE) the government's response represented more than a lifeline to households in the bottom 40 percent. This group had not recuperated their pre-crisis income levels and were severely affected by the pandemic's effects on labor-intensive services and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

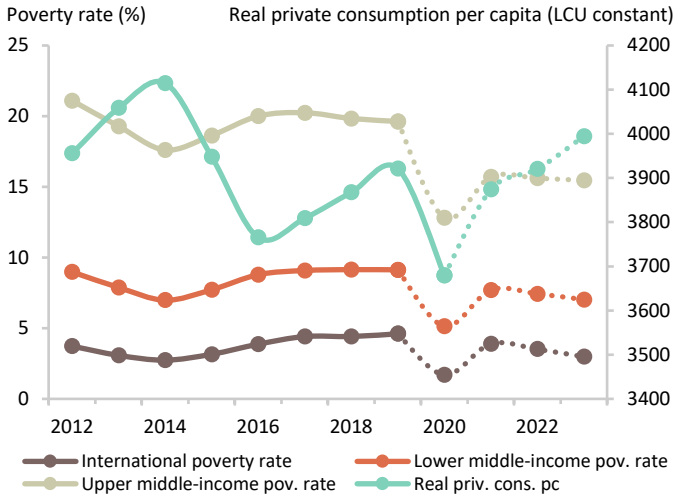
Following the recovery that started in Q3 of 2020, Brazil's quarterly GDP grew 1.2 percent in Q1 of 2021 (QoQ) but decreased 0.1 percent in Q2. Monthly activity indicators and advances in the vaccination campaign are pointing to a consumption-led GDP expansion through services (2.0 percent QoQ) and retail. 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.

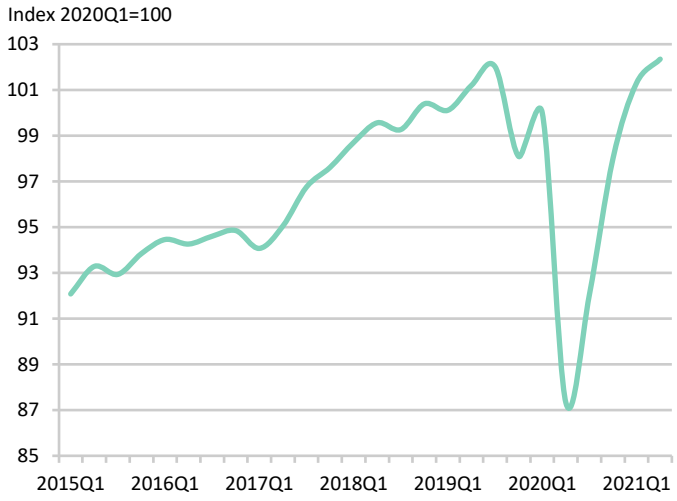
In the more medium term, Chile will need to tackle the declining productivity growth that prevailed over the past decade. Reforms in this area are crucial and should include efforts to reduce regulatory barriers, foster innovation and competition, improve education quality, and increase female labor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

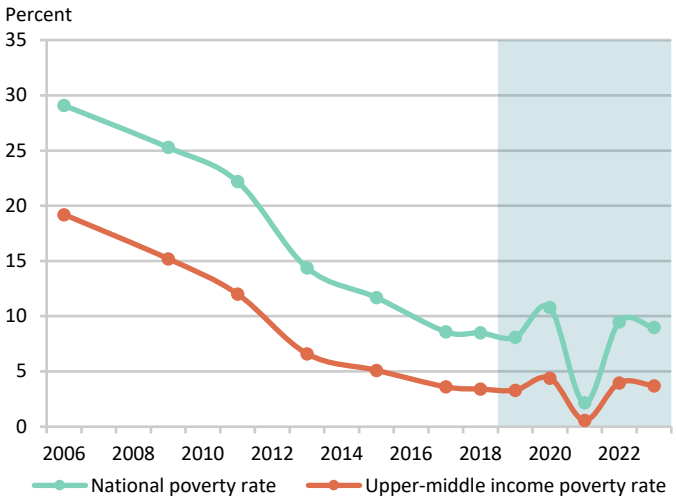
However, employment has lagged output recovery, affecting also potential GDP.

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

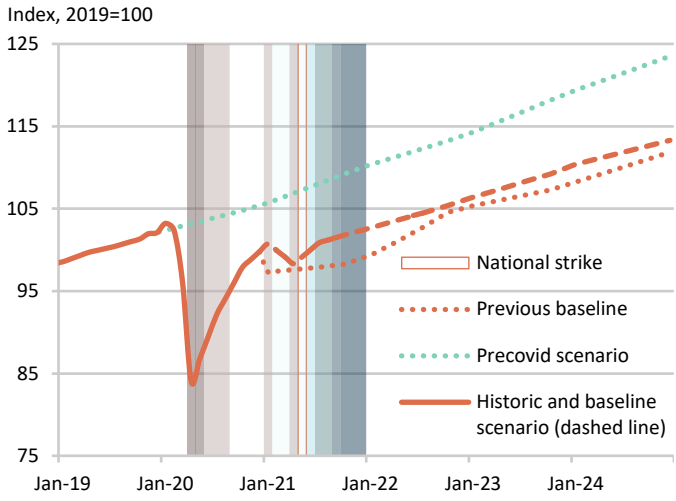
Activity recovered robustly in 2021Q1 but contracted in Q2 owing to intense protests against a proposed fiscal reform package which, among other measures, would have increased value added and personal income taxes. Economic activity picked up strongly in June, reaching pre-COVID 19 levels in most sectors.

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.

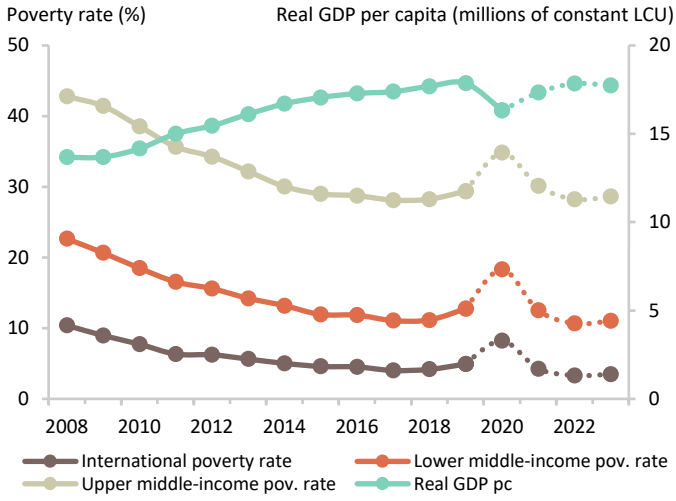
The fiscal stance remained expansionary, as the government extended emergency support to families. In September Congress approved a new (less ambitious) fiscal reform package, which increases corporate income taxes to reduce the

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.

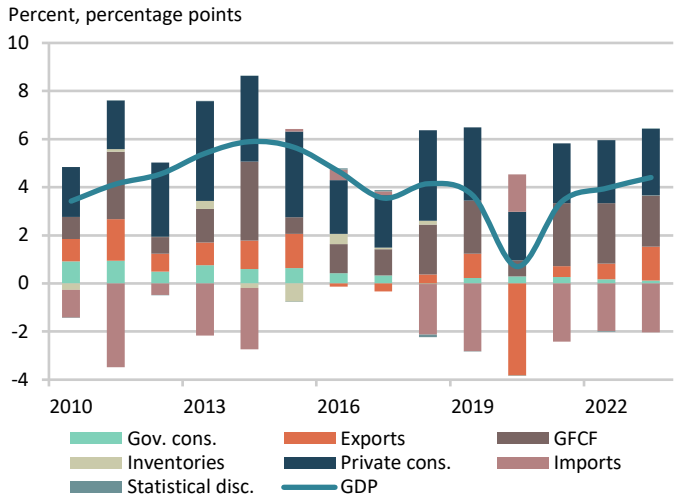
The pandemic intensified these fiscal and social challenges. Fiscal consolidation efforts, launched in 2018, were interrupted as revenues collapsed while expenditures increased as the government sought to mitigate the impact of the pandemic. Efforts included investment in medical equipment, an emergency 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).

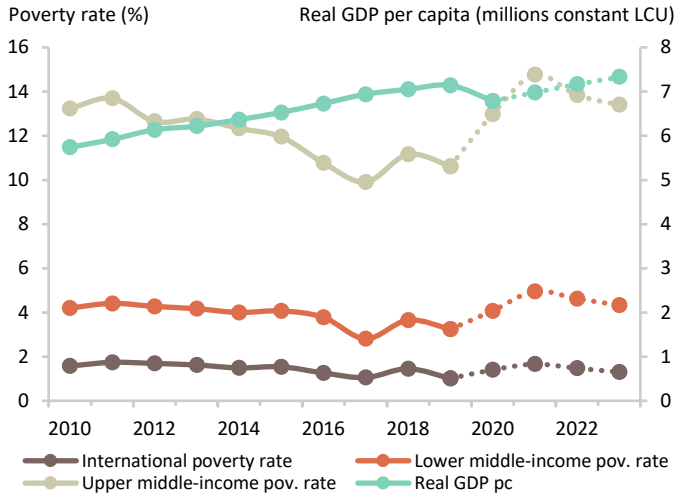
The labor market has also begun to reactivate, facilitated by a re-opening of schools and vaccinations (57 percent of the

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.

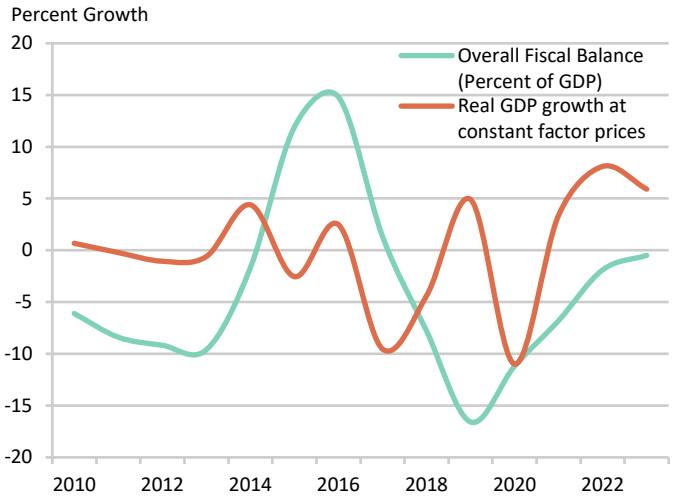
The precise poverty and welfare impact of the current challenging economic and social conditions remain unclear, due to a lack of recent data. However, there is a reasonable expectation that poverty levels have worsened. The latest poverty data are from 2008. With an estimated headcount rate of 28.8 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

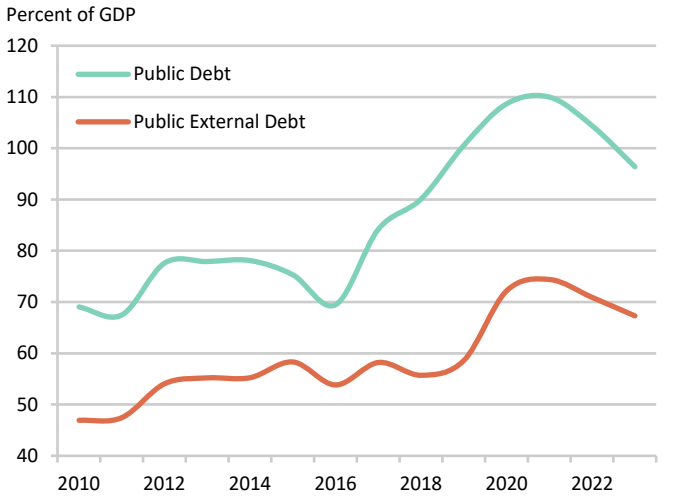
COVID-19 has impacted growth through several channels, including: the near complete stop in tourism; COVID-related restrictions on domestic activity; and lower foreign direct investment. Household income from tourism-related occupations fell significantly. Women

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.

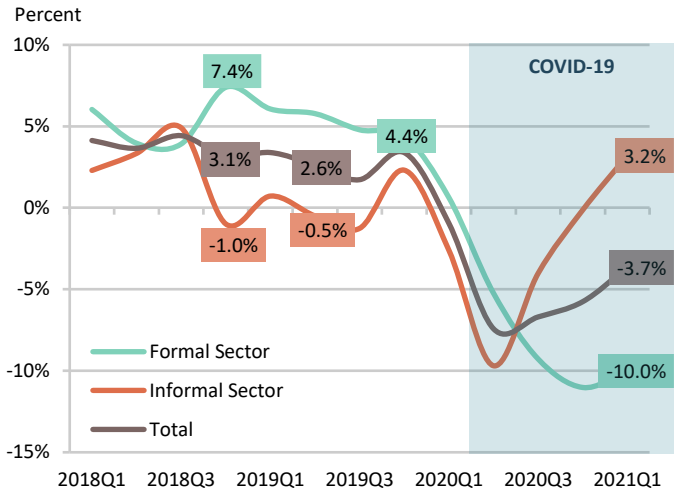
Going forward, the country will have to rely on productivity growth, including through inter-sector labor mobility, which is held by back by skills shortages and half the labor force without social security. Also, deeper merchandise trade integration with international value chains is important for sustained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

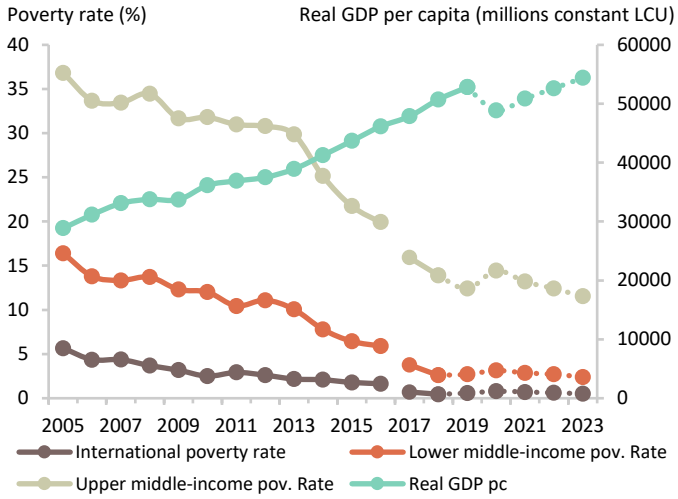
The Covid-19 pandemic had a major but possible temporary impact on growth and poverty. In 2020, the economy contracted by 6.7 percent as both domestic and external demand contracted, and poverty increased by 2.4 percentage points to 23.4 percent but would have reached 29 percent in absence of fiscal 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.

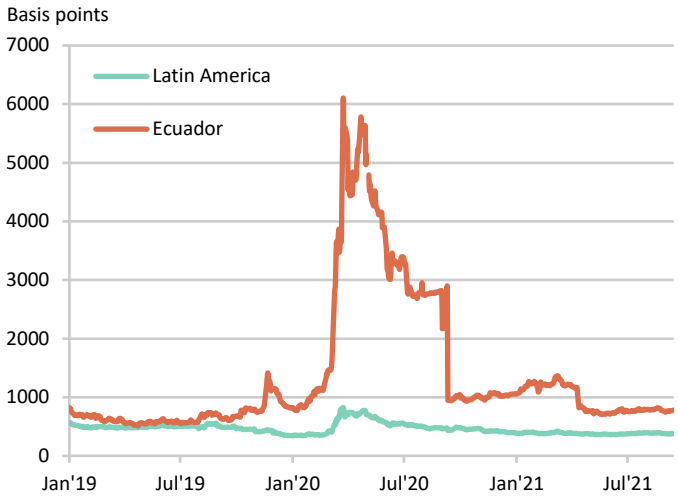
Recent developments

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.

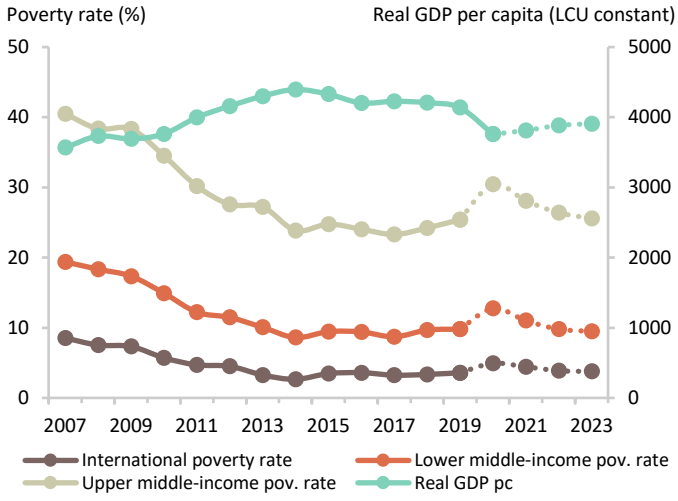
The fiscal balance improved in the first five months of 2021 due to higher oil revenues and lower interest payments after

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).

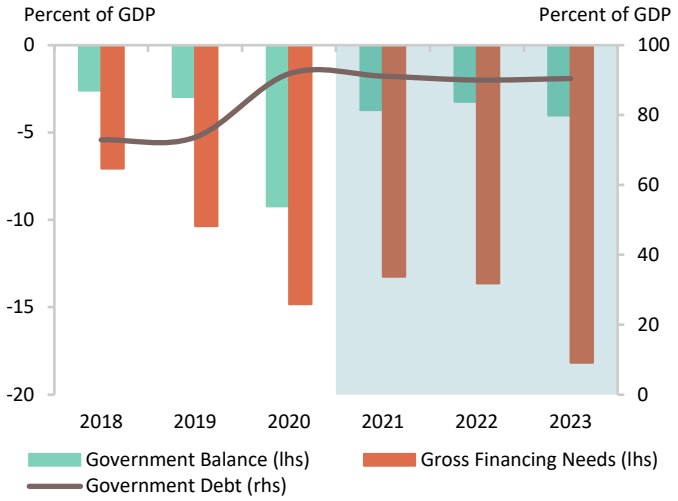
The government responded to the COVID-19 with stringent restrictions such as suspension of public transportation and closure of businesses from February to August 2020, which led to a steep GDP contraction in 2020 through reduced supply and consumption. It also rolled out a generous fiscal response that 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.

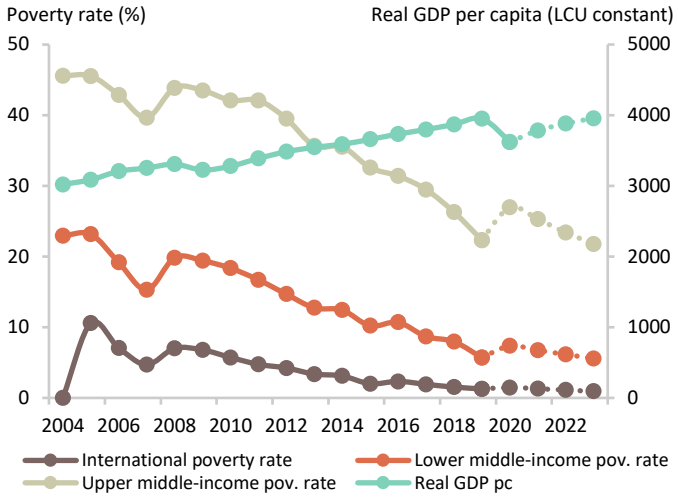
In 2021, growth is showing signals of recovery, supported by remittance-fueled consumption and exports. Remittances grew 45 percent in the first half of 2021, boosting a 47.7 percent increase in imports. Exports grew 48.1 percent in this period. Large employment growth in the formal

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.

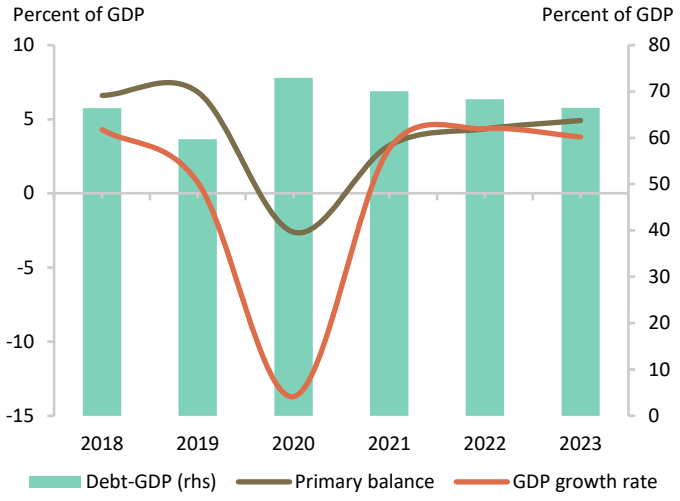
The COVID-19 pandemic affected the country severely, socially and economically, and aggravated existing vulnerabilities to natural disasters and external shocks. Besides threatening the public health system, the pandemic adversely affected Grenada's economy, with a standstill in the main sectors, particularly 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

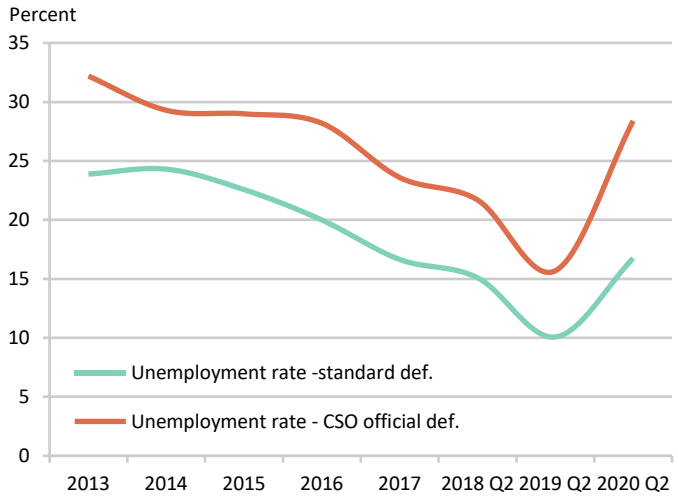
Following a sharp economic contraction in 2020, Grenada's real GDP growth is expected to recover gradually to 3 percent in 2021. While flights to Grenada have resumed, the pace of tourism activity, particularly in areas with predominantly female workers, has been hampered by the delta variant of COVID-19. 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.

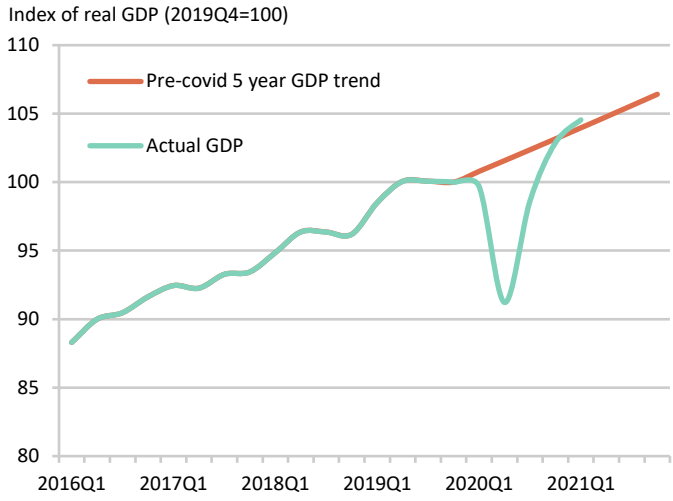
An extremely fragmented political system and high levels of corruption remain among the country's salient challenges. Heightened corruption and governance issues risk increased political instability and civil unrest. Political fragmentation has discouraged the introduction of productivity-enhancing reforms. 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.

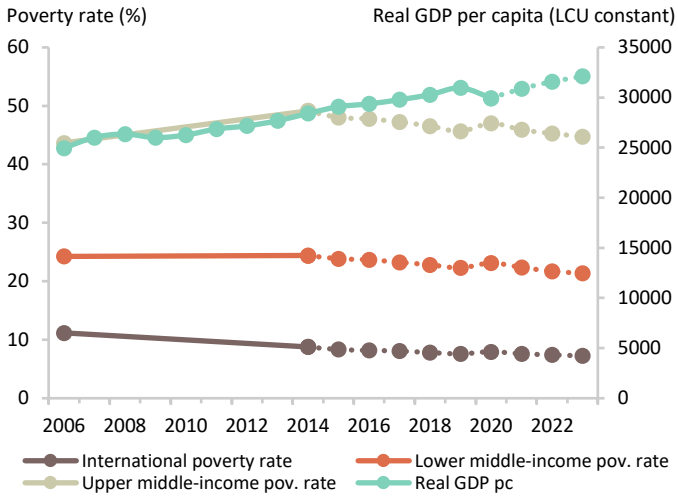
Monetary policy continued to be accommodative to support domestic liquidity. Despite inflationary pressures at the beginning of the year as a result of rebounds in transport prices, the policy rate was kept unchanged as headline inflation remained inside the target range of 4+/-1 percent.

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.

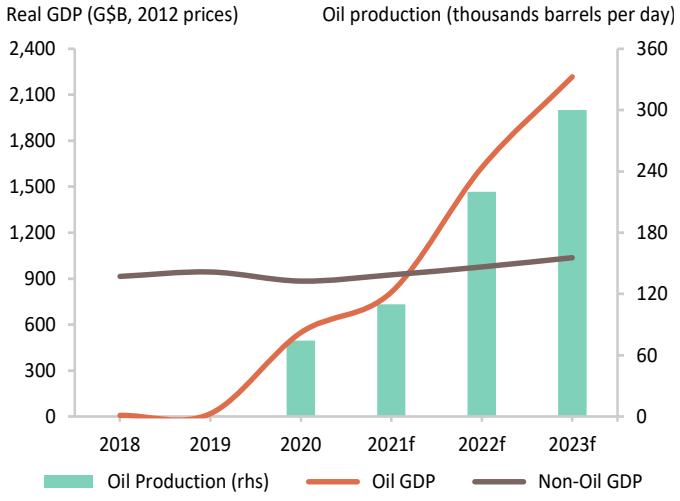
The COVID-19 pandemic exacerbated the challenges of high poverty and has deepened inequity. In the short-term, the pandemic continues to be a major challenge for the country. Vaccine supply shortages, as well as the rise of COVID-19 variants, threaten the normalization of business conditions and livelihoods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

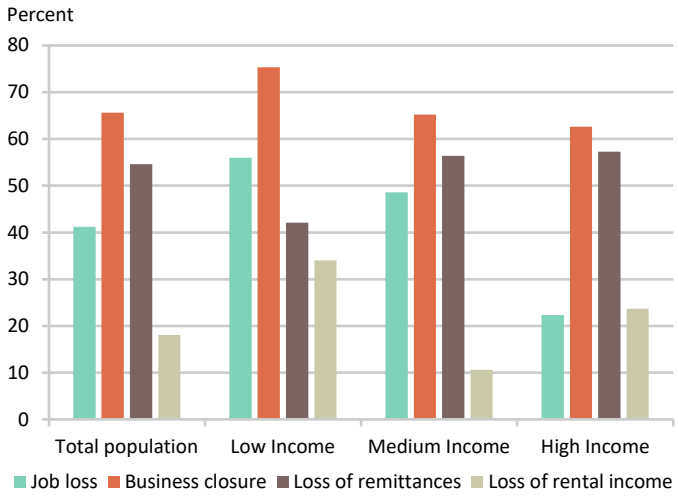
Real GDP is estimated to have increased by 43.5 percent in 2020, owing primarily to new oil production, which averaged 74,306 barrels per day. The expansion of the oil sector was partially offset by a 7.3 percent contraction in the non-oil economy caused

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.

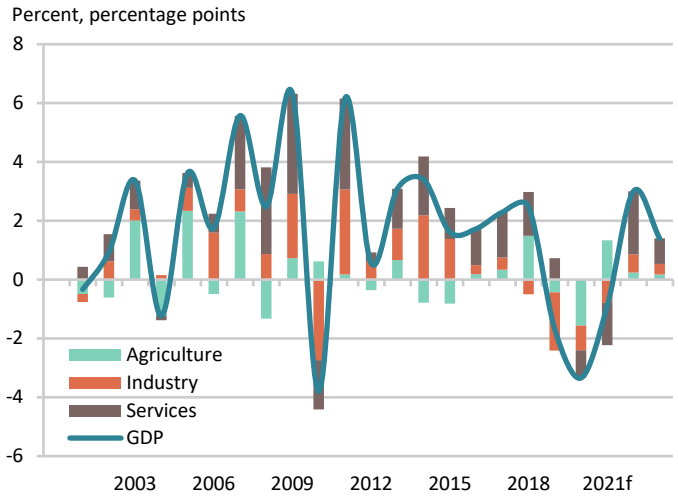
Domestic revenue mobilization remains weak at 7.0 percent of GDP on average over the past ten years, and untargeted fuel subsidies limit the fiscal space. The monetary and fiscal authorities struggle to comply with limits on monetary financing of deficits, as permitted by law. The lack of a credible 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.

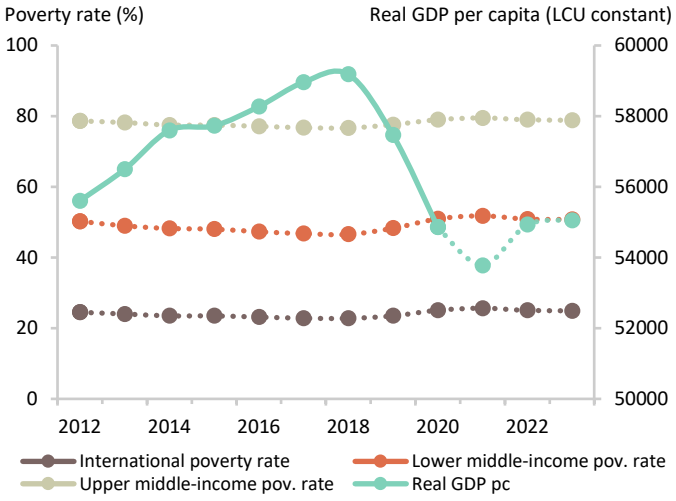
On July 7, President Jovenel Moïse was assassinated, further deepening political tensions. A transition government was established on July 19 and mandated with the organization of peaceful and credible elections. On August 14, just one month after the assassination, a magnitude 7.2 earthquake devastated 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.

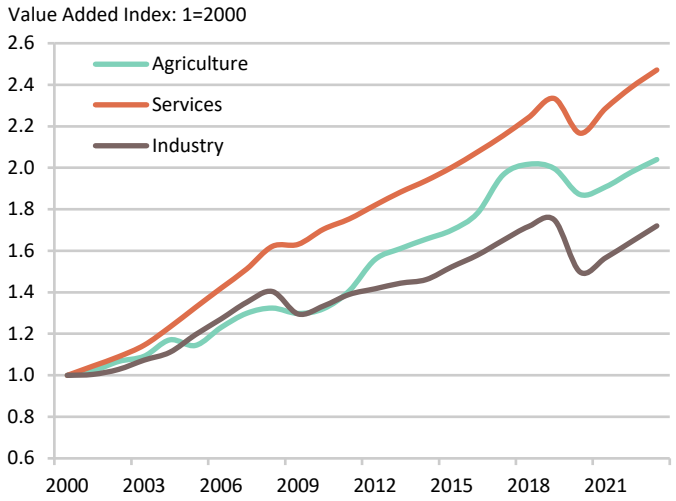
Emergency programs had a relatively small mitigating impact. Lockdowns impacted employment and incomes, especially for overrepresented women in affected sectors, resulting in high levels of food insecurity. They also affected access to education, potentially increasing the incidence of learning poverty 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

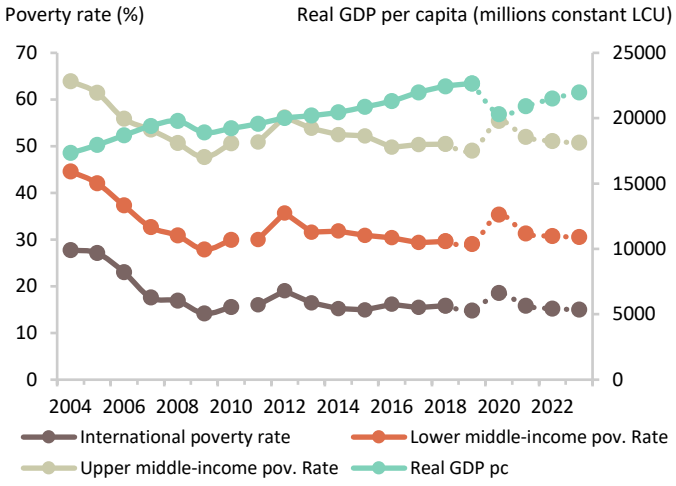
After a sharp contraction of 9 percent in 2020, real GDP grew 1.3 percent y/y in the first quarter of 2021, while the index of economic activity registered a 12.4 percent y/y expansion in the first half of 2021. This expansion was broad-based (except for labor-intensive agriculture) driven by private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

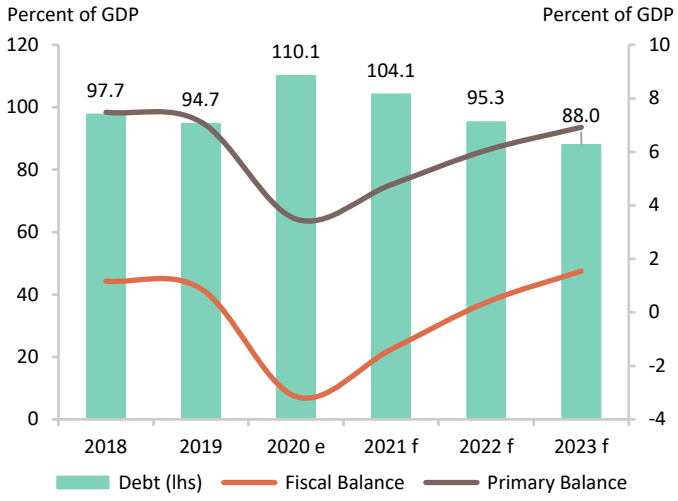
The country is also confronted by anti-money laundering and counter-terrorism financing issues having recently been added to the grey list of non-compliant countries by the Financial Action Task Force (FATF). This is likely to accelerate de-risking by large international banks, which could have implications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

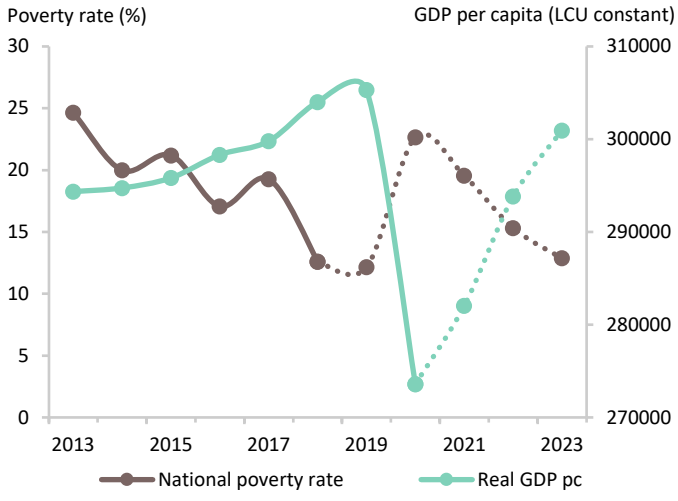
Fiscal policy was countercyclical in response to the pandemic. A fall in revenues combined with the increase in pandemic-related outlays for the health sectors and

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.

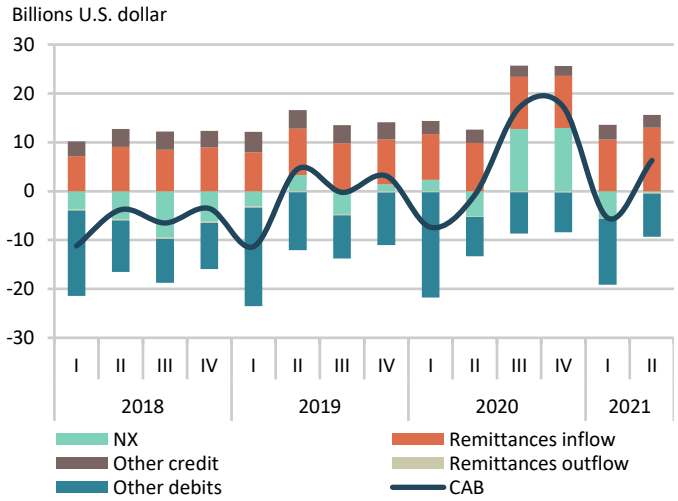
Significant regional differences persist, as 63 percent of the multidimensional extreme poor lived in six of Mexico's thirty-two states in 2020. Rural areas suffer a vicious cycle of low productivity, low physical and human capital investments, and high poverty rates, particularly in the south. At the 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.

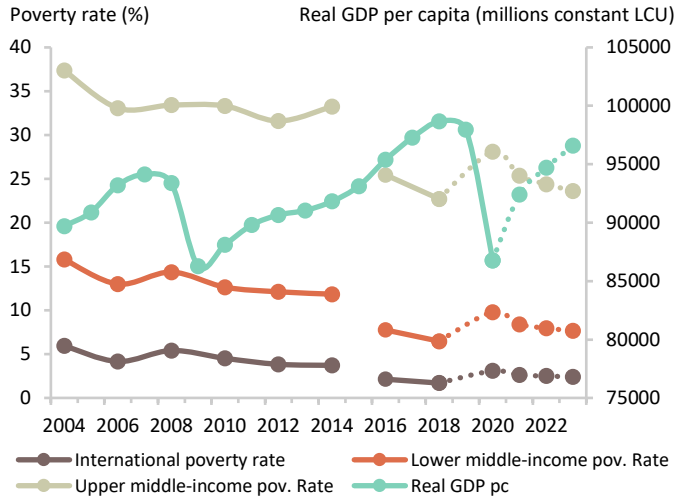
National multidimensional poverty increased to 43.9 percent (55.7 million people), based on the Household Income and Expenditure Survey conducted in the last quarter of 2020, from 41.9 in 2018. The

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.

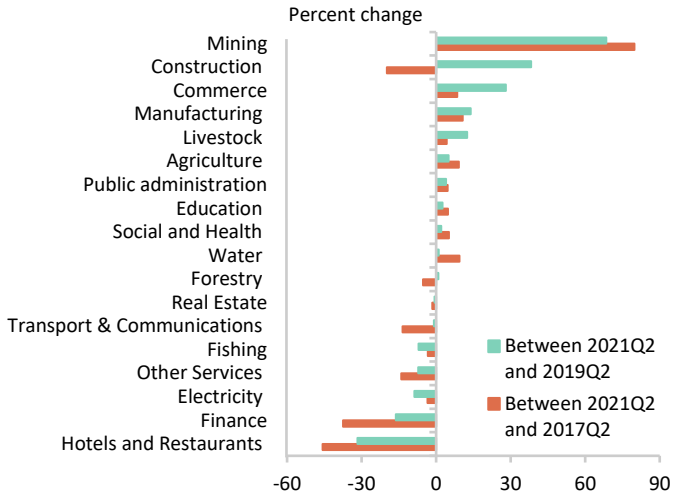
Recent developments

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.

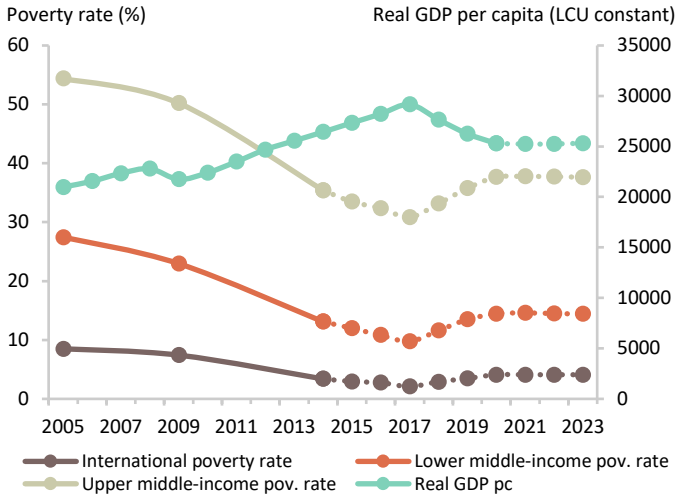
The current account remained in surplus in 2021H1, driven by a favorable performance in exports and strong remittance inflows, even as 46 percent of household recipients reported drops in remittance amounts received. Higher imports,

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.

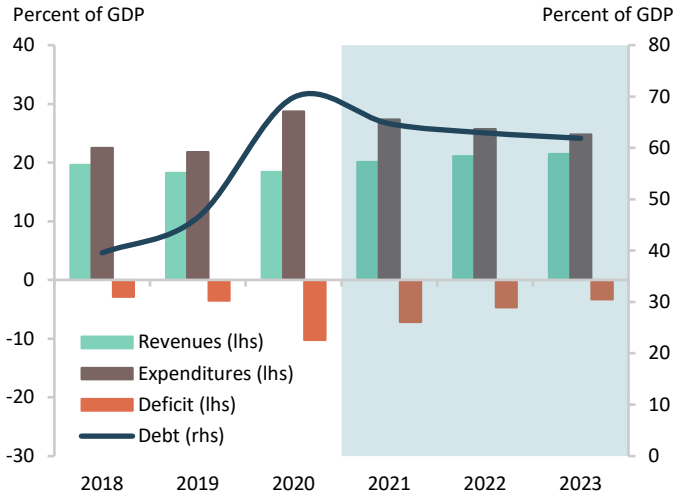
The spread of COVID-19 is slowing down due to progress in vaccine distribution - 63 percent of population has received at least one dose - enabling a recovery in economic activity. Panama's challenge is to reignite growth beyond the output lost due to COVID-19, reducing the reliance on construction and 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.

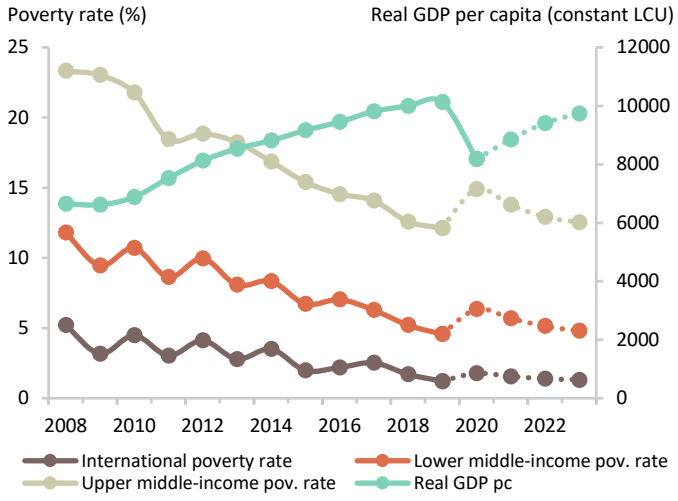
The fiscal deficit deteriorated significantly in 2020, which led to the revision of the fiscal targets set in the Fiscal Responsibility Law. Panama responded to the COVID-19 crisis by maintaining investment levels similar to 2019, while adding new social spending leading to a total expenditure increase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

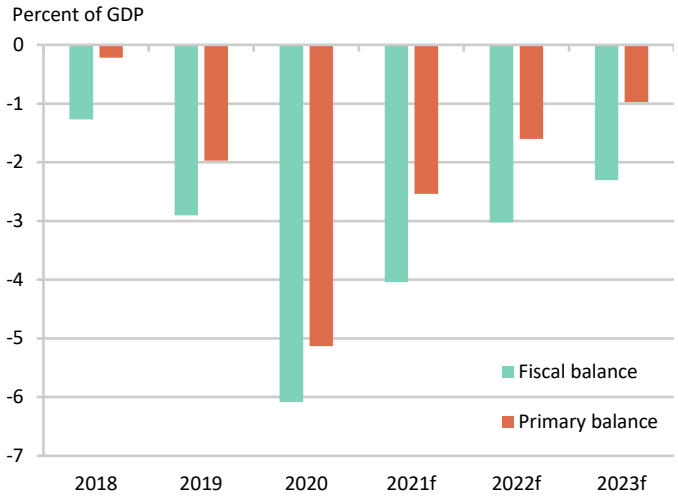
Paraguay's growth trajectory remains highly sensitive to climate and weather events, transmitted through drought that impacts agricultural output and hydropower export volumes, as well as flooding, and forest fires. The COVID-19 pandemic interrupted the economic rebound in early 2020 following a drought 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

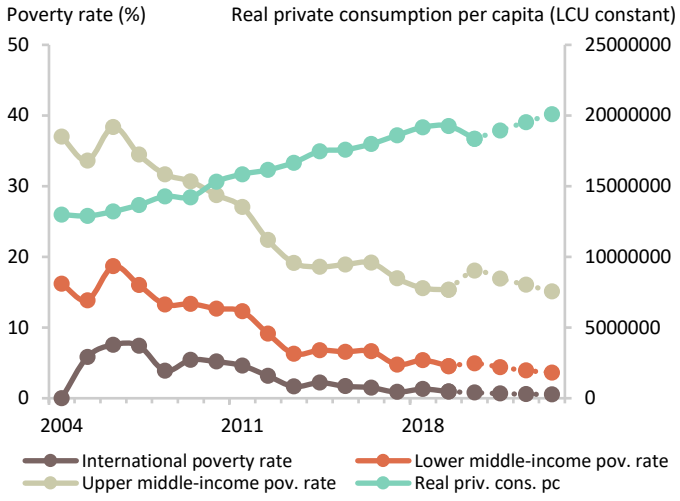
Despite the challenges, the rebound in economic activity that started in late 2020 has kept up the momentum. Preliminary official estimates indicate real GDP growth of 0.6 percent y-o-y in 2021Q1, slower than in 2020Q4 (1 percent y-o-y). Growth was mostly driven by manufacturing, construction, and services 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.

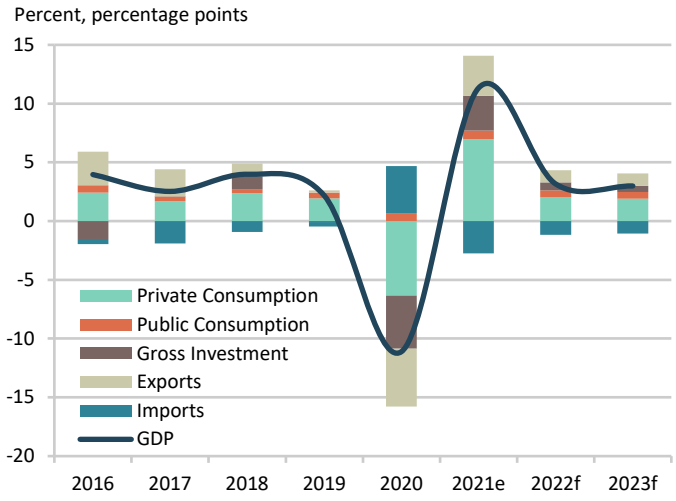
The pace of recovery and medium-term growth prospects will depend on the vaccination campaign and the capacity of the new government to implement a credible reform program to support sustainable growth and poverty reduction. Uncertainty around the policy agenda of the newly elected government, including 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.

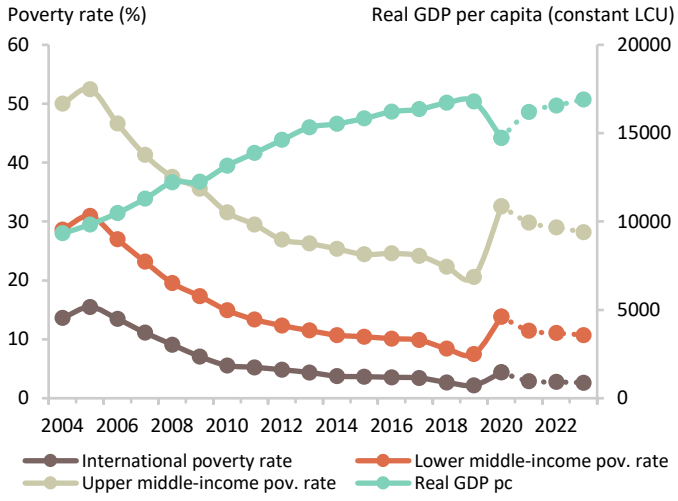
The annualized fiscal deficit declined to 5.0 percent of GDP in August from 8.9 percent in December 2020, driven by a recovering tax collection, due to the rebound of output, favorable mineral prices, and the early cancellation of tax debts. Public spending remained expansive, driven by the health policy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

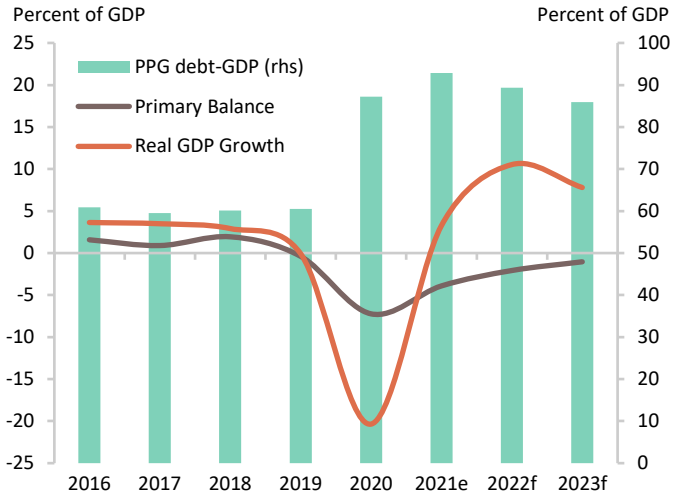
Despite solid economic growth prior to the pandemic, Saint Lucia (SLU) struggled with rising public debt and exposure to external shocks and natural disasters. Economic growth averaged 3.3 percent between 2016 and 2018. The global economic slowdown and delayed public construction projects resulted in 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

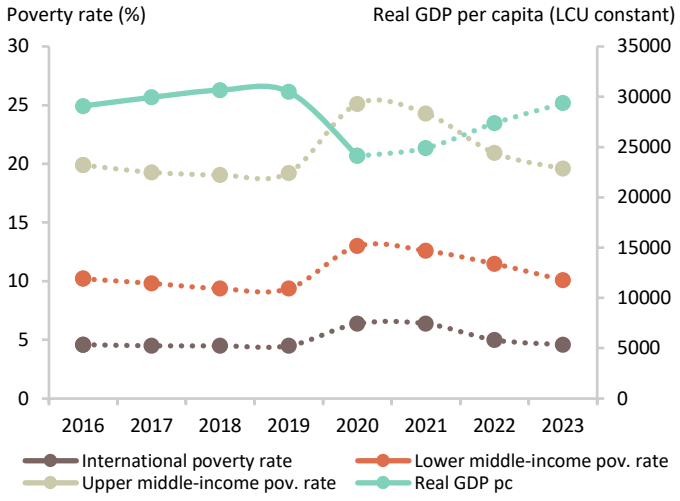
Following a sharp GDP contraction of 20.4 percent in 2020, recovery in 2021 has been slower than expected, it has also been hampered by new coronavirus variants and the relatively slow rollout of vaccinations. Tourism, which accounts for about 40.7 percent of GDP, has picked up, but tourist arrivals 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.

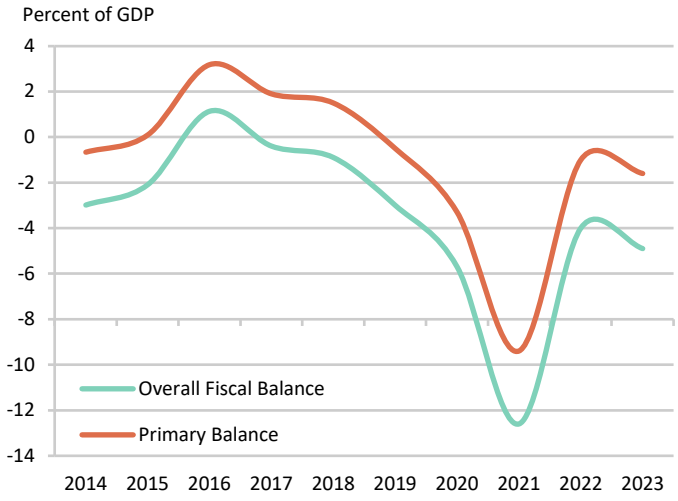
The volcanic eruption, which displaced about 20 percent of the population, compounded the impact of the COVID-19 shock. The heavy ashfall, and interruptions to critical utilities, increased food insecurity; subsequent flooding and mudslides are expected to have had a significant poverty and welfare impact, 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.

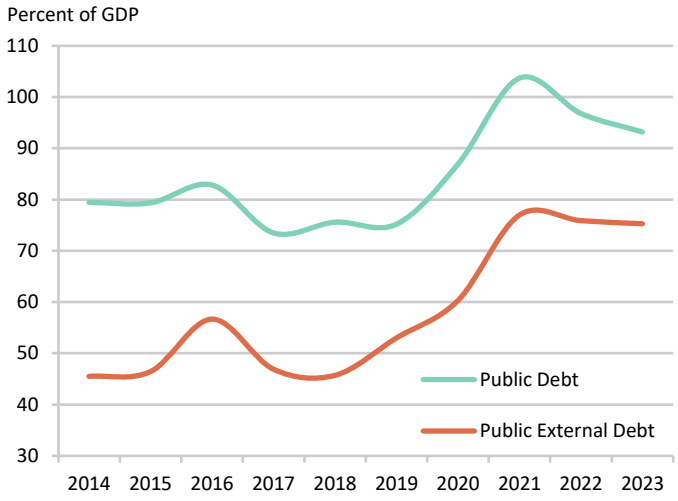
While the fiscal position did not deteriorate as significantly as expected in 2020, COVID-19 led to a widening fiscal deficit of 5.7 percent of GDP in 2020. In response to the volcanic eruption in April 2021, the government implemented fiscal

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.

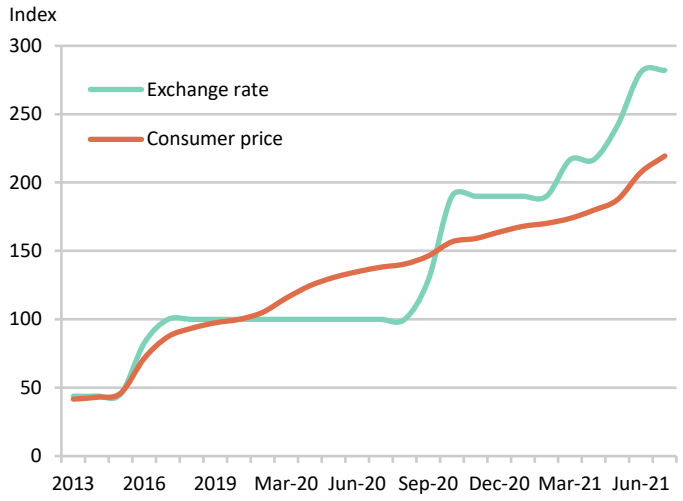
Public debt amounted to US$3,280m or 148 percent of GDP at the end of 2020. External public debt makes up 64 percent of total debt. Suriname already incurred arrears on its debt to bilateral and external private creditors and requires debt restructuring.

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.

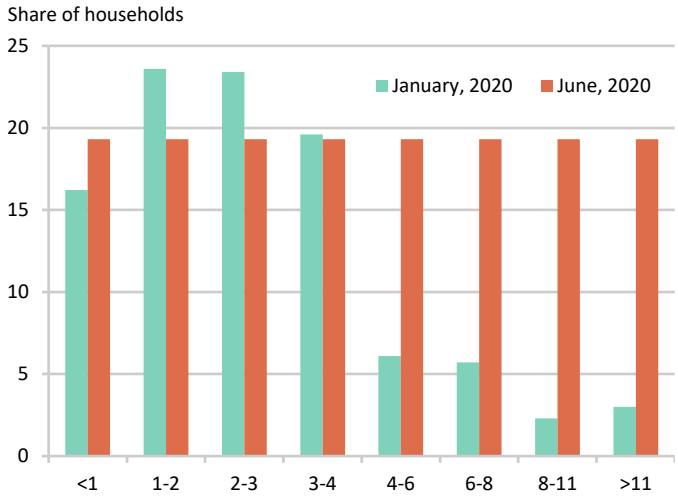
Restrictions on mobility and economic activity have been intermittently tightened throughout 2020 and 2021, depending on the number of new COVID-19 cases. The government has supported people and SMEs that became unemployed or experienced a significant reduction in income due to the pandemic through a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

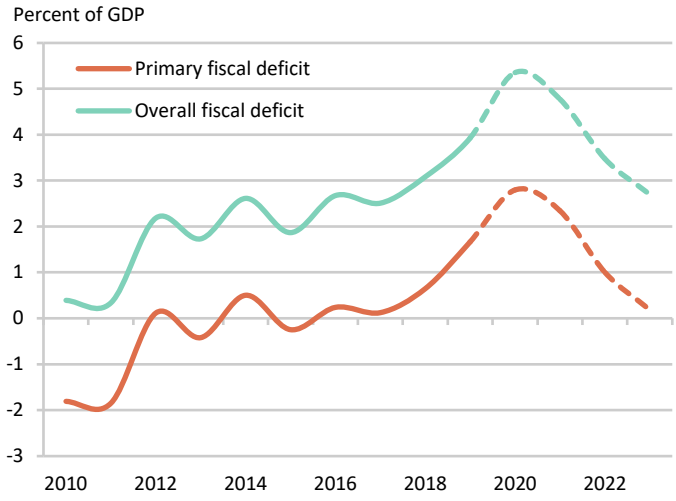
The COVID-19 crisis temporarily curbed fiscal consolidation plans, intended to stem the increase in public debt and protect the country's investment-grade status. Still, the Government enacted an indicative structural balance fiscal rule, improving its fiscal framework. Prudent macro-fiscal policies 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.

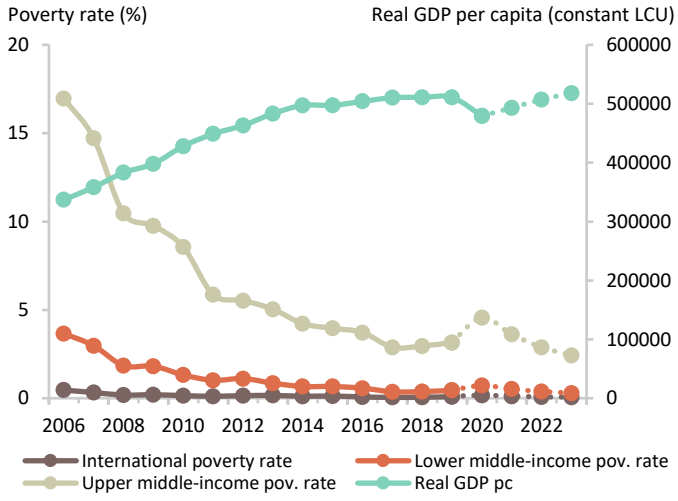
Exports of goods and services fell 13.3 percent y-o-y in 2021Q1 despite merchandise exports growth, largely due to weak inbound tourism, as frontiers remained closed during the 2021 summer season. Imports contracted 4.7 percent, as the fall in services (tourism) was cushioned by higher merchandise imports.

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.

Middle East and North Africa

Annual Meetings 2021

Algeria
Bahrain
Djibouti
Egypt, Arab Republic
Iran, Islamic Republic
Iraq, Republic
Jordan
Kuwait
Lebanon
Libya
Morocco
Oman
Palestinian Territories
Qatar
Saudi Arabia
Tunisia
United Arab Emirates
Yemen, Republic

ALGERIA

Table 1	2020
Population, million	43.9
GDP, current US$ billion	147.7
GDP per capita, current US$	3364.5
National poverty rate[a]	5.5
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	3.7
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	107.3
Life expectancy at birth, years[b]	76.9
Total GHG Emissions (mtCO2e)	212.1

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

The Algerian economy is undergoing a fragile recovery, supported by a rebound in hydrocarbon output, exports and prices. Together with high oil prices, continued exchange rate depreciation and import compression policies have eased fiscal and external financing requirements, however contributing to a significant uptick in inflation. Amid protracted economic uncertainty, accelerating the implementation of the Government Action Plan will be essential to sustain the recovery, transition away from dependance on hydrocarbon exports and restore macroeconomic equilibria, while safeguarding social achievements.

Key conditions and challenges

Algeria's economic performance has been declining, due to stagnating hydrocarbon production and a winded public sector-led model. The oil and gas sector shrank by 2.1 percent yearly since 2010 due to declining investments, with the rise in domestic consumption leading to a steeper contraction in export volumes. This, combined with the decline in international oil prices, resulted in the current account and overall budget deficits averaging 13 percent and 11 percent of GDP, respectively, since 2015, leading to consecutive phases of currency depreciation and import compression policies, as well as to large scale monetary financing. Real public spending stagnated, nonhydrocarbon sectors slowed down, and average annual real GDP growth fell to 1.1 percent in 2017-2019, causing GDP per capita to decline. The transition to a private sector-led growth model is proving challenging, with private firms remaining small, of low productivity, largely informal, and confronted to a high regulatory burden, limited access to credit and skills, or the omnipresence of state-owned enterprises.

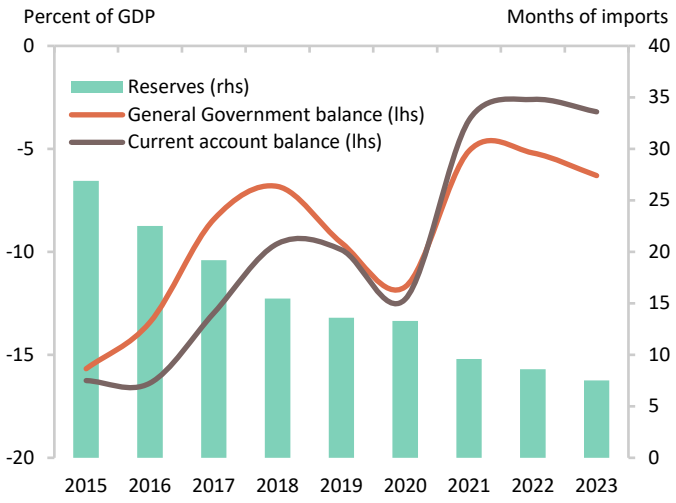
In 2021, the strong recovery in global hydrocarbon prices and demand is providing temporary relief to the Algerian economy, as well as an opportunity for the new Government to engage key structural reforms. In September 2021, the authorities presented an updated Action Plan, which ambitions to foster the economy's transition towards a sustainable, private-led growth model, and restore macroeconomic equilibria. It argues for continued public finance management reforms and spending rationalization, including through the transition from a costly universal subsidy system to a targeted one, to foster social equity. It advocates for cross-cutting and significant improvements to the business environment, including through the reform of the Investment Law, as well as the restructuration and opening to private shareholding of public banks and state-owned enterprises. To protect waning international reserves, it reaffirms its commitment to curb imports and boost nonhydrocarbon exports.

Recent developments

In Q1-2021, GDP staged a modest recovery from a 4.9 percent contraction in 2020, as the surge in natural gas production added to the increase in OPEC crude oil production quotas to boost hydrocarbon production and exports. Supported by the lifting of lockdown measures, nonhydrocarbon GDP timidly reached Q1-2019 levels, with the rebound in construction and industrial activity overperforming the services sector. On the demand side, the rebound in consumption outpaced that of investment, as both returned to pre-pandemic levels.

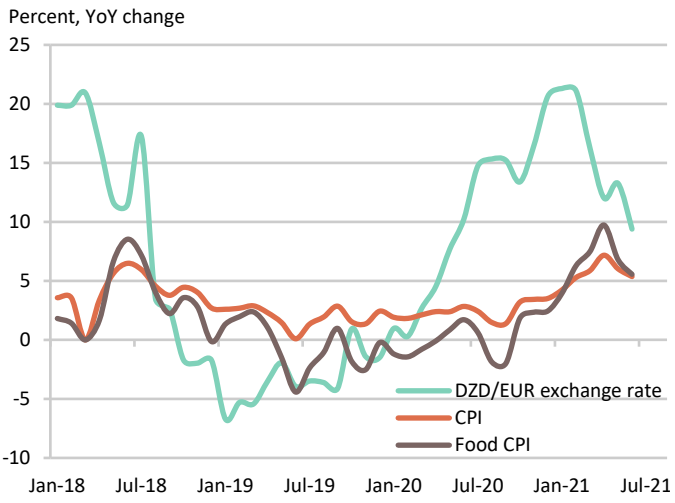
In 2020, the overall budget deficit increased moderately, to reach 11.7 percent of GDP. Oil revenues plummeted and tax

FIGURE 1 **Algeria** / Twin deficits declined markedly



Sources: Algerian authorities and World Bank staff estimates.

FIGURE 2 **Algeria** / But inflationary risks are materializing



Sources: Algerian authorities and World Bank staff estimates.

revenues declined markedly, amid contracting activity and imports, as well as tax deferrals to alleviate the crisis' impact on firms. Current expenditures and support to public banks exposed to struggling SOEs increased markedly, but overall spending contracted nonetheless, as public investment collapsed. Public debt remained stable, as fiscal financing needs were addressed by absorbing Treasury savings and SOE liquidity, leaving official public debt unaffected. In 2021, the Treasury resumed financing through the Central Bank, and banks purchased large amounts of Treasury securities as part of a debt buyback program, causing public debt to rise by 16 percent in H1-2021.

After a moderate increase in 2020, the current account and trade deficit narrowed significantly in H1-2021, benefitting from the recovery in hydrocarbon exports and prices and a limited recovery in imports, held down by continued import compression policies and a depreciated exchange rate. Therefore, the pace of international reserves depletion moderated in H1-2021, after having reached 13.3 months of imports at end-2020. Efforts to curb imports, however, caused imports of equipment and intermediate products to plummet, holding back investment and the recovery, and contributed to a marked acceleration in inflation during H1-2021.

Outlook

A fragile recovery is expected in 2021 and 2022, amid a modest one in nonhydrocarbon sectors and a strong rebound in the hydrocarbon sector. As the latter resumes its structural decline, GDP growth is expected to slow down. Despite the acceleration of the COVID-19 vaccination campaign (13% of Algerians have received at least one dose as of September 12), deteriorated employment and firm revenues will constrain private consumption and investment, while limited fiscal space will constrain the recovery in public investment. Sustained exchange rate depreciation and high hydrocarbon prices will help contain the overall budget deficit, as higher hydrocarbon revenues balance out increases in public spending and realized contingent liabilities. Together with import compression policies, they will also contain the current account deficit. Domestic financing through the central bank and the banking sector will increase public debt, which will remain on favorable terms. Higher liquidity, depreciation and increased scarcity of imports will keep fueling inflation which, combined with subdued activity and employment, will negatively impact living standards. Vulnerable households, already disproportionally affected by the negative consequences of the COVID-19 crisis, will be more seriously affected.

Developments in the global hydrocarbon market and the pace of domestic structural reform implementation will condition the economic outlook. Lower hydrocarbon prices and demand would raise fiscal and external financing needs, and weigh on the availability of liquidity and credit to finance the recovery. Absent external financing, they would imply further depreciation and import restrictions to protect international reserves, increasing the scarcity of imported inputs and equipment, hindering investment, and raising inflation. While domestic production could substitute for imports, contribute to addressing macroeconomic equilibria and curb inflationary pressures, there remains significant uncertainty surrounding the implementation of the Government Action Plan, essential to private sector development. Therefore, a slower pace of structural reform implementation would delay the recovery, prevent embarking on a sustainable growth path, and increase the social cost of contingency measures.

TABLE 2 Algeria / 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	1.2	0.8	-4.9	3.9	1.8	1.6
Private Consumption	2.8	2.1	-2.9	2.2	2.1	2.0
Government Consumption	2.3	1.9	-0.3	1.3	-2.4	-2.4
Gross Fixed Capital Investment	3.1	1.0	-5.0	3.5	1.7	2.6
Exports, Goods and Services	-3.7	-7.2	-9.8	13.8	1.1	-0.5
Imports, Goods and Services	-3.6	-7.2	-16.0	8.7	-2.9	-2.6
Real GDP growth, at constant factor prices	1.5	1.0	-4.6	3.9	1.8	1.6
Agriculture	3.5	2.7	1.6	1.6	1.5	1.4
Industry	-2.6	-1.7	-7.3	7.1	1.5	1.0
Services	5.6	3.3	-3.4	1.5	2.2	2.2
Inflation (Consumer Price Index)	4.3	2.0	2.4	5.8	6.8	6.6
Current Account Balance (% of GDP)	-9.6	-9.9	-12.3	-3.8	-2.7	-3.4
Fiscal Balance (% of GDP)	-6.8	-9.6	-11.7	-5.3	-5.5	-6.6
Debt (% of GDP)	37.8	45.1	49.8	49.8	52.5	56.7
Primary Balance (% of GDP)	-6.3	-9.1	-10.8	-4.5	-4.7	-5.7
GHG emissions growth (mtCO2e)	3.2	0.8	-3.9	5.5	3.0	2.5
Energy related GHG emissions (% of total)	63.4	64.7	65.9	66.1	66.6	67.2

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

BAHRAIN

Table 1	2020
Population, million	1.7
GDP, current US$ billion	34.0
GDP per capita, current US$	20000.0
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	77.3
Total GHG Emissions (mtCO2e)	47.6

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

The economy will see a return to moderate growth in 2021, with the ease in restrictions helped by a rapid vaccination rollout. Fiscal and external deficits are expected to narrow, reversing their expansion observed in 2020. Debt to-GDP-ratio will remain above 130 percent during the forecast period, highlighting the priority of fiscal adjustment to put debt on a downward path. Downside risks arise from prolonged pandemic effects, oil price volatility and inadequate fiscal adjustment to contain the twin deficits which could lower growth outcomes and risk social tensions.

Key conditions and challenges

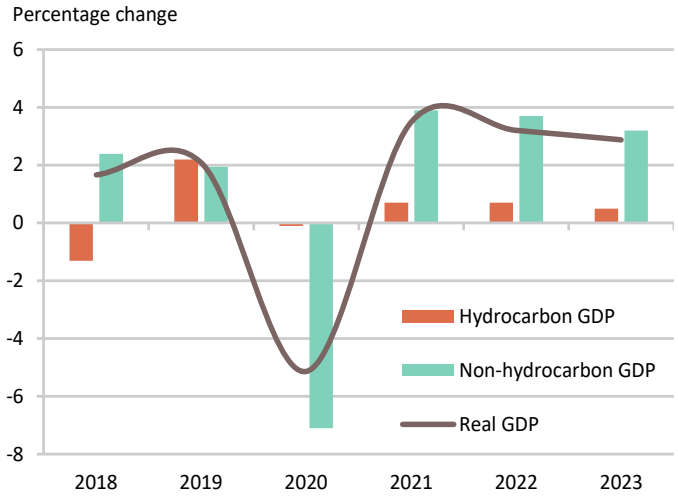
Bahrain entered the COVID-19 crisis with weak macroeconomic conditions. Even before, the fiscal and external deficits deteriorated following the 2014 oil price shock, and remained weak, notwithstanding progress under the 2018 Fiscal Balance Program (FBP), whose implementation was halted due to the pandemic and related oil price shock. The substantial pandemic-related crisis package of US$11.3 billion introduced in March 2020, and an additional US$1.3 billion stimulus package in June 2021 to support the sectors hardest-hit by COVID-19, have further limited the country's fiscal space, and aggravated already weak growth dynamics. Meanwhile, more is needed to facilitate private investment and trigger more private business development, strengthening the education system and support female labor force participation.

While the authorities remain committed to achieving the key reforms of the FBP, challenges remain. Achieving an FBP balanced budget by 2022 is unfeasible, following the pause of the fiscal consolidation caused by the pandemic, insufficient fiscal adjustment measures and considering that the FBP excludes extra budgetary spending financed by the budget. The authorities could also face the challenges of renewed oil price volatility and prolonged pandemic which could slow the pace of reforms. Phasing out of the temporary supporting measures and/or resuming the fiscal adjustment could spur social tension and delay the reform agenda, thus amplifying vulnerabilities. Advancing structural reforms including these related to supporting business environment, investing in renewable energy and digital solutions, would attract foreign investment, and increase employment opportunities, particularly among women and youth.

Recent developments

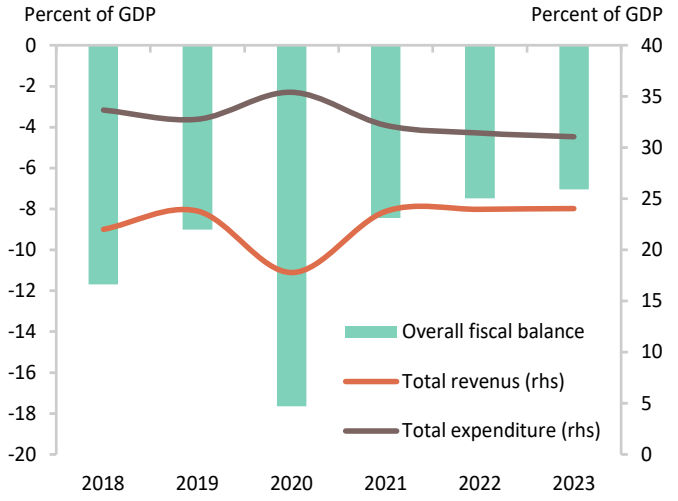
Preliminary official data reveals that the economy contracted by 2.1 percent year on year (y/y) in the first quarter 2021 (Q1-21), compared to the 5 percent contraction in 2020. The rebound is driven by the recovery of the oil sector, which grew by 2 percent (y/y) in Q1-21. This recovery outperformed the slowdown in the non-oil sector, down by 3 percent in Q1-21, as containment measures and travel restrictions hit hard services and tourism sectors where Bahrain has heavily invested. However, the overall growth will rebound by end-21 on the back of rising hydrocarbon output and further easing in lockdown. Disruption in economic activity caused by the COVID-19 pandemic brought 1.3 percent (y/y) deflation in the first half 2021 (H1-21). Official figures for the first half 2021 (H1-21) indicate that government revenues increased by 23 percent (y/y) primarily due to 33 percent increase in oil revenues. Other gains are related to non-oil revenues which increased by 4 percent mainly on the back of

FIGURE 1 Bahrain / Real annual GDP growth



Sources: Bahrain authorities, World Bank, and IMF staff projections.

FIGURE 2 Bahrain / General government operations



Sources: Bahrain authorities, World Bank, and IMF staff projections.

the VAT proceeds introduced in 2019. This will aid the fiscal deficit to narrow by end-2021, which may help to bring the total debt slightly down by end-2021. As a result, the central government debt is expected to slightly decline by 3.5 percentage points of GDP in 2021. High frequency data disclose that Bahrain's trade deficit slightly narrowed to 1.0 percent of GDP in Q2-21, as the value of exports increased by 75 percent (y/y) driven by hydrocarbon exports revenues.

According to the most recent data from the Labor Market Regulatory Authority (LMRA), total employment in Q1-21 fell with respect to the 2020, driven by lower foreign employment. The number of new work visas decreased by 10.6 percent in Q1 -21 (y/y), and visa renewals fell by 27.9 percent. The number of foreign workers reached 531,447 in Q1-21, declining by 9.4 percent (y/y), and accounting for 77.6 percent of the country's total employment. Bahraini employment reached 153,757 during the same period in 2021. However, median monthly wages for Bahrainis reached BHD 556, a 3.2 percent increase (y/y).

Outlook

The economic outlook hangs on oil market prospects, the global path of the pandemic, and the government's commitment to the reforms plan. The hydrocarbon GDP is estimated to recover reaching almost 1.0 percent growth in 2021 and to remain stable in the forecast period with the unwinding OPEC+ deal by 2022 and further expanding the gas output from new fields. Non-hydrocarbon GDP is forecast to accelerate to almost 4 percent in 2021 as rapid vaccination deployment boosts activity in the services sectors, before bouncing back to an average of 3.5 percent in 2022-23 with the uncertainties on the path of delta variants and the need for fiscal consolidations. The swift rollout of 5G services last January coupled with a robust digital infrastructure in e-commerce and ICT sectors are likely to be important drivers of growth going forward. Inflation is estimated to increase to 1.5 percent in 2021 as aggregate demand improves and pandemic-related subsidies are phased out.

More favorable oil market conditions are projected to narrow the fiscal deficit to 8.4 percent of GDP in 2021. Resuming spending restraints under the FBP along with more hydrocarbon-driven revenues would help the fiscal deficit to further narrow in 2022-23. In the absence of significant reforms, the public debt-to-GDP ratio will remain over 130 percent in 2021 -23 and the gross financing needs above 30 percent of GDP. Adherence to FBP accompanied by higher oil and non-oil revenues, will improve the outlook. Higher exports from oil and aluminum will narrow the current account deficit to 4.2 percent of GDP in 2021. While continue narrowing, the deficit is projected to persist in 2022-23 given high debt service payments and increased imports to boost oil production. The narrowing path of the current account deficit will in turn mitigate pressures on foreign exchange reserves. Risks to the outlook are looming on the downside. Oil market uncertainties and insufficient fiscal consolidation would further worsen the twin deficits, making medium-term debt sustainability harder to achieve. The prolonged impact of the pandemic would intensify economic scarring of the most affected sectors, and spark social unrest. On the upside, additional reform effort, anchored in a transparent medium-term framework, and strengthening PFM to reduce the fiscal risks from off-budget expenditures will help to improve Bahrain's outlook. The government has made efforts aimed at reducing unemployment by promoting the hiring of Bahrainis in the private sector through incentives to firms and increasing the local skill base. The strengthening of market-relevant skills among the Bahraini workforce would contribute to, gradually, help reduce unemployment among nationals as well as the demand for foreign labor.

TABLE 2 Bahrain / 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	1.7	2.1	-5.1	3.5	3.2	2.9
Private Consumption	1.4	-1.4	-4.2	4.0	4.2	3.4
Government Consumption	1.8	-1.5	7.6	4.3	1.7	-1.2
Gross Fixed Capital Investment	9.5	-4.7	-7.0	2.3	4.2	4.5
Exports, Goods and Services	3.3	0.4	-10.3	6.5	4.5	4.3
Imports, Goods and Services	5.7	-5.3	-9.7	6.5	5.6	4.2
Real GDP growth, at constant factor prices	1.7	2.1	-5.1	3.5	3.2	2.9
Agriculture	3.8	-1.0	0.1	1.5	2.2	2.4
Industry	1.1	2.3	-1.2	2.4	3.0	3.7
Services	2.1	1.9	-8.1	4.4	3.4	2.2
Inflation (Consumer Price Index)	2.1	1.0	-2.3	1.5	2.0	2.0
Current Account Balance (% of GDP)	-6.5	-2.4	-9.6	-4.2	-3.7	-3.4
Net Foreign Direct Investment (% of GDP)	3.7	3.1	1.2	1.3	1.9	2.6
Fiscal Balance (% of GDP)	-11.7	-9.0	-17.6	-8.4	-7.5	-7.0
Primary Balance (% of GDP)	-7.3	-4.5	-12.8	-3.7	-2.9	-2.7
GHG emissions growth (mtCO2e)	2.0	1.6	-4.1	9.0	3.9	4.1
Energy related GHG emissions (% of total)	61.8	61.3	60.2	58.8	58.2	57.5

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

DJIBOUTI

Table 1	2020
Population, million	10
GDP, current US$ billion	3.4
GDP per capita, current US$	3400.0
International poverty rate ($ 1.9)[a]	17.0
Lower middle-income poverty rate ($ 3.2)[a]	39.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.8
Life expectancy at birth, years[b]	67.1
Total GHG Emissions (mtCO2e)	1.5

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2020); Life expectancy (2019).

Djibouti's economic activity recovered in 2021, driven by a rebound in global and regional trade demand for transshipment and logistics. GDP growth is estimated to have reached 5.1 percent compared to 0.5 percent in 2020. In line with the economic recovery, poverty is expected to resume its downward trend in 2021 after a modest increase in 2020. Djibouti's growth prospects depend critically on Ethiopia's political and economic conditions, as well as continued reforms to maintain the country's competitive edge in transportation.

Key conditions and challenges

Djibouti is strategically located at the southern entrance to the Red Sea, along some of the world's busiest shipping lanes. Djibouti also plays an important security role in the Horn of Africa, hosting several military bases for foreign countries with forces supporting global anti-piracy efforts.

Over the past decade, the Djibouti economy grew rapidly by over 6 percent per year, on average. Growth was driven by externally financed, large-scale investments in transport and port infrastructure, to make the most of its strategic location and deep-water port that serves as key regional refueling, trade and transshipment center. The economic expansion of Ethiopia, Djibouti's large landlocked neighbor, has also fueled Djibouti's growth by stimulating trade and logistic activities. Djibouti will increasingly need deep trade facilitation reforms to maintain its regional competitive advantage on cost and throughput.

Djibouti's economy weathered the initial impact of the COVID-19 pandemic, averting a contraction. This good performance primarily reflects a relatively quick recovery of key domestic market-oriented in the latter half of 2020 after the lifting of a two-month lockdown imposed in March 2020. Strong trade activity in Ethiopia also boosted re-export activities and transportation and logistics services.

Djibouti's development strategy based on sizable investments financed by non-concessional public debt has put the country at high risk of external debt distress. To reduce debt vulnerabilities and increase the fiscal space for necessary spending in social sectors, Djibouti needs to prioritize concessional borrowing, strengthen debt management, improve the management of SOEs and broaden its tax base.

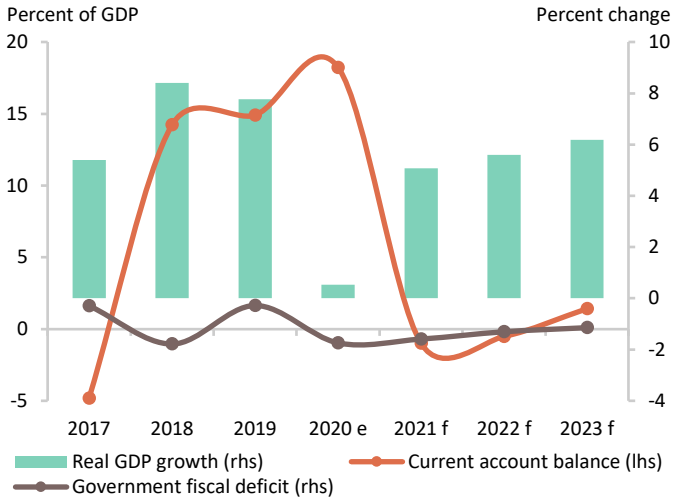
Poverty, while declining overall, remains another major problem. In 2017, an estimated 39 percent of the population lived below the lower-middle income poverty line (US$3.2 per day) and 17 percent in extreme poverty (below the international poverty line of US$1.9 per day). Heavy reliance on food imports is a key vulnerability for the country.

Recent developments

Djibouti's economy is estimated to grow by 5.1 percent in 2021, driven by a rebound of transport and logistics services demand from Ethiopia. The resumption of the Ethiopia-Djibouti railway activities - which connects Ethiopia to Djibouti Ports - that had been affected by the COVID-19 pandemic - were the main driver of the rebound. On a year-to-year basis, headline inflation recorded a moderate increase of 0.6 percent at the end of June 2021.

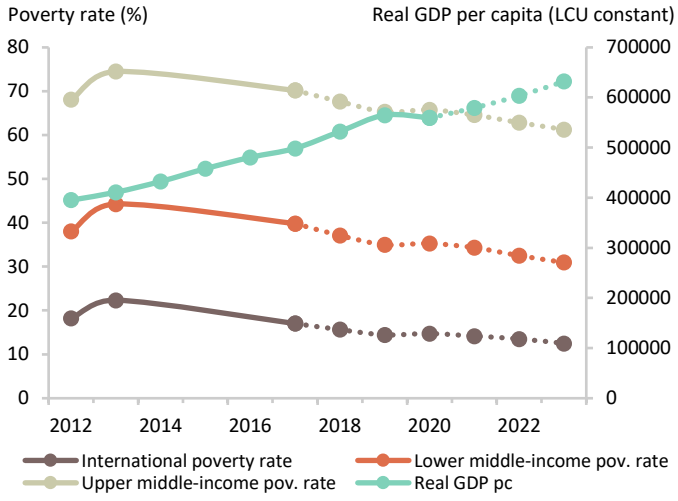
In line with the recovery, poverty which stood at 17 percent in 2017 at the $1.90 per day poverty line, is expected to decline to around 14.1 percent in 2021, compared to 14.7 in 2020 and 14.4 in 2019. Indeed, recent

FIGURE 1 Djibouti / Real GDP growth, fiscal, and current account balances



Sources: Government of Djibouti and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

phone surveys show a steady recovery in employment and food security indicators, among others. However, while preliminary employment data show a continuing recovery trend, some groups of the population remain affected– particularly those in the informal sector. Inequalities are also apparent as poorer households are less likely to get tested for COVID-19, raising potential concerns on equity in the road to recovery from the pandemic.

On the fiscal side, the overall deficit is expected to remain low at 1.6 percent of GDP in 2021. This is driven by a contraction in spending on goods and services and the government's measures to rationalize wages and salaries and capital expenditure. Revenues are also witnessing a 50 percent decline in grants, lower SOEs dividends compared to 2020 reflecting the lagged impact of Covid. The fiscal gap is projected to be covered by external financing, including from fiscal savings from the G20 Debt Service Suspension Initiative.

The current account surplus is expected to turn from a positive 11.6 percent of GDP to a negative 1 percent of GDP, as import of goods and services (mostly for infrastructure projects) growth is expected to outpace exports of goods. Rising FDI and external public debt disbursements are expected to partially absorb the trade deficit resulting from high imports. Notwithstanding a decline by US$65 million compared to December 2020, gross official reserves were estimated at US$611.1 million (equivalent to 5.2 months of imports) at end-June 2021, and currency board coverage at 106 percent, above the minimum required.

Outlook

Despite the considerable uncertainty, the economic outlook remains positive. GDP growth is expected to reach 5.6 percent in 2022 and 6.2 percent in 2023. Key drivers will be the rebound of global trade that would drive re-exports and demand for Djibouti's transshipment and logistics. Construction and public works activities are also expected to drive growth, boosted by the ongoing and planned constructions, such as the redevelopment of the old port land into a business complex, the construction of a Ship Repair Yard and the development of the Damerjog Industrial free zone. The fiscal deficit is projected to stay above 1 percent of GDP in 2022 and 2022 with an expected increase in capital expenditure (in line with the implementation of the second phase of the Vision 2035) and the announced additional targeted measures to support businesses and households, including a halving of the minimum flat-rate tax. After their decline in 2021, grants are expected to remain stable over 2022-2023. The current account will remain in deficit in 2022, reflecting a surge in capital goods imports for infrastructure projects. The main risks to the outlook remain the escalation of political and social tensions in Ethiopia and its spillover which could ignite tensions from its early 1990s civil war and disrupt the main rail and road freight transport corridor connecting Addis to Djibouti. The current projected GDP levels suggests that poverty should resume its downwards trend from 14.7 percent in 2020 to 12.5 percent in 2023, provided Djibouti's growth and job creation rates are both inclusive and equitable. Policy action may need to place particular attention to groups of the population, such as those in the informal sector, that are at risk of being left behind in the road to recovery from the pandemic.

TABLE 2 Djibouti / 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	8.4	7.8	0.5	5.1	5.6	6.2
Private Consumption	4.8	5.0	-5.0	5.5	4.7	4.9
Government Consumption	1.9	-0.5	-2.1	-8.0	1.6	-0.7
Gross Fixed Capital Investment	-30.8	26.4	-37.2	7.1	7.9	11.3
Exports, Goods and Services	10.3	12.9	7.5	5.7	6.1	6.3
Imports, Goods and Services	-15.3	13.9	-0.5	5.0	6.1	6.1
Real GDP growth, at constant factor prices	8.8	7.2	0.5	5.1	5.6	6.2
Agriculture	15.3	0.7	3.5	3.5	3.5	3.5
Industry	45.3	9.4	2.0	5.0	8.2	8.2
Services	3.0	6.8	0.1	5.1	5.0	5.7
Inflation (Consumer Price Index)	-0.1	3.3	1.8	1.6	2.0	2.0
Current Account Balance (% of GDP)	14.2	28.9	11.6	-1.0	-0.5	1.4
Fiscal Balance (% of GDP)	-1.8	-0.3	-1.7	-1.6	-1.3	-1.1
Debt (% of GDP)	69.2	65.3	73.3	71.5	70.0	63.6
Primary Balance (% of GDP)	-0.6	0.9	-1.2	-0.7	0.0	0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	15.6	14.4	14.7	14.1	13.5	12.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.1	35.0	35.3	34.3	32.5	31.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	67.7	65.3	65.8	64.6	62.8	61.3
GHG emissions growth (mtCO2e)	1.7	2.5	0.9	1.9	1.8	1.9
Energy related GHG emissions (% of total)	26.0	27.3	27.2	27.7	28.2	28.7

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

(a) Calculations based on 2017-EDAM .Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

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

ARAB REPUBLIC OF EGYPT

Table 1	2020
Population, million	102.3
GDP, current US$ billion	363.1
GDP per capita, current US$	3549.4
Lower middle-income poverty rate ($3.2)[a]	28.9
National poverty rate[a]	32.5
Gini index[a]	31.5
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	72.0
Total GHG Emissions (mtCO2e)	352.3

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

Growth, foreign-income sources and government debt were adversely impacted by COVID-19, but are starting to improve due to favorable base effects, recovering global conditions, and easing restrictions. Sustaining the nascent uptick requires expediting vaccination, especially with risks from the Delta variant. Strengthening fiscal management to enhance social protection and human development spending whilst pushing ahead with structural reforms are crucial to unleash the private sector's potential for export-oriented growth and job-creation, and ensure an inclusive recovery path.

Key conditions and challenges

Egypt's macroeconomy continues to show resilience more than a year and a half through the pandemic. Stabilization reforms implemented in recent years and mobilization of international financing helped in weathering the crisis. Monetary easing and selected sectoral support partially alleviated pressures on households and private businesses, and contributed to the reduction of domestic borrowing costs. Egypt also continues to address entrenched economic problems, through taking steps to strengthen public debt management, enhance aspects of the business environment and promote financial inclusion. Nevertheless, long-standing challenges persist. Fiscal space is constrained by low revenue-generation and the burden of interest payments. Therefore, the country faces the dual challenge of continuing to pursue fiscal consolidation, whilst simultaneously boosting productive spending, notably on social protection, health, education and infrastructure to advance human and physical capital for the (largely youthful) population of above 102 million. Official estimates suggest recent gains in welfare, though poverty (reported for the period October 2019—March 2020) remained elevated at 29.7 percent.

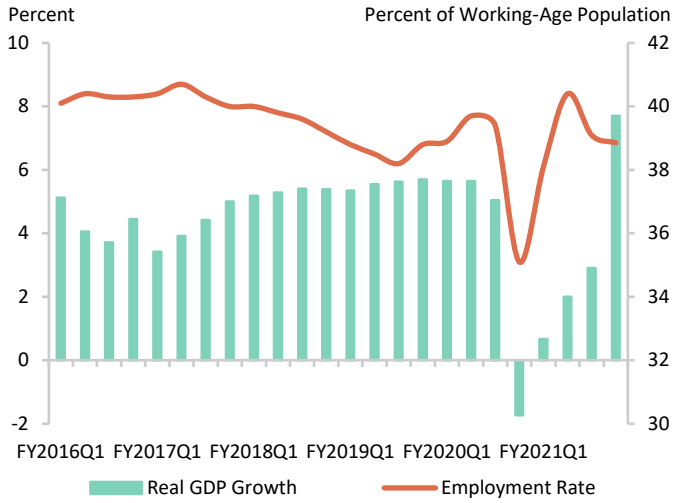
The growth model that shifted over the years towards non-tradable lower productivity sectors contributed to below -potential outcomes in terms of poverty-reduction and job-creation, notably for youth and women. The limited merchandise export penetration and sophistication, as well as the erosion of competitiveness during episodes of real exchange rate appreciation have altogether contributed to the chronic trade deficit. Structural reforms are underway to improve trading-across-borders and support Egypt's ability to expand its export-oriented growth, including a new Customs law aiming to simplify and automate customs clearance procedures.

In the near term, it is crucial to expedite vaccination (overcoming supply bottlenecks, improving logistics and tackling hesitancy) as less than 8 percent of the population had received at least one dose of the COVID-vaccine by end-August 2021. Further, a sustainable recovery requires pushing ahead with structural reforms to upgrade workers' skills and firm capabilities, improve governance and shift the role of the State towards regulatory functions, while preserving a level-playing-field to unleash the private sector's potential.

Recent developments

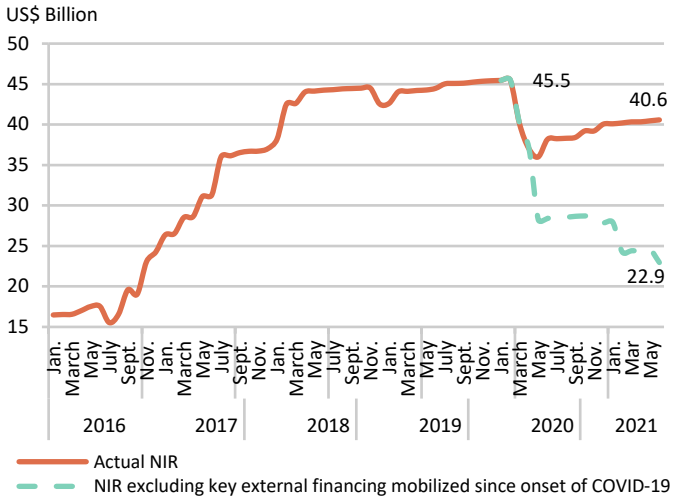
Growth declined from 3.6 percent in FY2019/2020 to 3.3 percent in FY2020/2021 (July 1, 2020—June 30, 2021), affected by the ongoing impact of COVID-19. However, exposed sectors that were contracting since the beginning of the pandemic (tourism, manufacturing, extractives, and Suez Canal) started rebounding during

FIGURE 1 Arab Republic of Egypt / Real growth and employment rates (FY2016Q1-FY2021Q4)



Source: Ministry of Planning and Economic Development and CAPMAS.

FIGURE 2 Arab Republic of Egypt / Net international reserves (Actual vs Counterfactual)



Sources: World Bank calculations based on CBE data.
Note: In the counterfactual scenario, the IMF RFI and SBA, Green-bond and Eurobonds issued since onset of COVID-19 are excluded.

April—June 2021 (Q4-FY2020/2021); in part reflecting base effects, easing restrictions and the gradual resumption of economic activity, international travel and trade. Unemployment declined to 7.3 percent by Q4-FY2020/2021, from the 9.6 percent peak a year earlier at the height of the COVID-shock. Yet, labor force participation and employment rates remain low at 41.9 percent and 39 percent of the working -age population, further hindering poverty reduction.

Inflation remained relatively subdued at 4.5 percent during FY2020/2021, from 5.7 percent a year earlier (below the CBE's inflation range of 7 percent +/-2 PPT), reflecting the output gap created during the pandemic. Nevertheless, the monetary easing cycle kickstarted at the outset of the pandemic has been on hold since end-2020, in light of looming increases in international commodity prices, and unfavorable base effects expected to start taking effect. This pause also helps preserve robust portfolio investment inflows, a key source of foreign income.

International reserves are below their pre-pandemic peak of US$45.5 billion due to the crisis' impact on foreign-income activities, but remain ample at US$40.7 billion in end-August 2021 (covering 7 months of merchandise imports); supported by remittances, portfolio inflows, and external financing. The budget deficit-to-GDP ratio declined from 8 percent in FY2019/2020 to 7.5 percent in FY2020/2021, driven by the uptick in government revenues. But, the government debt-to-GDP ratio is expected to have increased from 87.5 percent at end -June 2020 to around 91 percent at end-June 2021, despite the sustained fiscal consolidation. This partly reflects continued fiscal pressures arising from arrears and/ or extra-budgetary items.

Outlook

The outlook remains uncertain given the slow vaccination rate, the emergence of the Delta-variant and the resurgence of COVID-19 cases, which could threaten the recovery, especially for Egypt's exposed sectors. Nevertheless, under the baseline scenario that assumes that the pandemic continues to ease, and lockdown measures are not reinstated, growth is expected to rise from 3.3 percent in FY2020/2021 to 5 percent in FY2021/2022; supported by favorable base effects and global growth. Domestic economic activity is expected to be supported by the gradual return of tourists (especially with the resumption of flights from Russia after a 6-year hiatus), continued growth in the ICT sector, an uptick in gas extractives and exports, in addition to the public investments.

The current account deficit-to-GDP ratio is forecast to widen from 3.1 percent in FY2020/2021 to 4.1 percent in FY2021/2022, before narrowing again to 2.8 percent of GDP over the medium term, as the Suez Canal revenues improve with the restoration of global trade, tourism rebounds with the resumption of international travel, and gas exports improve. The capital and financial account is projected to remain buoyed, supported by the recent IMF SDR allocation. Portfolio inflows will depend on the attractiveness of yields on Egyptian debt instruments, and more generally on investors' sentiment towards emerging markets, but are still expected to be supported by sovereign issuances. FDI inflows to the extractives sector are expected to inch up with the global recovery.

Efforts to improve public expenditure efficiency will be key to create room for increased spending on priority areas, while potential reforms – for example to food subsidies - must be accompanied by adequate measures to protect the poor. Finally, the debt-to-GDP ratio should resume its downward path, with the continued fiscal consolidation and as the need for external borrowing declines in tandem with the improving foreign-income sources, as the pandemic gradually abates.

TABLE 2 Arab Republic of Egypt / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.3	5.6	3.6	3.3	5.0	5.5
Private Consumption	1.0	1.0	7.3	8.6	4.5	4.3
Government Consumption	1.7	2.8	6.7	5.0	4.4	4.4
Gross Fixed Capital Investment	16.9	14.1	-20.9	-24.0	2.5	10.0
Exports, Goods and Services	31.6	-2.2	-21.7	-22.0	9.0	10.0
Imports, Goods and Services	10.6	-8.9	-17.9	-9.0	3.0	4.0
Real GDP growth, at constant factor prices	5.3	5.1	2.5	2.0	4.9	5.4
Agriculture	3.1	3.3	3.3	3.7	3.3	3.3
Industry	6.4	5.8	0.6	-2.4	4.3	6.0
Services	5.1	5.1	3.6	4.4	5.7	5.5
Inflation (Consumer Price Index)	21.6	13.9	5.7	4.5	7.0	8.0
Current Account Balance (% of GDP)	-2.4	-3.6	-3.1	-4.1	-3.6	-2.8
Net Foreign Direct Investment (% of GDP)	3.0	2.6	2.0	1.6	1.7	1.9
Fiscal Balance (% of GDP)	-9.7	-8.1	-8.0	-7.5	-7.2	-6.8
Primary Balance (% of GDP)	0.1	1.9	1.8	1.5	1.8	2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.9	4.2				
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	29.6	30.3				
GHG emissions growth (mtCO2e)	2.8	3.5	3.4	3.5	3.5	4.1
Energy related GHG emissions (% of total)	68.5	68.7	69.5	69.9	70.1	70.3

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

(a) Calculations based on 2017-HIECS.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.

IRAN, ISLAMIC REPUBLIC

Table 1	2020
Population, million	84.0
GDP, current US$ billion	202.8
GDP per capita, current US$	2414.3
Upper middle-income poverty rate ($5.5)[a]	14.0
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	110.7
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	817.1

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

Iran's economy exited a two-year recession in 2020/21, aided by limited COVID-19 mitigation measures and a gradual rebound in oil production in the second half of 2020. Yet, poor economic activity, partly due to US sanctions, low oil revenues and higher recurrent and COVID-19 related expenditures widened the fiscal deficit, leading to significant inflationary pressures and currency depreciation. Growth is expected to remain modest and challenged by further waves of COVID-19 variants, uncertainties in the materialization of sanctions relief, recent tensions in Afghanistan, and climate change impact.

Key conditions and challenges

Having undergone multiple waves of COVID-19 infections, Iran continues to be heavily impacted by the pandemic. With more than 5.3 million confirmed cases and 115K deaths, as of mid-September 2021 (population: 84 million), Iran remains the most affected country in the Middle East and North Africa region. The spread of the Delta variant since August 2021 has led to a new record number of daily cases (50K) and deaths (709). As of September 15, 2021, only 31 percent of the population have received the first dose of a vaccine and about 16 percent were fully vaccinated. As a result, the hospitalization rate remains high.

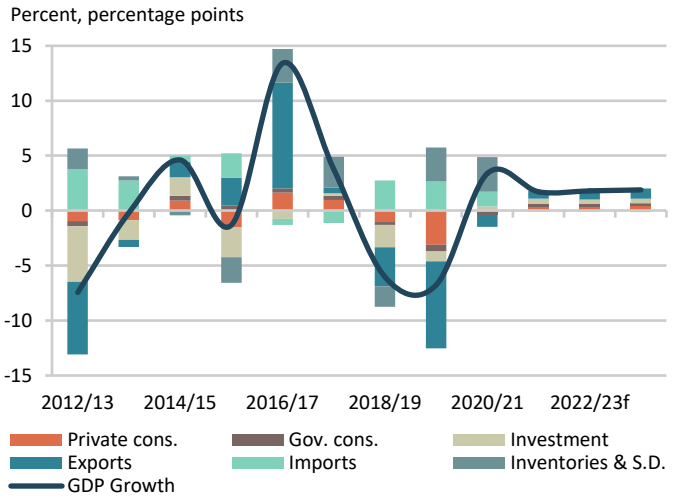
Over the last decade, Iran's real GDP growth has been negligible and has resulted in a drop of real GDP per capita to its 2006 level. Despite some progress towards economic diversification, high public sector presence continues to inhibit private sector job creation and investment. Even prior to recent sanctions, job creation fell short of meeting new labor supply and unemployment remained stubbornly high. The labor market is characterized by low participation and large gender disparities. Adverse events owing to climate change, such as droughts and desertification, have impacted the agriculture sector but also hurt industrial production due to lower hydroelectricity generation. Furthermore, since 2019/20,[1/] a sharp decline in oil revenues due to US sanctions combined with the onset of the pandemic have accentuated the pro-cyclicality of government spending and volatility of the economy.

Income losses have worsened households' welfare. The loss in household incomes due to the pandemic (owing to lockdowns) and rising living costs due to inflation added more pressures on low-income households. Given the large share of vulnerable households, these shocks are likely to have determined a sizeable increase in poverty. While a range of social protection measures were aimed to compensate for the welfare loss, their mitigating impact was eroded by inflation. Inflation has remained high (36 percent YoY on average since 2018/19) largely due to a sharp currency depreciation (over 400 percent since 2018/19) and deficit monetization.

Recent developments

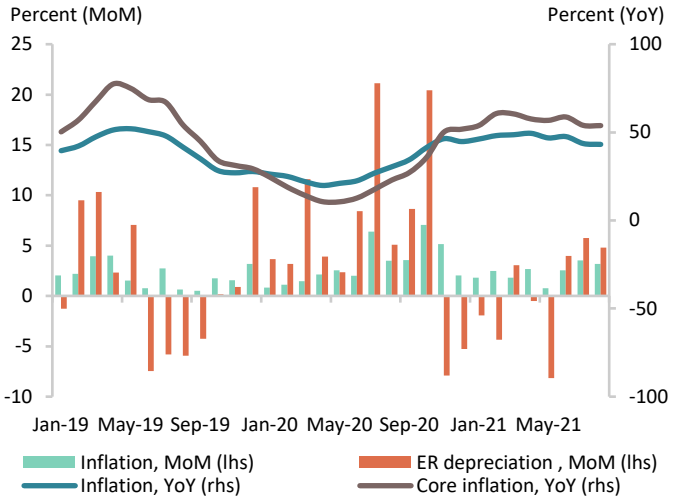
Iran's economy witnessed a moderate recovery in 2020/21 following more than two years of recession. A gradual recovery in global demand and limited COVID -19 lockdowns contributed to stronger growth in the oil sector (11.2 percent) and in manufacturing (7.1 percent) which led GDP to grow by 3.4 percent in 2020/21. On the expenditure side, public and private consumption contracted by 2.3 percent and 0.4 percent, respectively, and import bans led to another year of declining Imports (-29.2 percent) offsetting the decline in exports (-5.4 percent). The latest industrial production data indicates a

FIGURE 1 Islamic Republic of Iran / GDP growth and demand side decomposition



Sources: CBI and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Inflation and parallel market ER



Sources: CBI, SCI, and World Bank staff calculations.

decline in economic activity after the spread of the Delta variant in August 2021, though oil production gradually increased to 2.4 million barrels/day. The employment population ratio in Apr-Jun 2021 remains 2.1 percentage points below the pre-pandemic level of 39.8 percent (Apr-Jun 2019) with a disproportionate negative impact on women.

The government faces challenges in financing a growing fiscal deficit due to declining oil revenues. The fiscal impact of the global oil market recovery in 2020/21 was limited as oil revenues only accounted for under 10 percent of government revenues. Faced with low revenues, the government adjusted expenditures to reduce the adverse impact on the deficit, which increased by almost 2 percentage points to 6.9 percent of GDP. Deficit financing through bond auctions (46 percent lower in Apr-Sep 2021, YoY) was less successful due to heightened economic uncertainties and negative real interest rates. This led the government to exhaust its revolving fund and monetize the remaining deficit as planned sales of public assets also slowed.

CPI inflation rose to 43.2 percent (YoY) in August 2021 driven by inflationary expectations due to uncertainties in the economic outlook and ongoing nuclear talks. This came as the currency depreciated again (16 percent depreciation in Apr-Aug 2021) pushing up the price of imported goods.

In 5M-21/22 (Apr-Aug 2021), non-oil exports recovered to their pre-pandemic level, reaching US$17.6 billion (61 percent YoY growth), while imports reached US$16.6 billion (21 percent YoY growth), leading to a modest non-oil trade surplus. The large growth in exports mainly reflects the impact of boarder closures at the onset of the COVID-19 in 2021. However, Iran's access to foreign exchange reserves continues to be restricted due to US sanctions which complicate trade and international financial transactions.

Outlook

Iran's economic outlook is shaped by the expectations about the course of the pandemic, the recovery in demand from export partners, and geopolitical developments. Average GDP growth is projected to remain under 3 percent per annum in the medium term. Domestically, slow COVID-19 immunization in the face of the large Delta variant and potential lockdowns alongside low investment rates are key drivers of the outlook. The impact of new variants on global demand together with ongoing US sanctions on exports is expected to weigh down on growth in both oil and non-oil sectors. Disruptions to trade with immediate neighbors, such as Afghanistan following the government collapse, could also undermine exports and further restrict availability of much needed foreign currency. In addition, the mounting climatic challenges resulting in water and energy shortages together with high inflation could further increase pressures on the most vulnerable and add to social grievances. Upside risks include the possibility of sanctions relief which could materially boost economic activity, especially since it has operated below potential capacity for several years.

Importantly, in the absence of a rebound in Iran's oil revenues in the medium term, the new government will face a large fiscal deficit. Limited non-oil revenue growth owing to a slow recovery, uncertain prospects for higher oil revenues, and higher wage bill and pensions expenditures are expected to keep the fiscal balance in deficit. The government is expected to continue to issue bonds and sell public assets to finance the deficit. More short-term issuances will increase roll-over risks while monetization will add to inflationary pressures.

1/ The Iranian calendar year starts on March 21 of every year and ends on March 20 of the following year.

TABLE 2 Islamic Republic of Iran / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018/19	2019/20	2020/21	2021/22 e	2022/23 f	2023/24 f
Real GDP growth, at constant market prices	-6.0	-6.8	3.4	3.1	2.4	2.2
Private Consumption	-2.6	-7.7	-0.4	2.1	1.8	1.5
Government Consumption	-2.9	-6.0	-2.3	2.4	1.7	1.5
Gross Fixed Capital Investment	-12.3	-5.9	2.5	1.2	2.1	2.7
Exports, Goods and Services	-12.5	-29.9	-5.4	12.0	7.1	5.9
Imports, Goods and Services	-29.5	-38.1	-29.2	9.8	4.8	3.9
Real GDP growth, at constant factor prices	-5.4	-6.5	3.6	3.1	2.4	2.2
Agriculture	-0.9	8.8	4.5	1.6	2.1	4.0
Industry	-11.0	-15.9	8.4	3.6	3.5	3.4
Services	-0.7	-0.5	-0.1	2.9	1.6	0.9
Inflation (Consumer Price Index)	31.1	41.3	36.4	42.9	41.6	40.3
Current Account Balance (% of GDP)	9.1	1.5	-0.3	1.4	1.5	1.7
Fiscal Balance (% of GDP)	-1.7	-5.0	-6.9	-7.3	-6.9	-6.8
Gross Public Debt (% of GDP)	38.5	48.0	52.0	53.7	53.2	52.6
Primary Balance (% of GDP)	-1.5	-4.3	-5.9	-6.2	-5.9	-5.8
GHG emissions growth (mtCO2e)	1.7	-4.6	3.4	3.0	2.6	2.6
Energy related GHG emissions (% of total)	70.9	69.7	70.1	70.1	70.0	69.7

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

REPUBLIC OF IRAQ

Table 1	2020
Population, million	40.2
GDP, current US$ billion	153.7
GDP per capita, current US$	3823.4
Lower middle-income poverty rate ($3.2)[a]	14.8
Upper middle-income poverty rate ($5.5)[a]	52.4
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	70.6
Total GHG Emissions (mtCO2e)	229.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2012), 2011 PPPs.
(b) WDI for School enrollment (2007); Life expectancy (2019).

Economic growth is gradually recovering following last year's pandemic-related contraction, partly due to higher non-oil activity. Improved global oil market conditions are expected to reinforce growth in the medium term and to turn the fiscal and external balances to surpluses from 2021, and to reverse the recent surge in debt. Key downside risks relate to potential pandemic developments, oil price volatility, setbacks in the security situation, and the derailing of economic reform implementation.

Key conditions and challenges

Iraq is one of the most oil-dependent countries in the world. Over the last decade, oil revenues accounted for more than 99 percent of exports, 85 percent of government budget, and 42 percent of GDP. This excessive dependence on oil exposes the country to macroeconomic volatility while budget rigidities, linked to growing wage bill and transfers, restrict fiscal space and opportunities for counter cyclical policy. The COVID-19 pandemic had a significant impact on Iraq's GDP in 2020, which contracted by 15.7 percent, and its budget revenues which shrank by 9 percentage points to 32 percent of GDP, leading to a severe reduction in public spending and investments.

As of January 2021, the unemployment rate was more than 10 percentage points higher than the pre-pandemic level of 12.7 percent. Unemployment among the displaced, returnees and women jobseekers, and those pre-pandemic self-employed and informal workers remains elevated. Food security concerns remained despite the recent upward trend in the share of households receiving public and private transfers including ration food from the Public Distribution System. Access to healthcare, including COVID-19 testing and vaccines continues to be a struggle for many Iraqis.

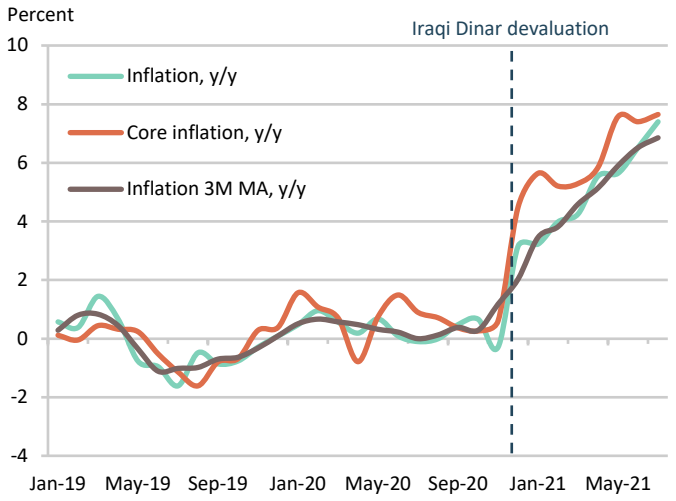
While Iraq's economic conditions are gradually improving as international oil markets recover, this recovery is also fraught by major risks posed by structural bottlenecks, including public investment management constraints that have impacted public service delivery, slow clearance of arrears especially those related to public wages, and large exposure of state-owned banks and the central bank to the sovereign. These fragilities are aggravated by a fragile political condition, a weak healthcare system, and rampant corruption that continue to trigger unrest across the country.

The Iraq White Paper is a comprehensive framework to address oil dependence and structural bottlenecks, but capacity constraints and the upcoming parliamentary elections could undermine implementation plans and span further uncertainty.

Recent developments

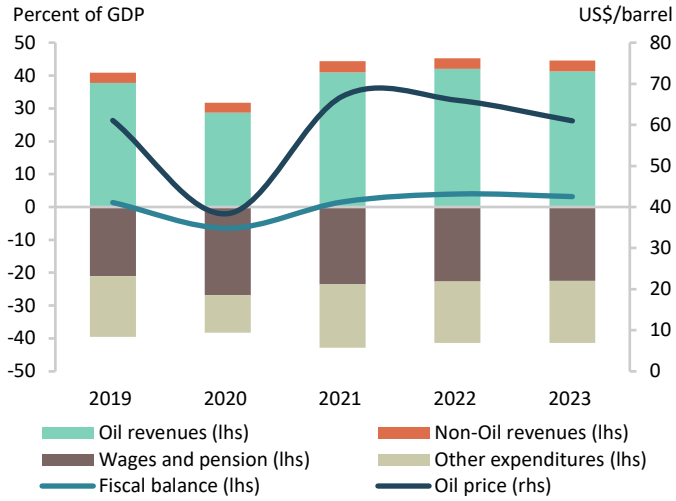
The economy is gradually recovering from the double oil and COVID-19 shocks of 2020. In the first half of 2021 (H1-21), GDP grew by 0.9 percent year on year (y/y). The non-oil economy grew by over 21 percent in H1-21 (y/y) owing to a solid performance in the services sectors (COVID-19 containment measures were eased, aided by a pick-up in the vaccination campaign and the decline in COVID infection positivity rate). This recovery outpaced the slowdown in the oil sector, down by 10 percent in H1-21, as Iraq adjusted to its OPEC+ quota early in the year. Since then, OPEC's gradual increase in members' production

FIGURE 1 Republic of Iraq / Consumer price inflation, headline, and core



Sources: Iraq's COSIT and World Bank staff calculations.

FIGURE 2 Republic of Iraq / Fiscal account outlook



Sources: Iraq's MoF, MoO and World Bank staff calculations.

quotas has allowed oil GDP to grow. Iraq's headline and core inflation in Jan-Jul 2021 reached 5.2 and 6.3 percent (y/y), respectively, owing to the increased domestic demand coupled with the effect of the 23 percent devaluation which took place last December. The pickup in inflation was dampened by lower import prices due to the depreciation of the Turkish and Iranian currencies, the main import partners of Iraq.

Fiscal data for H1-21 shows important gains in budgetary revenues (up 42 percent y/y) as average oil export prices trended above US$64/barrel. These budgetary gains were also compounded by the fiscal effects of last year's devaluation. Moreover, customs and tax administration reforms outlined in the 2021 budget law have started paying off, contributing to a 53 percent surge in domestic revenue mobilization. This was enough to turn the overall fiscal deficit (cash basis) into a small surplus of 0.6 percent of GDP despite spending rigidities. The fiscal balance calculated on accrual basis is considerably less favorable owing to the large size of unaccounted arears.

On the external side, the current account deficit also turned into a surplus of 4.7 percent of GDP in Q1-21 (y/y), after a 6 percent of GDP deficit in 2020, due to a 66 percent (y/y) decline in imports, mainly related to private sector imports. As a result, gross official reserves increased by almost US$5 billion to reach US$58.5 billion in Q1-21 compared to US$54 billion at end-2020.

Outlook

The prospects of Iraq's economy have improved with the recovery in global oil markets, but the spread of new COVID-19 variants and climate change challenges are significant headwinds. The economy is forecast to gradually recover on the back of rising oil prices and OPEC+ production quotas which are planned to be phased out in 2022. Oil GDP will be the main driver of growth in the medium term. Non-oil GDP is forecast to recover but remain under 3 percent on average in 2021-23 due to the impact of the new COVID-19 Delta variant along with water and electricity shortages that impact agriculture and industries. Under this scenario, the fiscal balance is forecast to remain in surplus in the medium term leading the debt-to-GDP ratio to steadily improve.

The surge in poverty will gradually reverse with the economic recovery and mass vaccination. However, the disproportional impact of COVID-19 on the pre-pandemic poor and vulnerable groups and the resulting inequality will be felt for a long time to come. The diverging trends between groups and regions that overlaps with Iraq's existing ethnic and religious divisions makes the situation more precarious and calls for appropriate planning in the recovery phase, including in the implementation of an equitable vaccination program.

Iraq's economic outlook is mired by significant downside risks that call for accelerated implementation of structural reforms. These include: a potential decline in the oil price, a worsening COVID-19 crisis due to the spread of new variants, a deterioration in security conditions, the intensification of climate change shocks and additional macroeconomic volatility. Averting or mitigating the impact of downside risks depends on the policies of the future government and commitment to comprehensive reforms in line with those envisioned in the GoI White Paper. Progress on regional economic integration together with an improved security environment could provide new momentum for growth and diversification.

TABLE 2 Republic of Iraq / 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	1.7	5.2	-15.7	2.6	7.3	6.3
Private Consumption	2.3	1.5	-9.0	2.0	2.5	3.0
Government Consumption	17.7	25.2	-10.6	5.3	3.1	3.0
Gross Fixed Capital Investment	-75.4	-13.8	-40.0	10.0	8.0	8.0
Exports, Goods and Services	6.3	4.6	-15.8	3.0	10.2	8.2
Imports, Goods and Services	16.6	28.4	-9.4	3.0	3.0	3.5
Real GDP growth, at constant factor prices	2.6	6.0	-15.7	2.6	7.3	6.3
Agriculture	37.7	46.2	4.5	4.0	4.5	4.8
Industry	-1.6	7.5	-16.9	2.9	9.7	7.9
Services	10.7	-0.7	-15.3	1.7	2.1	2.6
Inflation (Consumer Price Index)	0.4	-0.2	0.6	7.5	3.5	3.1
Current Account Balance (% of GDP)[a]	9.8	5.6	-5.8	4.8	5.9	5.2
Net Foreign Direct Investment (% of GDP)[a]	2.2	1.4	1.8	1.7	1.7	1.7
Fiscal Balance (% of GDP)[a]	11.0	1.3	-6.5	1.5	4.0	3.2
Debt (% of GDP)[a]	48.6	44.4	64.5	55.0	47.4	42.5
Primary Balance (% of GDP)[a]	12.1	2.4	-5.3	2.9	5.9	5.6
GHG emissions growth (mtCO2e)	3.8	11.4	-2.6	4.5	10.9	9.0
Energy related GHG emissions (% of total)	71.1	72.5	73.8	74.7	75.3	75.2

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

(a) Share of factor cost GDP.

JORDAN

Table 1	2020
Population, million	10.2
GDP, current US$ billion	43.8
GDP per capita, current US$	4294.1
School enrollment, primary (% gross)[a]	81.8
Life expectancy at birth, years[a]	74.5
Total GHG Emissions (mtCO2e)	33.8

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

GDP growth suggests that Jordan's economy has weathered the COVID-19 shock better than many peers. Yet unprecedented high unemployment rates, widening external imbalances, rising debt, and weak investment highlight sizable challenges to a robust recovery. Going forward, Jordan's economic outlook is constrained by the slow rebound of tourism and chronic structural impediments. Swift implementation of structural reforms, especially to support investment and exports, remain essential for overcoming these challenges and relaunching inclusive and sustained growth.

Key conditions and challenges

During the past decade, Jordan's small open economy has faced a number of adverse external shocks, including regional conflicts and a large refugee influx that directly affected its growth performance and contributed to the accumulation of public debt. During the period, public and private investment have weakened, and growth has been driven by consumption. As such, pre-pandemic growth has not been able to create enough productive jobs for the young and fast-growing population, contributing to high unemployment rates, particularly among females and youth. Many workers rely on informal employment, which affects over 40 percent of Jordanians and the vast majority of non-Jordanian workers.[1]

Amidst these challenges, Jordan's GDP contracted by 1.6 percent during 2020 as the COVID-19 pandemic unfolded. This contraction, however, remained relatively muted in global comparison in part due to the authorities' timely fiscal and monetary stimuli. Economic performance was further supported by an improvement in its terms of trade caused by steep decline in the international oil prices in the first half of 2020.

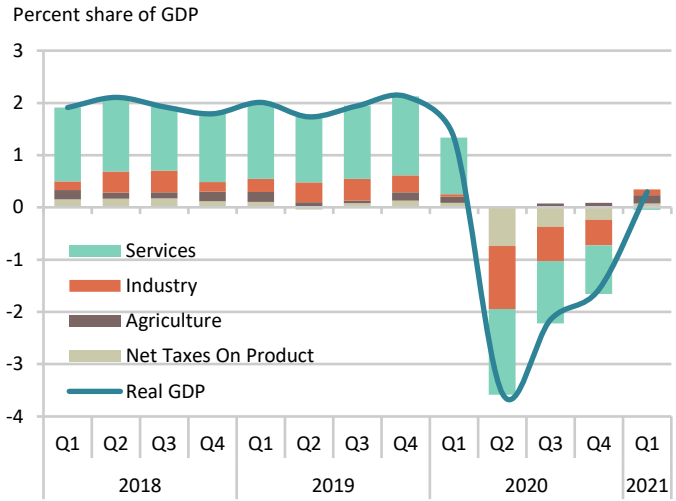
Despite this relatively muted impact of the pandemic, a robust and sustainable economic upswing hinges on the authorities' ability to advance comprehensive reforms and overcome prolonged structural obstacles. Jordan needs to stay the course and fully implement reforms to support public and private investment (including PPPs), streamline business regulations, and reduce operating costs (including energy). In addition, contingent liabilities continue to pose fiscal risks amid already limited fiscal space. Rising pressures on the external account due to protracted tourism recovery and recovering oil prices present key challenges in the immediate run. Finally, as of September 2021, vaccination levels remain low and may not prevent reinstatement of social distancing measures in the event of a new COVID-19 wave.

Recent developments

During February to May 2021, Jordan experienced one of the strongest COVID-19 waves since the beginning of the pandemic, leading to a modest 0.3 percent real GDP growth in Q1-2021. This timid growth, however, surpassed expectations considering the sharp drop in tourism and social distancing measures imposed during this time. Yet, a contributing factor to the better-than-expected performance was the CBJ and government support programs.

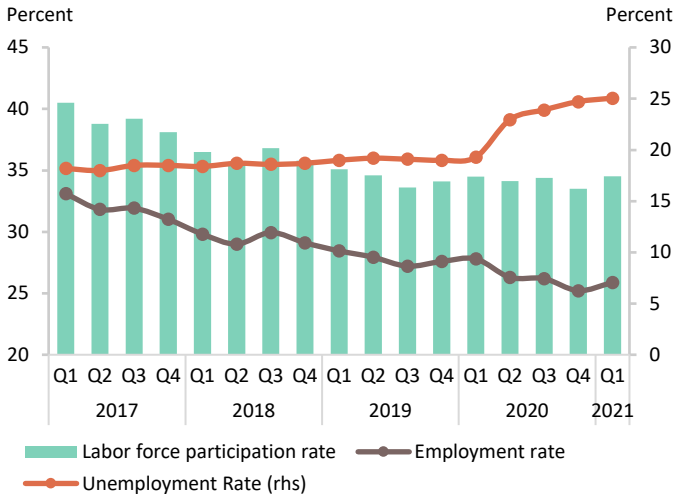
Jordan's Central Government (CG) deficit (excl. grants) during 5M-2021 stood at 2.3 percent of GDP, 1.5 percentage points of GDP lower than during 5M-2020. This improvement was driven by broad-based rebound in domestic revenues. On the spending side, recurrent spending remained pressured while capital spending

FIGURE 1 **Jordan** / Sectoral contribution to real GDP growth



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

FIGURE 2 **Jordan** / Labor market indicators



Sources: Department of Statistics and World Bank staff calculations.
Note: Employment rate is defined as percentage of employed Jordanians adults to total population 15+.

bounced back to its 5M-2019 level. Jordan's CG debt-to-GDP ratio at end-May 2021 stood at 109 percent, almost on par with end-2020.

Jordan's current account deficit (CAD, incl. grants) widened to 15.1 percent of GDP in Q1-2021 compared 2.3 percent of GDP in Q1-2020. Around 90 percent of this increase can be explained by substantial increase in deficit of the goods and services account. Although merchandise exports recovered modestly, travel receipts declined by 78 percent (y-o-y) and imports grew by 14 percent. On the financing side, foreign investment inflows remained weak, whereas other private sector inflows increased.

Poverty and employment indicators raise concern for households' welfare. The most recent national poverty rate from 2018 was 15.7 percent; declines in employment incomes at the height of the pandemic lockdown may have increased it by as much as 11 percentage points. The employment rate remained low at 25.9 percent (Q1-2020), and women's rate was even lower at 10 percent. Unemployment reached 25 percent in Q1-2021, a 5.7 percent increase from the previous year. Youth and female unemployment stood higher at 48 and 28 percent, respectively.

Outlook

Jordan's real GDP is projected to grow at 1.9 percent in 2021, as economic indicators suggest an upswing in private demand while global demand remains supportive. Although early indicators point to some output recovery (such as real estate sales, construction activity and industrial production), Jordan's private sector may not be able to galvanize quickly, while the government is contending with lack of fiscal space. Hence, we expect the rebound to be gradual in the next few years. Once global recovery consolidates, vaccination expands, and tourism recovers, growth is projected to average around 2.3 percent, consistent with the pre-pandemic performance.

The CG fiscal deficit (incl. grants) is projected to improve to 5.8 percent of GDP in 2021, as the demand upswing and higher oil prices propel domestic revenues. However, COVID-19 related transfers are expected to keep spending elevated, while consolidation efforts may restrain capital spending. Over the medium term, the CG fiscal balance (incl. grants) is projected to gradually improve assuming additional fiscal measures materialize. Consequently, CG debt is projected to increase by around 4 percent of GDP during 2021 and remain high over the medium term.

On the external front, despite the recovery in exports, improved domestic demand along with higher oil prices are projected to substantially increase the import bill during 2021. This trade deficit increase, modest recovery in tourism and stagnant remittances are projected to widen the CAD (incl. grants) to 11.3 percent of GDP. Going forward, an improvement in vaccine rollouts, return of tourism, and modest increase in remittances, would help narrow Jordan's CAD in the medium-term.

Modest economic growth, high unemployment and limited job creation raise concerns about the extent of poverty reduction that can be achieved. Despite low economic contraction in 2020, household recovery may be slow and uneven. Larger households, young, female, informal workers and those in interaction-intensive services sectors will likely see depressed incomes for longer.

1/ Winkler, H.; Gonzalez, A. (2019). Jordan Jobs Diagnostic. Jobs Series, No. 18. World Bank, Washington, DC.

TABLE 2 Jordan / 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	2.0	-1.6	1.9	2.2	2.3
Private Consumption	2.3	3.3	2.8	4.5	0.2	1.4
Government Consumption	-0.9	2.1	5.2	3.2	2.1	1.2
Gross Fixed Capital Investment	-18.3	-30.1	-6.5	5.6	3.5	3.9
Exports, Goods and Services	0.9	6.5	-35.8	15.8	21.5	10.3
Imports, Goods and Services	-6.6	-3.1	-18.2	17.3	9.7	5.6
Real GDP growth, at constant factor prices	2.0	2.2	-1.4	1.8	2.2	2.3
Agriculture	3.2	2.6	1.6	2.4	2.5	2.2
Industry	1.2	1.4	-2.4	2.2	1.5	1.8
Services	2.3	2.4	-1.2	1.6	2.5	2.5
Inflation (Consumer Price Index)	4.5	0.8	0.3	2.0	2.0	2.3
Current Account Balance (% of GDP)	-6.9	-2.1	-8.0	-11.3	-8.0	-5.7
Net Foreign Direct Investment (% of GDP)	2.2	1.5	1.6	1.6	2.2	2.9
Fiscal Balance (% of GDP)[a]	-3.3	-4.9	-7.3	-5.8	-5.0	-4.4
Debt (% of GDP)[b]	92.9	97.4	109.0	113.2	115.0	115.2
Primary Balance (% of GDP)[a]	0.0	-1.3	-3.1	-1.7	-0.9	-0.5
GHG emissions growth (mtCO2e)	-2.5	-1.8	-3.8	0.1	0.4	0.6
Energy related GHG emissions (% of total)	64.8	63.6	63.4	63.1	63.0	62.8

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

(a) Central Gov. fiscal balance incl. grants, use of cash and unident. fiscal measures as per IMF-EFF (Aug 2021) of 1.1% of GDP in 2022 and 2.2% of GDP in 2023.

(b) Government and guaranteed gross debt including debt holdings by SSIF. Includes WAJ estimated borrowing for 2021-2023. Includes legacy arrears in 2019 and 2020.

KUWAIT

Table 1	2020
Population, million	4.3
GDP, current US$ billion	107.5
GDP per capita, current US$	25000.0
School enrollment, primary (% gross)[a]	88.0
Life expectancy at birth, years[a]	75.5
Total GHG Emissions (mtCO2e)	107.3

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

Kuwait's economy contracted sharply in 2020 and the fiscal deficit reached an all-time high due to the fallout from the pandemic and OPEC+ oil production cuts. The economic recovery is expected to gather pace in 2021 and continue into the medium term as pandemic related restrictions are eased, and the combined effects of higher oil production and rising oil prices create scope for looser fiscal policy. However, emerging coronavirus variants and renewed downward pressure on oil prices are key downside risks.

Key conditions and challenges

Kuwait's long-term challenges relate to the economy's heavy dependence on oil and domestic consumption, and slow progress in the implementation of diversification plans. Hydrocarbons account for over 85 percent of fiscal revenue and 50 percent of GDP, a key issue in the New Kuwait 2035 Development Plan. The third development plan 2020-2025 was launched to meet these goals but implementation has been slow. Large financial assets underpin Kuwait's economic resilience, but these assets alone cannot substitute for the fiscal and structural reforms that would offset the risks of lower oil prices, low oil demand in the future, and rising marginal cost of production. Such reforms include non-oil revenue mobilization, enhancing human capital, and reforming economic governance to invigorate private sector-led development.

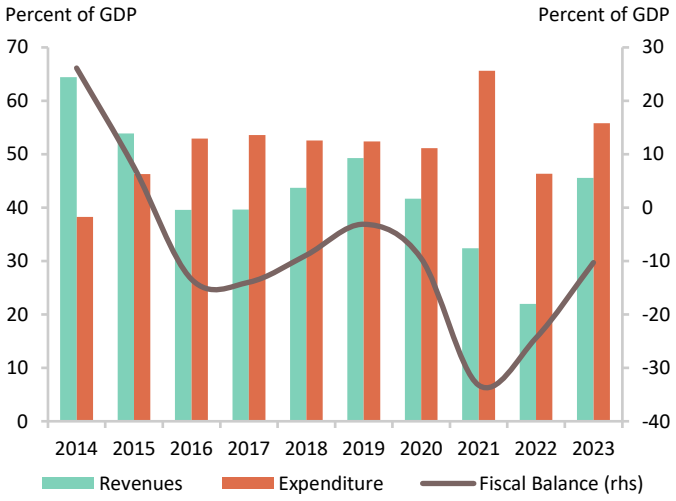
Non-oil growth is stalled due to short-term challenges related to the fallout from the coronavirus pandemic, and structural problems such as the lack of a dynamic private sector, compounded by political barriers to structural reform. Kuwaiti authorities still need to balance containing mounting fiscal pressures while supporting citizens and businesses disrupted by the pandemic. Capital spending and development projects have stalled; fiscal outturns show a 27.5 percent reduction in capital spending in FY20/21. Parliamentary pressure to expand 'Kuwaitization' (replacing expatriates with Kuwaitis to curb unemployment) is mounting, against the lack of demand by nationals to take on lower-skilled jobs. Friction between the executive and legislative branches has led to frequent cabinet reshuffles and parliamentary opposition to critical fiscal reforms.

Key risks to the outlook relate to the uncertainty over new variants of COVID-19, continued volatility in oil demand and prices and the political deadlock over debt financing. If these risks materialize, Kuwait will face unfavorable macro-financial dynamics. A more rapid rollout of the vaccine programs in Kuwait and the GCC should strengthen domestic recovery, but the persistent challenge of diversification remains.

Recent developments

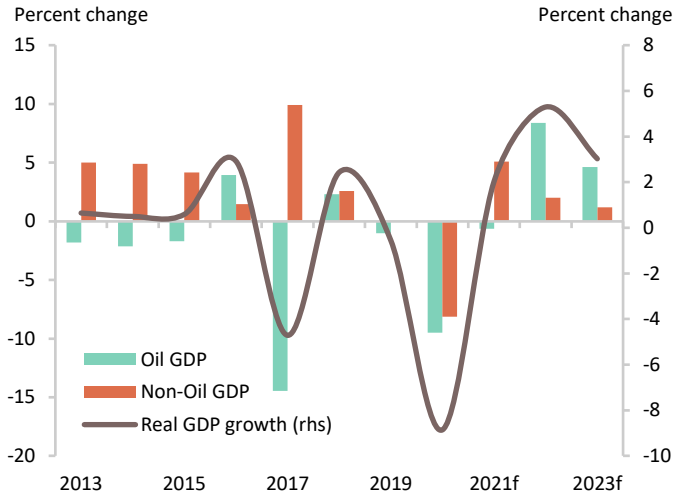
Early 2021 showed signs of recovery with a rebound of domestic consumption supported by renewed debt payment deferrals, and higher consumer loans. The oil sector picked up in May in line with OPEC+'s decision to ease production cuts. A spike in covid-19 cases in July 2021 prompted authorities to tighten restrictions allowing only vaccinated individuals to enter malls/restaurants. The case count has since dropped dramatically; the 7-day moving average for daily new cases was 166 in September, down from 1,827 in July. The vaccination drive has made significant progress; more than 70 percent of the population has received

FIGURE 1 **Kuwait** / General government operations



Sources: World Bank staff estimates and IMF WEO.
Notes: (1) Fiscal year cycle = April 1-March 31 ; (2) Balances exclude investment income and before oil revenue transfers to the Future Generations Fund.

FIGURE 2 **Kuwait** / Growth: Real GDP, real oil, and real non-oil sectors



Sources: Kuwait CSB and World Bank staff estimates.

at least one dose. Real GDP in 2020 had contracted by 8.9 percent due to the fallout from the coronavirus pandemic in both oil and nonoil sectors. Oil production fell from 2.7 mn b/d in 2019 to 2.4 mn b/d in 2020. Inflation increased from 1.1 in 2019 to 2.1 in 2020 mainly due to higher food prices.

The fiscal deficit widened from 9.5 percent of GDP in FY19/20 to 33.2 percent in FY20/21 (the fiscal year begins in April and figures exclude investment income and transfers to the Future Generations Fund (FGF)). The parliament approved an expansionary budget for FY21/22 with a narrower deficit (24.5 percent of GDP) as oil revenues are expected to increase, but financing the deficit will remain a challenge without the approval of the new debt law that seeks to raise the borrowing limit. In tandem with severely depressed global oil prices and export volumes as the pandemic hit international trade and supply chains, the current account shrunk by 3.5 percent of GDP in 2020. The drop in exports was partially mitigated by lower imports, outbound tourism and remittances. However, trade is recovering in 2021 with total trade increasing by 20 percent q/q in Q12021 and oil exports increased by 34 percent q/q mainly due to higher oil prices.

The labor market in Kuwait is highly segmented. According to the 2016-17 Labor Force Survey, nine out of ten employed Kuwaitis work in the public sector, and thus were insulated from the pandemic-related restrictions on economic activity. In addition, labor force participation rate is 73.8 percent on average but also differs substantially by nationality: 39.5 percent of Kuwaitis participate in the labor market, against 82.2 percent of non-Kuwaitis. Heterogeneity also exists across genders (female unemployment is 5.8 percent versus 0.9 percent among men) and age (unemployment rate in the 15-24 years old group is 15.4 percent, versus a 2.2 percent at the national level).

Outlook

OPEC production cuts are due to remain in place but are set to taper by April 2022. Rising oil production, and higher oil prices combined with the rapid rollout of vaccines will support a rapid recovery in 2021. As COVID-related restrictions are further eased consumer spending is expected to surge, mainly due to a low base effect. Over the medium term, real GDP will expand (averaging 4.2 percent for 2022-23) thanks to stronger oil exports, public spending and credit growth. Inflation is anticipated to gain momentum as economic activity recovers and higher global food and oil prices raise import costs.

In the medium term, a recovery in oil receipts will support incremental improvements in the fiscal position, but it will remain in deficit. Introducing the VAT in line with its GCC peers will enable Kuwait to diversify fiscal revenues. The trajectory of government debt is subject to the passing of the debt law which would raise the debt ceiling and increase maximum maturity. The Kuwait Investment Authority's assets (estimated at US$690 billion) will continue to act as a fiscal backstop. There is critical need for a comprehensive sovereign asset and liability management capability, since assets will be run down more quickly even if debt does not increase, in the absence of fiscal reforms. As oil export earnings recover in the medium term, underpinned by improvements in global demand conditions, and as concerns over the pandemic wane, the current account balance will continue to expand. A downside risk to this is economic recovery in China, which constitutes 25 percent of Kuwait's exports.

TABLE 2 Kuwait / 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	-0.6	-8.9	2.0	5.3	3.0
Private Consumption	4.0	2.3	-4.5	2.9	4.2	3.1
Government Consumption	6.3	7.7	-1.6	2.0	3.8	2.5
Gross Fixed Capital Investment	3.4	-2.6	-3.1	0.5	2.0	3.8
Exports, Goods and Services	-0.4	-10.0	-13.3	3.2	7.8	4.3
Imports, Goods and Services	1.5	-10.4	-4.0	3.5	5.0	5.1
Real GDP growth, at constant factor prices	1.3	0.7	-8.9	2.2	5.1	2.9
Agriculture	-3.6	-4.6	-3.8	0.5	1.0	1.3
Industry	2.2	-0.9	-12.2	2.2	7.1	3.1
Services	-0.2	3.4	-3.5	2.1	2.2	2.5
Inflation (Consumer Price Index)	0.6	1.1	2.1	2.4	2.6	2.5
Current Account Balance (% of GDP)	14.4	24.4	20.8	12.2	13.3	14.9
Fiscal Balance (% of GDP)[a]	-3.1	-9.5	-33.2	-24.4	-10.3	-7.7
GHG emissions growth (mtCO2e)	2.3	0.5	-6.3	3.2	5.5	3.7
Energy related GHG emissions (% of total)	78.2	77.2	75.8	76.6	76.4	75.7

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

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

LEBANON

Table 1	2020
Population, million	6.8
GDP, current US$ billion	31.7
GDP per capita, current US$	4661.8
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	78.9
Total GHG Emissions (mtCO2e)	26.7

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

On September 10, Lebanese leadership formed a new Government under PM Mikati and with the participation of major political parties. This followed a 13-month vacancy in the executive branch and inadequate policy responses in face of compounded crises—the country's largest peace-time economic and financial crisis, COVID-19 and the Port of Beirut explosion. The Lebanese lira (LBP) continues to lose value as inflation rates remain in the triple digits. For the fourth year in a row, real GDP is projected to decline (by 10.5 percent in 2021).

Key conditions and challenges

The Spring 2021 Lebanon Economic Monitor finds that Lebanon economic and financial crisis is likely to rank in the top 10, possibly top three, most severe crises episodes globally as observed by Reinhart and Rogoff (2014) over the 1857–2013 period. In fact, Lebanon's GDP plummeted from about US$55 billion in 2018 to a projected US$20.5 billion in 2021, while real GDP per capita fell by 37.1 percent. Such a brutal contraction is usually associated with conflicts or wars.

Monetary and financial turmoil continue to drive crisis conditions. The exchange rate deteriorated more briskly over the past six months (March-August 2021), with the US$ banknote rate depreciating by 68 percent to LPB 19,800/US$, compared to an 18 percent depreciation over the preceding six-month period. This is within a multiple exchange rate system that also includes the official exchange (LBP 1,507.5/ US$), central bank (BdL)-backed lower rates for critical imports. Overall, the World Bank Average Exchange Rate depreciated by 213 percent year-on-year (yoy) in August 2021 (Figure 1). Meanwhile, inflation rate averaged 131.9 percent over the first six months of 2021 (6M-2021).

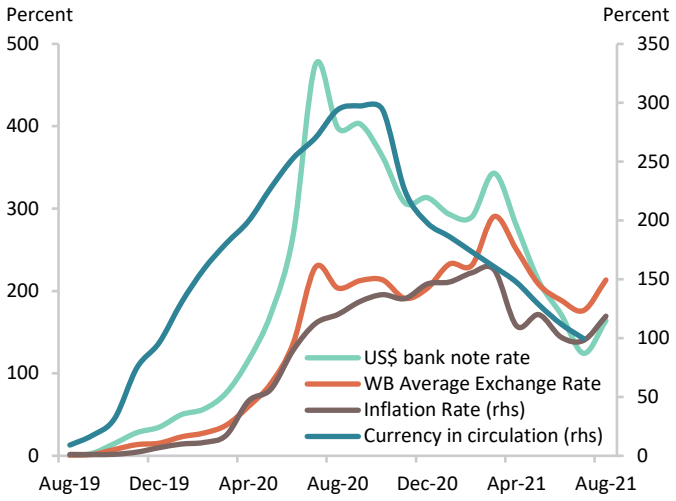
Poverty is on the rise with the share of the Lebanese population under the US$5.50 international poverty line estimated to have risen by 13 percentage points (pps) by end-2020 and is expected to further increase by as much as 28 pps by end 2021. The proportion of households facing challenges in accessing food, healthcare and other basic services are on the rise. Inflationary effects are highly regressive factors, disproportionally affecting the poor and middle class. Inflation in the food and non-alcoholic beverages category averaged 64.7 percent in 6M-2021 and has been a key driver of overall inflation (Figure 2). Phone surveys conducted in June-July 2021 by the World Food Program with support from the WB, found that 46 percent of households reported challenges in accessing food and other basic needs, up from 40 percent from July-August 2020. Half of the households surveyed reported adults restricting consumption in favor of children. The share of households having difficulties in accessing health care has increased sharply from 25 percent (July-August 2020) to 48 percent (June-July 2021).

Lebanon has witnessed a dramatic collapse in basic services, driven by depleting foreign exchange (FX) reserves and the high cost of the FX import subsidies on food, fuel and medication. Acute shortages of fuel for both the private and public utilities have led to severe electricity blackouts across the country, with the public utility, EdL, supplying a little as 2 hours per day. Further, medication is in severe shortage, while health services have suffered heavily.

Recent developments

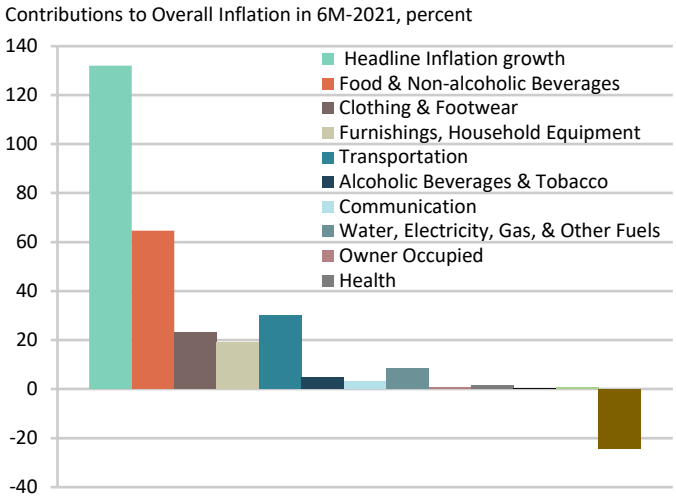
Real GDP is projected to decline by 10.5 percent in 2021, on the back of a 21.4

FIGURE 1 Lebanon / Exchange rate depreciation along with surging inflation



Sources: Lebanese authorities and World Bank staff calculations.

FIGURE 2 Lebanon / Inflation in basic items has been a key driver of overall inflation, hurting the poor and the middle-class



Sources: Lebanese authorities and World Bank staff calculations.

contraction in 2020. High frequency indicators support continued albeit slower contraction in economic activity. The BLOM-PMI index, which captures private sector activity, averaged 45.6 over 7M-2021 (<50 represents a contraction of activity), compared to 40.2 over 7M-2020.

By July 2021, gross FX reserves at BdL reached US$20.1 billion, declining by US$4 billion since end-2020. The gross position, however, guises key pressure points (BdL, contrary to other central banks, does not publish net reserves; these are however estimated to be negative). The breakdown includes US$5 billion in Lebanese Eurobonds and an unpublished amount lent out to banks since October 2019, leaving the remainder as required reserves on banks' customer FX deposits.

Official fiscal data are distorted by exchange rate considerations. In 2020, total revenues declined by 8 percent, driven by 42.8 and 28.4 percent decreases in VAT and customs revenues, respectively. Total expenditures also decreased by 23.6 percent, led by 63.7 percent fall in interest payments—resulting from the Eurobond default and a favorable arrangement with BdL on TBs it holds—and to a lesser extent, due to cuts in primary spending (38.6 and 30.9 percent decreases in transfers to EdL and municipalities, respectively). As a result, the official overall fiscal deficit narrowed by 54.1 percent in 2020 even as the primary balance deteriorated. A key distortion on both the revenue side and expenditures side has been the exchange rate. The official exchange rate continues for be the basis for custom duties and VAT—lowering revenue generation—as well as transfers to EdL, which are mainly for fuel imports.

Outlook

BdL is soon expected to remove most of the FX subsidies. The impact can vary based on (i) the new exchange rate(s) used for these imports; and (ii) the source of the FX supply. BdL proclaimed that it will offer credit lines for fuel imports based on the market exchange rate. It is not clear what BdL considers the market rate, but one option is the BdL-administered Sayrafa platform rate, which has been moving at about 2000 LBP lower than the US$ banknote exchange rate. This proclamation also suggests that BdL will provide the FX supply from its reserves. Implications of this modality include: a reduction of subsidy to a value determined by the gap between the Sayrafa and the banknote rates; a spike in prices of these good and a commensurate drop in their demand; continued, albeit slower, depletion of valuable FX reserves at BdL. On the other hand, if importers resort completely to the market for both the rate and FX supply, implications are: the complete removal of the subsidy; a more pronounced first-degree spike in prices and drop in demand; a worsening of the US$ banknote exchange rate and second-degree effects on pricing and demand.

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

	2018	2019	2020	2021 e
Real GDP growth, at constant market prices	-1.9	-6.7	-21.4	-10.5
Private Consumption	-1.3	-5.7	-10.0	-5.0
Government Consumption	6.7	-6.2	-58.1	-43.5
Gross Fixed Capital Investment	-0.2	-16.9	-71.9	-26.9
Exports, Goods and Services	-4.7	-1.2	-57.1	3.7
Imports, Goods and Services	1.2	-9.2	-50.4	1.4
Real GDP growth, at constant factor prices	-1.7	-5.3	-17.0	-8.5
Agriculture	-4.0	6.0	53.5	-10.5
Industry	-4.2	-17.4	-21.8	-10.5
Services	-1.1	-4.0	-21.0	-7.9
Inflation (Consumer Price Index)	6.1	2.9	84.3	130.0
Current Account Balance (% of GDP)	-24.3	-21.2	-6.9	-10.1
Net Foreign Direct Investment (% of GDP)	3.7	3.4	9.6	7.2
Fiscal Balance (% of GDP)	-11.0	-10.5	-3.3	-3.0
Debt (% of GDP)	154.9	171.0	179.1	197.5
Primary Balance (% of GDP)	-1.2	-0.5	-0.8	-2.3
GHG emissions growth (mtCO2e)	-3.5	-6.2	-16.9	5.8
Energy related GHG emissions (% of total)	74.3	73.8	70.9	74.1

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

LIBYA

Table 1	2020
Population, million	6.9
GDP, current US$ billion	25.4
GDP per capita, current US$	3681.2
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	72.9
Total GHG Emissions (mtCO2e)	75.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) WDI for School enrollment (2006); Life expectancy (2019).

Libya made significant progress towards ending its decade-long conflict and moving towards reunification in 2021. This resulted in a strong rebound of oil production and economic activity, and a consequent upswing in fiscal, trade, and current account balances. Nevertheless, households still struggle with food insecurity, poverty, and poor public service delivery. Challenges with organizing national elections for December 2021 raise the specter of a deteriorating political and security situation which would threaten progress towards peace and recovery.

Key conditions and challenges

The year 2021 marked a turning point in Libya's decade-long conflict. A ceasefire agreed in October 2020 has persisted and a unified interim government – the Government of National Unity (GNU) – was formed in March. Oil production has recovered to 2019 levels (1.2 million barrels per day – mb/d) and an exchange rate devaluation in January 2021 largely removed the wide and growing wedge between black market and official rates.

The authorities initiated efforts to reunify competing public institutions in the East and West, but significant challenges remain. A financial review of the Central Bank in Tripoli and the Bayda branch has been finalized; the next steps are formidable and require political agreement on unification under a single decision making authority, in addition to unifying balance sheets, policy making, regulatory and supervision processes, and operations. Efforts to approve a unified 2021 budget, the first since 2014, have been protracted, with multiple drafts submitted by the GNU and rejected by the House of Representatives since March 2021. The process has been mired with disagreements around the size of total expenditures, capital projects, wage hikes, salaries of the Libyan National Army, *inter alia*.

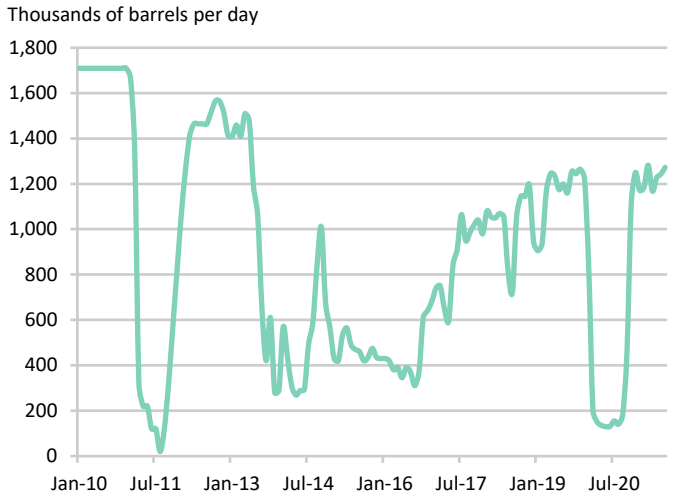
The country's protracted liquidity crisis persists, albeit with some improvement in 2021. Due to the conflict and consequent decline in confidence in the banking sector, Libyans have had a strong preference for holding cash outside banks. This resulted in an almost doubling of currency outside the banking system as a share of broad money supply in 2020 compared to 2010. Survey data from April 2021 by the Joint Market Monitoring Initiative, however, reveal some improvements in access to cash in the West, where 43 percent of interviewed households reported being able to withdraw sufficient cash to meet needs, compared to 12 percent in November 2020.

Libya's health system infrastructure is incapacitated following a decade of war, with implications for the population's access to quality care amid a raging pandemic. The COVID-19 vaccination rollout severely lags regional comparators. By end-August, only 15 percent of the population had been vaccinated, with 1 percent fully vaccinated, which may delay the recovery of economic activity from the impact of the pandemic.

Security in Libya is fragile, with violence, protests, riots, and kidnappings remaining commonplace. The presence of numerous militias, mercenaries and foreign forces poses a considerable threat to stability.

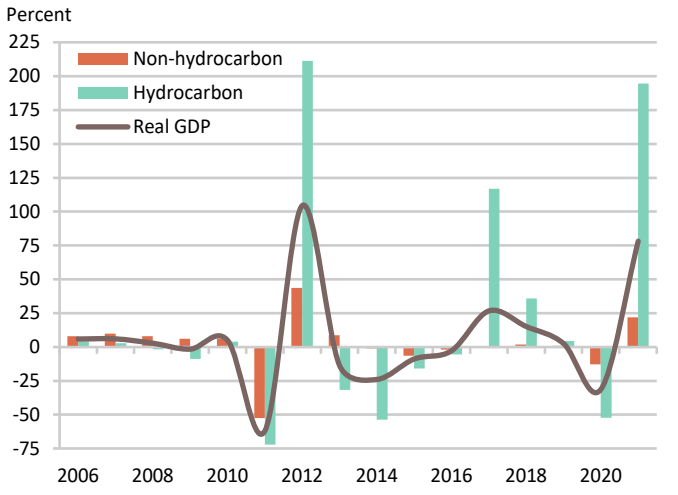
Efforts are underway to develop the legal framework and constitutional basis for national parliamentary and presidential elections. However, the divergence of views and interests among competing political actors and militias is resulting in escalating tensions that could risk derailing or delaying the process, with adverse implications for Libya's path towards recovery and reconstruction.

FIGURE 1 Libya / Oil production



Source: Organization of the Petroleum Exporting Countries.

FIGURE 2 Libya / Real annual GDP growth



Sources: Libyan authorities and World Bank staff estimates.

Recent developments

Following a massive contraction of the hydrocarbon sector in 2020, driven by intensifying conflict and a blockade of oil terminals and fields, the sector, and in turn the Libyan economy overall, are witnessing a significant rebound. Oil production has averaged 1.2 mb/d during the first half of 2021, compared to an average of 0.3 mb/d during the first 9 months of 2020 and 0.9 mb/d during the fourth quarter of the year (during which the oil blockade was lifted).

Libyans continue to struggle with poverty and food insecurity. More than half of households reported their household income cannot cover basic expenses (WFP-WB survey, April 2021). While prices of essential goods have been stable in 2021, the price of the Minimum Expenditure Basket (MEB)[1/] in May 2021 was 12.3 percentage points higher than in March 2020. Rising food costs could have major impacts on vulnerable households, pushing those least able to cope further into poverty and hunger. In fact, an April 2021 WFP-WB survey revealed that 14 percent of Libyans have inadequate food consumption, with food insecurity highest in the South (19 percent).

Fiscal data for the first seven months of 2021 reveals total expenditures of around LYD 31 billion and total revenues of 40.6 billion LYD. These figures, which imply a budget surplus for the period, contrast sharply with the large fiscal deficit recorded in 2020 (64.4 percent of GDP). The ease of servicing state liabilities has increased as well in 2021, as liabilities are denominated in LYD (the official exchange rate depreciated by almost 70 percent in early 2021) whereas the vast majority of government revenues are sourced from oil exports denominated in US$.

Following the lifting of the oil blockade in late 2020 and the resilience of global oil prices, hydrocarbon export receipts and in turn the trade balance and current account balance are on an upward swing. Data for January-April 2021 reveal a goods trade surplus of US$4.2 billion.

Outlook

Should the political process progress positively and the security situation remain stable, Libya will continue its path of economic recovery. In the coming months, if presidential and parliamentary elections and the reunification of public institutions proceed, and oil production persists, Libya is projected to record a GDP growth rate of 78.2 percent in 2021. In turn, trade and current account balances are projected to record double digit surpluses as a share of GDP. The fiscal balance may record a surplus as well given the strong rebound of oil production and exports and following the devaluation of the currency (which has reduced the cost of financing public sector salaries and goods and services using dollar-denominated oil revenues). This, however, will depend on whether there are any major deviations in spending patterns compared to the first half of the year.

Risks to the economic outlook are significant and tilted to the downside. The risk of a deteriorating political and security situation looms large over the coming months in light of tensions surrounding the elections and subsequent formation of a new government. Should this risk materialize, it would dampen the effect of the economic recovery recorded to date in 2021. Any adverse impact of the COVID-19 pandemic on the global economic outlook and in turn global oil prices, would have a major impact on the Libyan economy, as would a worsening of the epidemiological situation in the country.

1/ The MEB represents the minimum culturally adjusted group of items required to support a five-person Libyan household for one month. The MEB is measured by the REACH initiative.

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

	2018	2019	2020	2021 e
Real GDP growth, at constant market prices	15.1	2.5	-31.3	78.2
Private Consumption	3.6	1.7	-12.8	40.7
Government Consumption	0.0	2.7	-21.6	8.1
Gross Fixed Capital Investment	28.8	17.1	-12.7	33.2
Exports, Goods and Services	32.2	33.6	-64.8	195.0
Imports, Goods and Services	23.8	43.9	-27.5	27.4
Real GDP growth, at constant factor prices	15.1	2.5	-31.3	78.2
Hydrocarbon GDP	35.9	4.3	-52.3	194.7
Non-Hydrocarbon GDP	1.8	1.0	-12.8	21.9
Exchange Rate (USD/LYD)	1.4	1.4	1.4	4.5
Current Account Balance (% of GDP)	21.4	11.6	-34.8	19.7
Fiscal Balance (% of GDP)	-7.0	1.7	-64.4	11.9
Crude oil production (million barrels per day)	1.0	1.2	0.4	1.2

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

MOROCCO

Table 1	2020
Population, million	36.0
GDP, current US$ billion	114.7
GDP per capita, current US$	3186.1
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.2)[a]	7.3
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	114.8
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	88.9

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

Real GDP growth is projected to rebound to 5.3 percent in 2021, sustained on by the extraordinary performance of the agricultural sector. Although ongoing reforms should improve the long-term performance of the Moroccan economy, the short-term outlook is subject to significant risks given the spread of new COVID-19 variants and the persisting financial vulnerability of the private sector. Poverty indicators should resume their declining trajectory in 2021, but the number of poor is only expected to return to pre-pandemic level by 2023.

Key conditions and challenges

Morocco´s growth model showed signs of exhaustion even before the COVID-19 crisis hit. The reforms implemented since the late 1990s contributed to increase real GDP growth from an average of 3.6 percent between 1980 and 1999 to 4.8 percent between 2000 and 2009. However, during the past decade, it fell back to 3.5 percent. This weakening performance was partly the result of various exogenous shocks, but it also evidences the increasingly apparent structural limitation of a development model that has relied on public capital accumulation as an engine of growth, with insufficient productivity and human capital gains, and with persistently high inactivity rates in the labor market.

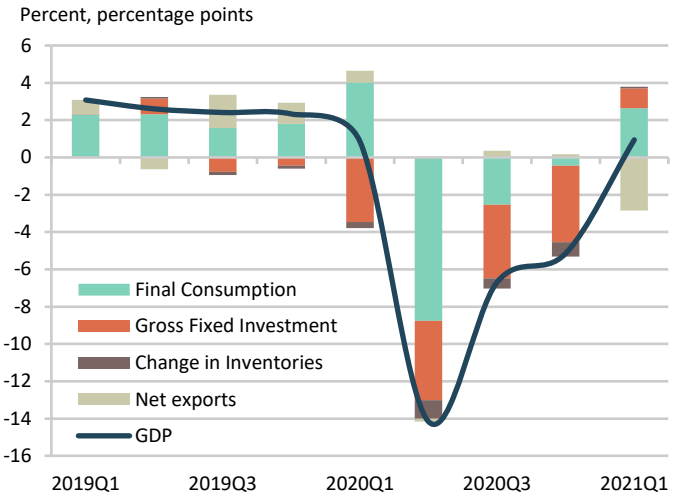
Morocco, however, stands out for having seized the COVID-19 crisis as an opportunity to launch ambitious transformative reforms to correct the weaknesses of its growth model. The recovery strategy included important measures to reform the SOE sector, modernize its social protection system and support the recovery of private investment. More recently, a New Development Model (NDM) has been unveiled, prioritizing: (i) structural reforms to boost competitiveness and private sector development; (ii) improvement in the quality of education and health services to boost human capital; (iii) deepening of the decentralization and deconcentration process to address territorial inequities; and (iv) preservation of natural resources.

By accelerating productivity growth and human capital accumulation, the implementation of this plan could improve the long-term performance of the economy. In the shorter-term, however, the growth dividend associated with these reforms may take time to materialize, and Morocco will have to cope with the increased macro-financial and social vulnerabilities derived from the crisis.

Recent developments

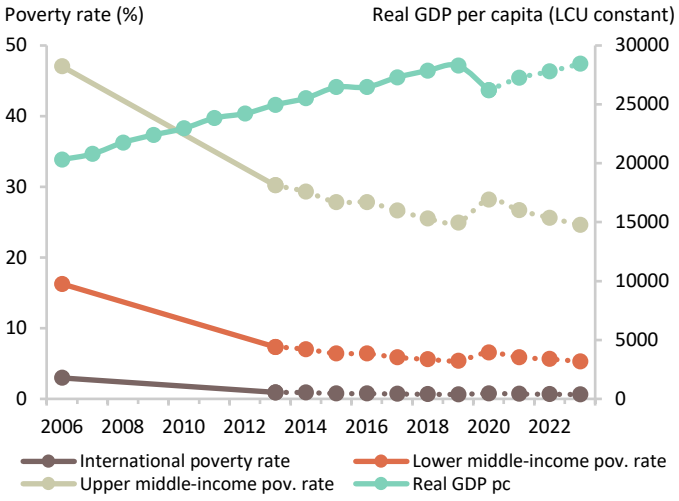
An incipient recovery began in late 2020, but it is still incomplete. After a 6.3 percent contraction in 2020, the economy posted a 1 percent real GDP YoY expansion during the first quarter of 2021, boosted by the strong rebound of agricultural value added (20.5 percent expansion) after abundant rainfall and by certain manufacturing exports. The service sector, instead, still posted a contraction, pulled by the underperformance of Morocco's relatively large tourism industry. Various indicators suggest that the recovery of non-agricultural activity may have slowed during the second quarter: 50,000 urban jobs were lost QoQ; total exports and cement sales contracted, and the consumer confidence index declined. Despite the success of its vaccination program (48.6 percent of the population fully vaccinated as of September 22), Morocco has undergone a third wave of COVID-19 contagions over the summer.

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



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Macroeconomic policy continues to be supportive. The fiscal response to the shock led to a widening of the budget deficit to 7.6 percent of GDP in 2020, and total public spending has continued to edge upwards in 2021. Following the US$3 billion international bond placed in December 2020, the government has relied primarily on domestic markets to cover its financing needs. In a context of moderate price pressures, the central bank's policy rate has remained at a historical low of 1.5 percent. The non-performing loans have stabilized, but still represent 8.4 percent of credit. Morocco´s external position has been resilient and foreign exchange reserve still cover seven months of imports, but the trade deficit is widening due to a rise in oil prices and the recovery of imports.

The government's cash transfer program alleviated the impact of the pandemic on poverty, particularly during the confinement. However, these measures were temporary in nature, and insufficient to fully offset the impact of a historically large recession on labor incomes and households´ livelihoods. As a result, poverty as measured by the US$3.2PPP/day line is expected to have reached 6.6 percent in 2020 up from 5.4 percent one year earlier. Based on a recent national panel survey across 2,500 households, the national statistics institute reports that poorer households were disproportionately impacted by revenue losses, with 44 percent of the poor reporting income losses, versus only 10 percent among the wealthy. The most affected households operate in the urban, informal sector and are engaged in precarious jobs in services and art crafts sectors.

Outlook

Growth is projected to rebound to 5.3 percent in 2021, led by a base effect and an extraordinary agricultural campaign rather than by a broad-based acceleration of economic activity. Morocco may return to its pre-pandemic level of GDP only in 2022, followed by a gradual acceleration of growth, contingent on the successful implementation of ongoing and planned reforms. Sustained mainly by the recovery of indirect taxes, the budget deficit is expected to start falling in 2021 (6.7 percent of GDP), stabilizing debt below 79 percent of GDP. By contrast, the current account deficit will widen to 3.7 percent of GDP, as the recovery of imports more than offsets the good performance of manufacturing exports and remittances. This baseline scenario is subject to high uncertainty. The last wave of contagions evidences that the pandemic may still postpone a complete normalization of economic activities. The crisis has increased Morocco´s macro-financial vulnerabilities and a surge in corporate bankruptcies and loan defaults cannot be discarded yet given the precarious liquidity situation that characterizes a large share of businesses. Under such a scenario, the banking sector's capital base and lending capacity would be impaired, potentially affecting public finances through the contingent liabilities associated with loan guarantee programs.

In 2021, poverty is expected to resume its decline but not to return to its pre-crisis level. Extreme poverty (US$1.90 PPP line) should remain below 1 percent, while poverty (US$3.2 PPP line) is expected to fall below the 6 percent threshold, a level achieved in 2017. The percentage of "vulnerable" population (US$5.5 PPP line) is expected to slowly decrease in 2021 to about 26.7 percent from 28.2 in 2020. This decline is expected to continue thereafter, but poverty indicators are not expected to get back to pre-Covid-19 levels until 2023. The successful implementation of the social protection reform or a boost to job creation, particularly among women and youth, could accelerate that process.

TABLE 2 Morocco / 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	3.1	2.6	-6.3	5.3	3.2	3.5
Private Consumption	3.4	1.9	-4.1	3.0	3.2	3.5
Government Consumption	2.7	4.8	1.7	4.9	2.9	2.7
Gross Fixed Capital Investment	1.2	1.0	-9.0	4.7	4.8	5.1
Exports, Goods and Services	6.0	6.2	-14.3	10.5	9.5	11.7
Imports, Goods and Services	7.4	3.4	-12.2	5.2	8.8	10.4
Real GDP growth, at constant factor prices	3.0	1.8	-6.1	5.4	3.3	3.5
Agriculture	2.4	-4.6	-6.9	17.6	-2.0	3.1
Industry	3.0	3.6	-3.8	3.1	3.1	3.5
Services	3.1	2.7	-6.8	3.3	4.9	3.7
Inflation (Consumer Price Index)	1.9	0.2	0.7	1.3	1.5	1.7
Current Account Balance (% of GDP)	-5.3	-3.7	-1.5	-3.7	-3.5	-3.2
Net Foreign Direct Investment (% of GDP)	3.0	1.3	1.4	1.2	1.3	1.2
Fiscal Balance (% of GDP)	-3.8	-4.1	-7.6	-6.7	-6.6	-5.3
Debt (% of GDP)	65.2	64.8	76.4	77.9	78.8	77.8
Primary Balance (% of GDP)	-1.4	-1.8	-5.1	-4.3	-4.1	-2.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.7	0.6	0.8	0.7	0.7	0.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	5.6	5.4	6.6	5.9	5.6	5.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	25.5	24.9	28.2	26.7	25.6	24.6
GHG emissions growth (mtCO2e)	1.3	1.7	-5.4	3.9	2.5	2.4
Energy related GHG emissions (% of total)	67.9	68.4	68.7	68.1	68.0	68.0

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

(a) Calculations based on 2013-ENCDM .Actual data: 2013. Nowcast: 2014-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2013) with pass-through = 0,7 based on GDP per capita in constant LCU.

OMAN

Table 1	2020
Population, million	5.1
GDP, current US$ billion	63.5
GDP per capita, current US$	12451.0
School enrollment, primary (% gross)[a]	102.9
Life expectancy at birth, years[a]	77.9
Total GHG Emissions (mtCO2e)	86.9

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

The economy is expected to recover gradually after a difficult 2020. Oil and non-oil growth are projected to rebound as oil production increases and widespread vaccine distribution boosts domestic activity. Fiscal and external deficits are projected to swing into surplus driven by the oil market recovery and the fiscal adjustment, putting the debt on a downward path. Key risks arise from oil price down cycles, protracted economic scarring from a prolonged pandemic and potential social pressures.

Key conditions and challenges

Oman faced significant economic disruption from the twin shocks of COVID-19 and oil price collapse, amplifying fiscal and external vulnerabilities. Despite past efforts to expand non-hydrocarbon revenue, public spending remained heavily susceptible to oil price volatility, with hydrocarbon sector accounting for over 41 percent of GDP (2019). Persistent large fiscal and current account deficits have resulted in further debt build up, a series of credit rating downgrades, and sizable financing needs. Structural vulnerabilities arise also from the dominant role of the state in the economy, heavy reliance on hydrocarbon revenue, unviable private sector, and low competitiveness, among other.

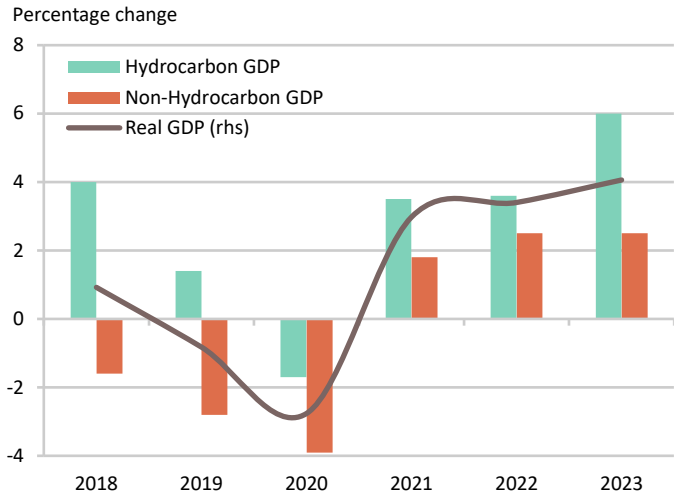
Recognizing the severity of the crisis, the government announced the Medium-Term Fiscal Balance Plan (MTFP) 2020-24 at end-2020 with several fiscal adjustment reforms aiming to boost non-hydrocarbon revenues, rationalize expenditures and put public debt on sustainable path. However, the success of these reforms ultimately depends on political will and public support to implement them. For example, the increase of electricity subsidies introduced last August will delay the previously announced subsidy reform under the MTFP, making the goal of austerity measures very challenging. Key challenge is to translate the government reforms plan into concrete and credible actions to ensure inclusive growth.

Recent developments

Oman's economy is gradually emerging from last year contraction as COVID-19 pandemic battered key sectors such as energy, tourism, and manufacturing. While no official data are available yet on the real economy in 2021, preliminary nominal data indicate that Oman's nominal GDP contracted by 2.5 percent in Q1-2021 (y/y), mainly due to the negative performance of the oil sector which contracted by 20.6 percent (y/y) capped by OPEC+ commitment. Non-hydrocarbon output increased by 5.7 percent driven by swift policy response to the pandemic. Inflation switched from last year negative territory and picked up to an average of 0.2 percent (y/y) in the first half 2021 (H1-2021) due to the introduction of the VAT last April and partial rebounding in domestic demand.

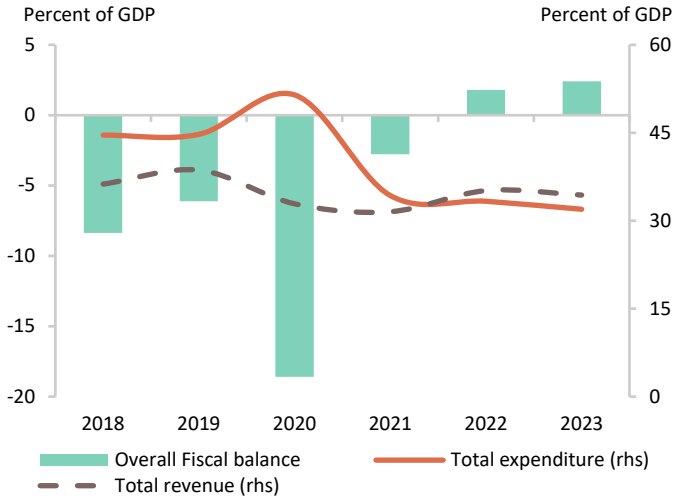
Official data for the first half 2021 (H1-21) reveals a substantial decline in budgetary revenues (down 9.7 percent y/y) as oil revenues dropped by almost 12 percent. As such, the country posted a fiscal deficit of 3.7 percent of GDP (y/y) versus 3.2 percent of GDP same period last year. On the upside, ongoing fiscal reforms to diversify revenue sources along with the above-mentioned VAT introduction, led to 31 percent (y/y) increase in non-oil revenues. Going forward, oil market recovery and fiscal restraints are projected to improve

FIGURE 1 **Oman** / Real annual GDP growth



Sources: Oman authorities; and World Bank staff projections.

FIGURE 2 **Oman** / General government operations



Sources: Oman authorities; and World Bank staff projections.

Oman's public finances, with the public debt-to-GDP ratio expected to decline by over 10 percentage points in 2021.

Available data indicate that the trade balance recorded a surplus of over 6 percent of GDP (y/y) in the first five months 2021 (5M-21), up by 0.8 percentage points of GDP the 5M-20. This is driven by high merchandised exports of US$2.8 billion, of which US$2.3 billion is related to the hydrocarbon sector. This is expected to be a key factor behind narrowing the current account deficit by end-2021.

Latest official data from the National Centre for Statistics and Information shows that the unemployment rate in Oman was 3.2 percent in July 2021, down from 3.9 percent in June 2021. However, unemployment among the young population (aged 15 to 24) was significantly higher, reaching 19.6 percent, and among women whose unemployment rate was 10.1 percent. The gender gap in unemployment was especially large among the 25 to 29 years old, where female unemployment rate (27.0 percent) was more than ten times the male rate (2.1 percent). Between July of 2020 and 2021, the number of Omanis employed in the private sector remained virtually constant. In contrast, the number of expatriates working in the private sector decreased by 10 percent in the first 7M-21 (y/y), driven by reduction in the number of workers in the manufacturing and construction services.

Outlook

The economy is forecast to gradually rebound driven by higher oil prices and development of the hydrocarbon sector. The oil sector will remain the driving force of the economy, which is projected to grow by 3.5 percent in 2021 and accelerate to 6 percent by 2023, driven by higher oil output. The non-oil economy is forecast to post a modest recovery of 1.8 percent in 2021 as the fast-spreading delta variant continues to cause intermittent lockdown, before picking up to an average of 2.5 by 2022-23 supported by lifting the restrictions and the resurgence in tourism. Inflation is projected to pick up to 3 percent in 2021, owing to the recovery of domestic demand and introduction of VAT, but then to decline as the VAT-driven impact on inflation dissipates.

Public finances will gradually improve thanks to higher oil prices and accelerating fiscal consolidation committed under the MTFP. The fiscal deficit is expected to narrow to almost 3 percent of GDP in 2021 as revenues rebound and spending is reduced following the pandemic-related overshoot in 2020. It is then projected to switch to a surplus averaging 2.1 percent in 2022-23 supported by steady implementation of the fiscal reforms, and removal from the budget of expenses related to Petroleum Development Oman (PDO), with the restructuring of the oil and gas sector in the new entity Energy Development Oman (EDO).

Oil recovery and export diversification are projected to narrow the current account deficit to 5 percent of GDP in 2021, reversing the nearly 14 percent of GDP deficit observed in 2020. The current account balance will significantly improve in 2021-23 driven by the diversification efforts, but to remain in negative territory given large import inputs. Following a US$1.7 billion decline in 2020, gross foreign reserves are estimated to remain stable at US$15 billion (over 5 months of imports) in 2021 and beyond supported by more favorable terms of trade. Downside risks stem from the emergence of COVID-19 variants and renewed lockdown measures which could aggravate economic scarring and impede reforms. Oil price volatility and insufficient fiscal adjustment could worsen the twin deficits and increase gross financing needs. Fiscal consolidation could also give rise to social tensions, thus undermining the reform drive. On the upside, a further rise in oil prices accompanied with a successful implementation of the reforms would improve the outlook.

TABLE 2 Oman / 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	0.9	-0.8	-2.8	3.0	3.4	4.1
Private Consumption	2.2	0.9	-2.5	3.1	3.0	2.8
Government Consumption	2.7	0.3	-3.6	-1.2	-0.6	-0.6
Gross Fixed Capital Investment	-5.5	-3.8	-4.4	1.5	3.5	3.8
Exports, Goods and Services	2.6	4.8	-8.6	6.3	6.6	6.7
Imports, Goods and Services	-4.4	-0.4	-10.0	5.2	6.1	4.9
Real GDP growth, at constant factor prices	0.9	-0.8	-2.8	3.0	3.4	4.1
Agriculture	28.3	2.0	4.0	1.5	3.5	4.0
Industry	2.2	0.5	-1.1	2.4	2.6	3.7
Services	-2.4	-3.2	-6.1	4.1	4.8	4.6
Inflation (Consumer Price Index)	0.9	0.1	-0.9	3.1	2.8	2.5
Current Account Balance (% of GDP)	-5.4	-5.5	-13.6	-5.0	-1.1	-0.8
Fiscal Balance (% of GDP)	-8.4	-6.1	-18.6	-2.8	1.8	2.4
Primary Balance (% of GDP)	-6.3	-3.9	-15.8	-0.2	4.1	4.4
GHG emissions growth (mtCO2e)	4.8	2.7	2.8	8.8	10.4	11.3
Energy related GHG emissions (% of total)	83.8	84.1	84.5	84.1	84.6	85.2

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

PALESTINIAN TERRITORIES

Table 1	2020
Population, million	4.8
GDP, current US$ billion	15.6
GDP per capita, current US$	3250.0
Upper middle-income poverty rate ($5.5)[a]	21.9
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	97.7
Life expectancy at birth, years[b]	74.1
Total GHG Emissions (mtCO2e)	

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

Following an improvement in the health situation, lockdowns were eased in Q1 2021 and the Palestinian economy started showing signs of recovery. The recovery was interrupted in Gaza by an 11-day conflict in May while the West Bank continued its upward trajectory. Despite strong revenues, the fiscal situation remained difficult in 2021 due to high public spending and very low aid. Given the start of a fourth COVID-19 wave, the outlook remains precarious and subject to additional political and security risks.

Key conditions and challenges

The Palestinian economy was stagnant and the socio-economic situation already difficult prior to the breakout of the COVID-19 pandemic. This is attributed to ongoing restrictions by Israel on trade, movement and access, recurrent hostilities, the internal divide, and falling aid inflows. During 2017-19, annual GDP growth averaged 1.3 percent - lower than the population growth rate resulting in decreasing per capita incomes and increasing poverty. Decomposing growth historically makes it evident that it was driven by accumulation of factors (both capital and labor) and not improvements in productivity. In recent years, gross investment averaged about 26 percent of GDP, but the bulk of this has been channeled into activities in the non-tradable sectors, rather than sectors that could have served as escalators for growth. Likewise, Foreign Direct Investment (FDI), at a mere 1 percent of GDP, is very low. Potential sources of growth will be limited going forward, even in the post-COVID environment.

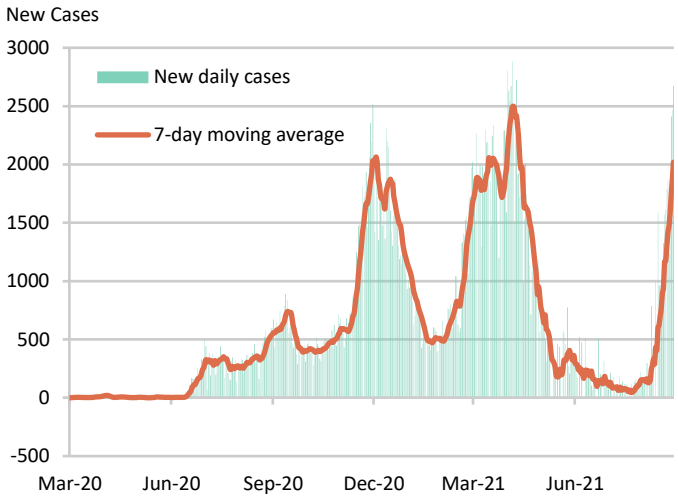
COVID-19 has exacerbated existing economic and social challenges. The Palestinian territories are currently going through a fourth wave, dominated by the delta variant, with no immediate sign of a flattened curve. If this continues and given that so far only 18 percent of the population is vaccinated, further stringent lockdowns may become necessary, amid eroding compliance; this would further impact growth.

Recent developments

The Palestinian Authority (PA) took a decision to significantly ease lockdowns in January and February 2021, following a decline in the daily number of new COVID-19 cases. The ease in lockdowns combined with the launch of the vaccination campaign allowed business activity to gradually rebound. Real GDP of the Palestinian economy grew by 1.9 percent in Q1 2021, compared to the previous quarter. However, comparing the economic performance in Q1 2021 to the same quarter in 2020 results in a contraction of 5.9 percent, indicating that the economy has not yet rebounded to its pre-COVID levels. Even though GDP figures for Q2 2021 are not available yet, business cycle indicators suggest that the West Bank economy continued on an upward trajectory while the recovery in Gaza was short lived due to the 11-day conflict in May 2021, which resulted in the destruction of about 2 percent of Gaza's capital stock.

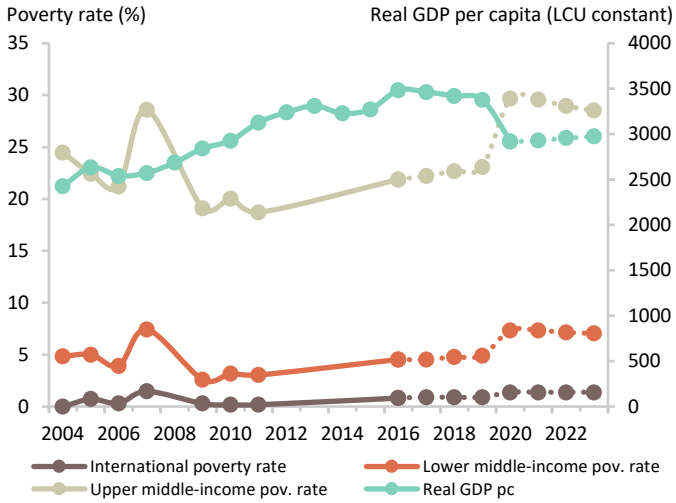
Growth in consumer prices had been modest prior to the outbreak of COVID-19, where prices generally moved in the 1-2 percent range. However, prices in 2020 were 0.7 percent lower than in 2019, reflecting weak demand by consumers and a widening output gap. In 2021, consumer prices have started to gradually increase and by July, they were 2.3 percent higher than in July 2020 reflecting a pickup in demand.

FIGURE 1 Palestinian territories / New daily Covid-19 infections and 7-day moving average



Sources: John Hopkins University CSEE and World Bank staff calculations.

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



Sources: Palestine Expenditure and Consumption Survey (PECS) and World Bank staff calculations.

The PA's revenues grew by 19 percent in the first half of 2021, year-on-year, driven by an improvement in economic activity. Public spending also grew by 19 percent mainly due to an increase in the wage bill following the PA's decision to reinstate the wages of Gaza employees to 100 percent in March 2021. The total deficit amounted to US$472 million in the first half of 2021 while aid received was US$75 million resulting in a financing gap (deficit after aid) of US$397 million. To finance it, the PA mostly relied on arrears to the private sector and the public pension fund.

The unemployment rate in the Palestinian territories increased from 23.4 percent in Q4 2020 to 26.4 percent in Q2 2021. The increase could be explained by a 1.9 percentage point rise in the participation rate as a higher number of men and women were encouraged to join the labor market with the improvement in economic conditions. The overall rate masks a wide regional divergence whereby unemployment in the West Bank reached 16.9 percent in Q2 2021 while in Gaza it was 44.7 percent.

Based on the latest official data, about 22 percent of Palestinians lived below the upper-middle income poverty line (US$5.5 2011 PPP a day) in 2016/17 – a 2.8 percentage points increase with respect to 2011. There is a significant regional income disparity with 46 percent of the population in Gaza below the poverty line in 2016/17 compared to only 9 percent in the West Bank.

Outlook

If the pace of the reconstruction process in Gaza remains slow, the Strip's economy is expected to shrink in 2021 due to the lingering effect of the conflict. The West Bank's performance, however, is expected to be more positive, especially if the vaccination campaign continues and the lockdown measures continue to be relaxed for most of the remainder of the year. We project a growth rate of 2.9 percent for the Palestinian economy in 2021, implying a near stagnation in real per capita income and worsening social conditions, especially in Gaza. Growth is expected to hover around 3 percent in 2022 and 2023 as the impact of the conflict in Gaza is slowly reversed, and the West Bank continues to regain what was lost in 2020 due to COVID-19. However, if some of the confidence-building measures that have recently been discussed between the PA and the Government of Israel (GoI) materialize, including easing the movement of goods and people in and out of Gaza, and increasing the number of Palestinian workers in Israel, growth could further strengthen, as would living standards.

Gross public revenue is projected to grow in 2021. However, unilateral deductions by the GoI from revenues it collects on behalf of the PA are projected to increase to 1.5 percentage points of GDP, offsetting this growth and pushing down the share of net revenue in GDP to 21.4 percent in 2021. Total expenditure, including on development projects, is projected to remain constant as a share of GDP at 32.1 percent, due to GDP growth and not expenditure control. Put together, the deficit before financing is projected at US$1.73 billion. Identified financing is expected to reach US$512 million: US$264 million in aid to the budget (almost half of what was received in 2020) and US$248 million from the GoI in the form of an advance revenue payment. This results in a government deficit of US$1.22 billion or 7.5 percent of GDP—up from 7.4 percent in 2020.

Projections based on GDP per capita growth suggest that the poverty rate has continued to be high since 2016, reaching 29.6 percent in 2021—a significant increase of approximately 8 percentage points in the last five years. This represents approximately 1.5 million people living in poverty in 2021.

TABLE 2 Palestinian territories / 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	1.2	1.4	-11.5	2.9	3.3	3.1
Private Consumption	1.1	4.1	-12.5	1.5	3.0	2.5
Government Consumption	7.3	-3.5	0.2	9.8	1.6	2.2
Gross Fixed Capital Investment	2.5	-2.6	-24.0	6.9	9.2	8.3
Exports, Goods and Services	2.5	2.0	-7.0	2.0	3.0	3.0
Imports, Goods and Services	4.5	1.4	-15.4	5.0	4.5	4.0
Real GDP growth, at constant factor prices	1.9	1.3	-12.1	2.9	3.3	3.1
Agriculture	1.6	0.9	-9.2	3.3	3.4	3.3
Industry	2.2	-0.5	-19.5	4.0	4.3	4.2
Services	1.8	2.0	-10.1	2.5	3.0	2.7
Inflation (Consumer Price Index)	-0.2	1.6	-0.7	1.0	1.2	1.2
Current Account Balance (% of GDP)	-13.1	-10.4	-6.9	-7.5	-7.8	-7.9
Net Foreign Direct Investment (% of GDP)	1.7	1.1	0.7	0.6	0.7	0.8
Fiscal Balance (% of GDP)	-2.5	-4.7	-7.4	-7.5	-7.4	-7.3
Debt (% of GDP)	36.1	38.6	53.5	58.9	61.5	63.3
Primary Balance (% of GDP)	-2.1	-4.4	-7.0	-7.1	-6.9	-6.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.9	0.9	1.4	1.4	1.4	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	4.8	4.9	7.3	7.3	7.1	7.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	22.7	23.1	29.7	29.6	29.0	28.5

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

(a) Calculations based on 2016-PECS.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

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

QATAR

Table 1	2020
Population, million	2.9
GDP, current US$ billion	156.8
GDP per capita, current US$	54069.0
School enrollment, primary (% gross)[a]	103.5
Life expectancy at birth, years[a]	80.2
Total GHG Emissions (mtCO2e)	97.4

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

Strict COVID-19 restrictions, a strong vaccination campaign and the lifting of the diplomatic riff with neighbors, places Qatar on a clear recovery path. Resilient global demand for gas as a transition fuel, significant expansion of North Field production, extensive business environment reforms, and a tourism sector geared for the December 2022 World Cup strengthen the country's outlook.

Key conditions and challenges

Key structural challenges that face Qatar are the high and persistent dependence on hydrocarbons, which are inherently volatile, and the need to bolster competitiveness in the non-oil economy. Fortunately, the three-year diplomatic rift between Qatar and four Arab states (Saudi Arabia, the UAE, Bahrain and Egypt) that had resulted in an embargo against Qatar for three years has recently been resolved, which should further boost short- and medium-term growth prospects.

Qatar is the world's third-largest gas exporter and vies with Australia as the largest exporter of Liquified Natural Gas (LNG). The dominance of natural gas exports sets the country apart from other GCC nations, and the sharp recovery in oil prices during 2021 has also reverberated through to LNG markets, especially oil-linked LNG contracts, which has been stronger than initially expected.

Departing from the twelve-year self-imposed moratorium on further development of the North Field in the first quarter of 2017, hydrocarbon production will remain a growing component of the Qatari economy in coming years. Qatar is also expanding LNG investments in the maritime and onshore North Field which will total around US$29 billion and lift production capacity to 126 million tons per annum (mtpa) by 2027, up from the current production rate of 77 million mtpa.

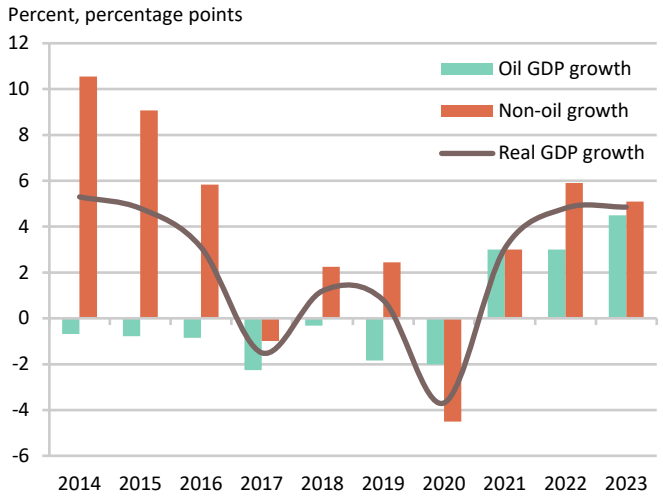
To the extent that LNG is viewed less as a brown intermediate feed stock and more as a complement to a renewable hydrogen -energy based future economy, Qatar is likely to export hydrocarbons for a longer period than other MENA hydrocarbon exporters focused on oil.

In addition to LNG investments, there have been years of efforts to bolster competitiveness. Recently, these included: the abolishment of the Kafala sponsorship system which will help facilitate labor mobility and raise productivity; a new Public-Private Partnerships law which should improve FDI attractiveness; the recognition of real estate ownership by non-Qataris, moving towards a longer-term expatriate residency model including access to healthcare, education, and a level playing field with citizens in some commercial activities. A non-discriminatory minimum wage has also come into force, applying to all workers, of all nationalities, in all sectors, including domestic workers. Qatar is the first country in the region to introduce a non-discriminatory minimum wage.

Recent developments

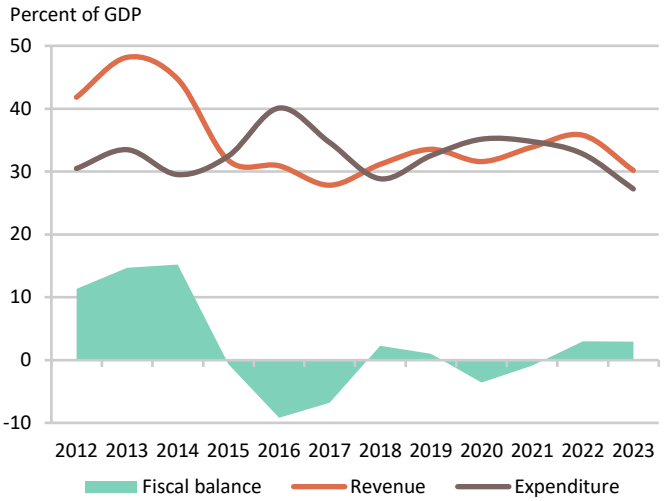
Early indicators suggest a timid economic recovery. Qatar's economy is estimated to have contracted by 3.7 percent in 2020 due to the lockdowns following the pandemic and the historic fall in oil prices in the second quarter of that year. Nonetheless, Purchasing Manager's Index (PMI) readings in 2021 have remained above 50,

FIGURE 1 **Qatar** / Real GDP growth



Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

FIGURE 2 **Qatar** / Public finances



Sources: Haver and WB staff calculations.

indicating expansion, and they have gathered momentum in June (54.6) and July (55.9). The COVID-19 pandemic in Qatar was on a path of low and stable new cases and deaths after an initial spike in 2020. A brief uptick in cases in January 2021 has not turned into a new trend. The high vaccination rate (98 doses per 100 people) has allowed the authorities to gradually unwind restrictions. This has had a palpable effect on activity. Mobility as measured via Google data, has returned to pre-pandemic levels although there was a short-lived dip in April and May. Retail and recreation, transit station and workplace mobility, have once again converged to average pre-pandemic levels which broadly remained intact for residential activity during the Covid-19 restrictions.

Qatar also unveiled a more than 60 percent expansion of LNG production over the next several years, and secured supply deals with Bangladesh and Pakistan. This is a clear sign that the energy sector will remain a driver of economic activity in post-pandemic Qatar.

The fiscal deficit in 2021 is estimated at 0.9 percent of GDP, an improvement from the deficit of 3.6 percent in the previous year, following the recovery in hydrocarbon prices, from where the bulk of government revenues are derived. Offsetting expenditures to mitigate the economic effects of COVID-19 amongst hardest hit sectors (travel, tourism and real estate) are expected to continue in the coming quarters. Consumer price deflation which was apparent since the outbreak of the pandemic reversed in the second quarter of 2021 with the annualized rate of inflation reaching 3.1 percent in July. The introduction of a VAT, which was postponed due to the pandemic, is likely to take place later this year.

Outlook

Real GDP growth for 2021 is expected to be 3 percent, with the same rate of growth for both oil and non-oil GDP, driven by domestic and foreign demand given a successful vaccination roll out and with the end of the diplomatic rift. Strengthening energy prices and final preparations for the FIFA World Cup 2022, fortuitously timed for December, as well as expected bumper tourist receipts from what could be the world's first post-Covid mass audience sporting event, should lead to 4.8 percent growth in 2022, with non-oil GDP expected to grow 5.9 percent and oil GDP remaining at 3 percent. Continuation of strong oil prices (at US$65 pb) and with expanded North Field production beginning to kick-in in 2023 should maintain real GDP growth near 5 percent in 2023 after the World Cup.

The narrowing of the fiscal deficit in 2021 will be mostly due to the recovery in hydrocarbon prices and a general easing of fiscal mitigation as the pandemic unwinds. The potential introduction of a VAT in the current year is likely to mostly impact revenue in 2022. Like other macroeconomic indicators, the current account in Qatar is largely a function of energy-related commodity prices and export volumes. With a strong improvement in energy prices, the current account will likely return to surplus (3.1 percent of GDP in 2021) and should be further bolstered by World Cup tourist receipts in 2022.

The economic rebound in 2021 and beyond depends on the control of the COVID-19 pandemic. Nonetheless, even if there are renewed bouts of Covid-19 globally and an intensification of "breakthrough" contagion among the vaccinated, the Tokyo Olympics have shown that major sporting events can be carried out despite the pandemic. Doha, however, has spent much more ahead of these singular events than Tokyo. The resolution of the diplomatic rift also revives the prospect of further GCC integration and regional crisis burden-sharing.

TABLE 2 Qatar / 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	1.2	0.8	-3.7	3.0	4.8	4.9
Private Consumption	5.0	3.5	-5.6	4.5	5.9	5.1
Government Consumption	-3.0	2.5	10.3	3.6	5.3	5.0
Gross Fixed Capital Investment	4.0	2.5	-3.2	2.3	4.0	4.0
Exports, Goods and Services	1.5	1.1	-6.8	4.1	5.3	7.0
Imports, Goods and Services	3.0	6.0	-2.7	5.5	7.1	7.6
Real GDP growth, at constant factor prices	1.2	0.8	-3.6	3.0	4.7	4.8
Agriculture	15.7	1.0	3.0	5.0	6.0	3.0
Industry	0.6	1.2	1.0	2.7	3.5	3.8
Services	2.7	-0.3	-15.2	4.0	8.2	7.6
Inflation (Consumer Price Index)	0.1	-0.9	-2.6	1.0	3.0	2.5
Current Account Balance (% of GDP)	9.1	2.4	-2.5	3.1	4.0	5.7
Fiscal Balance (% of GDP)	2.3	1.0	-3.6	-0.9	3.0	2.9
Primary Balance (% of GDP)	3.7	2.7	-1.7	0.8	4.6	4.4
GHG emissions growth (mtCO2e)	2.6	0.8	-3.3	5.7	3.0	3.7
Energy related GHG emissions (% of total)	91.5	91.5	91.1	90.2	90.0	89.8

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

SAUDI ARABIA

Table 1	2020
Population, million	34.8
GDP, current US$ billion	701.6
GDP per capita, current US$	20160.9
School enrollment, primary (% gross)[a]	100.7
Life expectancy at birth, years[a]	75.1
Total GHG Emissions (mtCO2e)	640.1

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

The Saudi Arabian economy is on a recovery path as the spread of the pandemic is kept under control and the vaccination rollout is making significant progress. Improvement of global conditions and spillovers in the oil market have strengthened medium-term fiscal and external outlook. A breakout of new variants, tighter global financial conditions, and renewed downward pressure on oil prices are key downside risks to the outlook. A slow and orderly withdrawal of the remaining COVID-19 support programs is warranted to maintain recovery and protect vulnerable groups.

Key conditions and challenges

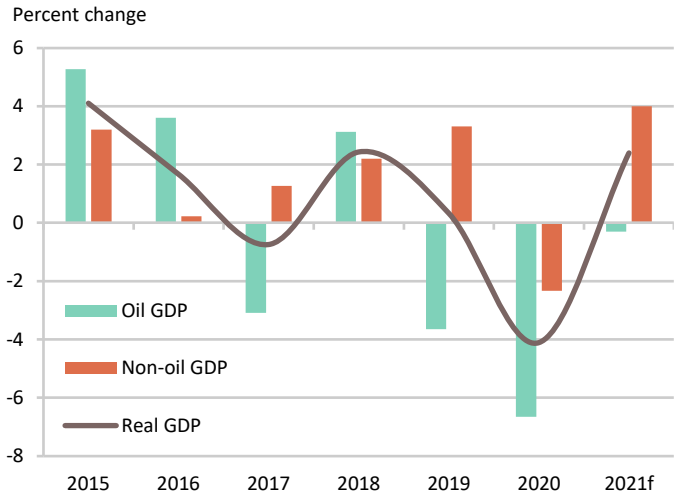
The Saudi Arabian economy is dominated by oil, and a long-term diversification plan (Vision 2030), which started implementation in 2016, promotes structural reforms targeting strong, sustained, inclusive, greener, and service-led growth. The economy fell into a deep recession in 2020 in the aftermath of the twin shocks of COVID-19 and lower oil prices, creating large shortfalls in fiscal and external positions. While the oil sector impact of COVID-19 has accelerated the urgency to delink the path of the economy from the oil sector, the pandemic is also likely to change the nature of the services model in many countries, and oil will remain a valuable asset to finance the transformation and adaptation to this emerging model or any other non-oil growth model for Saudi Arabia.

Risks to economic performance remain. While authorities lifted many stringent public health measures with the improvement of pandemic conditions, a spike in cases due to new variants of the virus risks a cycle of movement restrictions and delaying recovery. Furthermore, a rise in global risk premia and tighter global financial conditions due to rising inflationary pressures would result in a monetary tightening in Saudi Arabia; further dampening recovery. With oil prices rebounding as global demand recovers, the incentive to overproduce by OPEC+ members increases, adding further uncertainty to the global oil market. The withdrawal of the remaining COVID-related support programs will need to be carefully gauged to reduce adverse impacts on individuals, businesses, and vulnerable groups. To lessen the burden on the budget as a driver of growth, the Public Investment Fund (PIF) is taking on a larger developmental role in the domestic economy, requiring enhanced fund's transparency and predictability for the private sector.

Recent developments

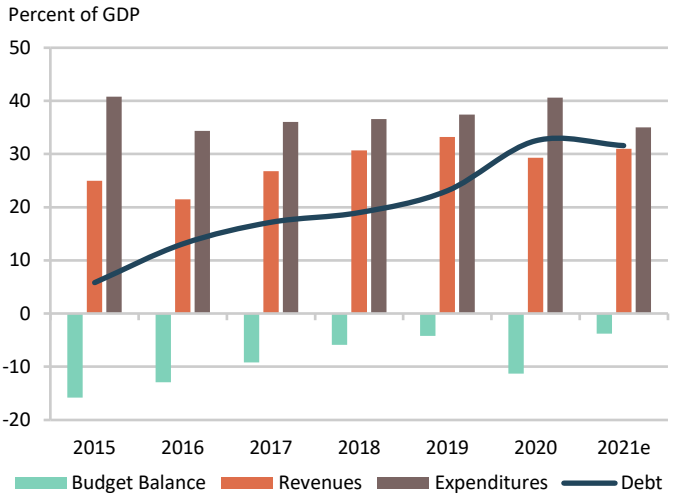
Saudi Arabia continues to cope directly with the pandemic and indirectly with oil market implications from the pandemic. The 7-day new cases average increased since Jan 2021 (110 cases), as a result of the spread of the new more transmissible COVID-19 variant, to reach a second peak in July 2021 (1400 cases). Since then, cases had been on a downward trajectory reaching 160 cases in early Sept 2021. Meanwhile, vaccination rollout is making significant progress with fully inoculated individuals reaching 50 percent of the population. On the other hand, the Kingdom has navigated extraordinary volatility in the oil market, using the OPEC+ structure and its own carefully calibrated production adjustments to keep supply in line with the gradual global relaxation of containment measures. Nevertheless, oil prices are now at a level where unconventional supply will be induced back into the market. Against this background, the

FIGURE 1 Saudi Arabia / Annual real GDP growth



Sources: GASTAT Saudi Arabia and WB staff estimates.

FIGURE 2 Saudi Arabia / Central government operations



Source: World Bank, Macroeconomics, Trade, & Investment Global Practice.

economy is showing signs of recovery during H1 2021, after contracting by 4.1 percent in 2020. Quarter-to-quarter real growth registered -0.5 and 0.6 percent on seasonally adjusted basis for Q1 and Q2 in 2021, respectively. The oil sector recovered parts of its losses during Q2 2021 on the back of the unwinding of the 1 mbpd voluntary output cut that lasted from February to April. Non-oil sectors reported better-than-expected signs of recovery as containment measures eased which supported domestic demand—with seasonally adjusted growth registering 4.9 and -0.5 percent for Q1 and Q2, respectively. However, high frequency data suggests that consumer spending and the construction sector are losing steam in July and August. Inflation averaged 5.5 percent during H1 2021 and is expected to fall sharply in the remainder of this year as the effects of last year's VAT hike fall out of the annual price comparison. The budget deficit narrowed during H1 2021 (SAR 12 billion) compared to the same period of previous year (SAR 143 billion). Higher oil revenues and stronger fiscal adjustments have contributed to a favorable fiscal position. Thus far, use of reserves and ample market access have proven sufficient to finance the deficit, and shielding the economy from the full oil price volatility.

There is no publicly available information on official poverty rates in Saudi Arabia and access to micro data from household surveys is limited. However, in recent years the government has made gains creating the capacity to identify and support low-income households. The most recent labor market data shows that unemployment during Q1 2021 was 6.5 percent, 0.9 p.p. lower than in the previous quarter (Q4 2020), but still 0.8 p.p. higher than a year ago (Q1 2020). Similarly, the unemployment rate among Saudis fell to 11.7 percent in Q1 2021, down from 12.6 percent in Q4 2020, almost reaching the level from the previous year (11.8 percent in Q1 2020). In addition, total labor force participation rate has increased to 61.1 percent in Q1 2021, up from 58.2 percent in Q1 2020. Unemployment among women in Q1 2021 (16.1 percent) remains four times higher than for men (3.7 percent), and despite rising female labor force participation, a significant gender gap remains.

Outlook

The recovery is expected to continue with growth reaching 2.4 percent in 2021 and 4.9 percent in 2022. The oil sector is projected to grow at -0.3 percent in 2021 following OPEC+ agreed path of production levels until Dec 2021 and rebound significantly in 2022 as OPEC+ production cuts end as announced. As the vaccination program gains more momentum and COVID-related restrictions are further eased, non-oil sectors will continue their growth trajectory, estimated to reach 4 percent in 2021 and 3.3 percent in 2022 reflecting stronger private consumption, gradual resumption of religious tourism, and higher domestic capital spending signaled through the National Investment Strategy, which targets SAR 12 trillion over the next 10 years. Headline inflation in 2021 is expected to reach 3.3 percent, as VAT-driven impact on inflation dissipates, but is expected to be offset by higher food and oil prices.

The budget deficit is anticipated to reach 3.8 percent of GDP in 2021 and will continue its narrowing path in the medium term, but not quickly enough to achieve the self-imposed medium-term balanced budget target articulated in the Fiscal Balance Program (FBP) by 2023. Signs of urgency by authorities to push forward with PPP and privatization programs will instill confidence about private sector role in Vision 2030 and ease financing needs, with debt-to-GDP projections staying comfortably below 50 percent target in the medium term. The external current account is projected to return into surplus during 2021-2023 as energy prices and export earnings recover.

TABLE 2 Saudi Arabia / 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	0.3	-4.1	2.4	4.9	2.3
Private Consumption	1.9	4.4	-4.9	2.8	2.2	2.4
Government Consumption	6.0	0.6	2.6	0.5	-0.6	-0.5
Gross Fixed Capital Investment	-2.9	4.9	-14.0	7.5	4.1	4.0
Exports, Goods and Services	6.8	-4.5	-8.7	0.9	9.6	3.2
Imports, Goods and Services	2.7	1.3	-14.6	2.7	3.0	3.1
Real GDP growth, at constant factor prices	2.6	0.3	-4.0	2.4	4.8	2.3
Agriculture	0.3	1.3	0.0	0.1	0.2	0.2
Industry	2.7	-2.6	-5.3	-0.2	5.4	1.6
Services	2.5	4.3	-2.5	5.9	4.4	3.2
Inflation (Consumer Price Index)	2.5	-1.2	3.4	3.3	2.0	2.0
Current Account Balance (% of GDP)	9.0	4.7	-2.3	4.8	5.0	2.3
Fiscal Balance (% of GDP)	-5.9	-4.2	-11.1	-3.8	-2.2	-1.7
Debt (% of GDP)	19.0	23.1	32.5	31.6	31.3	30.7
Primary Balance (% of GDP)	-5.4	-3.4	-10.1	-2.7	-1.1	-0.5
GHG emissions growth (mtCO2e)	-2.7	0.4	-0.1	1.2	4.5	1.6
Energy related GHG emissions (% of total)	77.4	77.8	78.8	79.2	79.1	79.1

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

TUNISIA

Table 1	2020
Population, million	11.8
GDP, current US$ billion	41.6
GDP per capita, current US$	3525.4
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.2)[a]	3.0
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	115.4
Life expectancy at birth, years[b]	76.7
Total GHG Emissions (mtCO2e)	35.2

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015).
(b) WDI for School enrollment (2018); Life expectancy (2019).

Tunisia's economic outlook remains highly uncertain. The economic recovery is less robust than previously expected given the escalation of the COVID-19 pandemic in mid-2021 and the heightened political uncertainty. This increases the downside risks particularly regarding debt sustainability, which is a source of increasing concerns. Moving out of the crisis zone and fast-tracking the recovery will require a solid political settlement and the speedy implementation of structural reforms.

Key conditions and challenges

A decade after the Jasmin revolution, Tunisia faces increasingly difficult economic and political conditions. Persistent political instability has prevented the implementation of reforms to open up an economy that remains inefficiently closed to investment and trade. As a result, GDP growth averaged just 1.7 percent between 2011 and 2019 and investment and exports remain significantly below pre-revolution levels. As growth and private job creation stagnated, the state stepped in as a key provider of jobs and a guarantor of affordable consumption of goods and services. This has caused a deteriorating fiscal balance under the weight of a large public sector wage bill, underperforming state-owned enterprises and consumer and producer price subsidies. The COVID-19 pandemic has exacerbated these weaknesses, causing a steep further rise in the fiscal deficit and public debt.

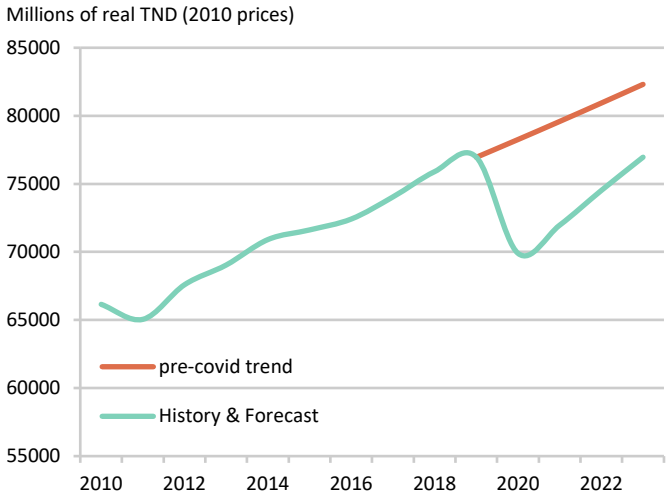
The latter appears to be unsustainable in the absence of structural reforms to address the myriad distortions of the economy and the related inefficient public spending. These reforms include the elimination of different types of permits and licenses that unnecessarily restrict entry across most sectors, such as ex-ante authorization, cahiers the charge, restrictions on foreign investments. On the fiscal side, key reforms include reducing and better targeting the subsidy system, improving the efficiency of the state-owned enterprise sector and limiting the growth of the large public wage bill while improving its effectiveness. This would facilitate Tunisia's access to further multilateral and bilateral financing, including also through an IMF program, as well as eventually international capital markets.

Recent developments

Real GDP has continued its slow rebound in the first half of 2021 with a year-on-year 5.9 percent increase. This reflects the low basis - GDP had dropped 11.9 percent in the first semester 2020 – and a partial recovery in domestic and external demand. Rising demand led to a 25 percent increase in exports (and a 22 percent in imports), which – along with a 24 percent rise in remittances - contributed to reduce the current account deficit to 6.6 percent of GDP (from 7.6 percent in the first semester 2020).

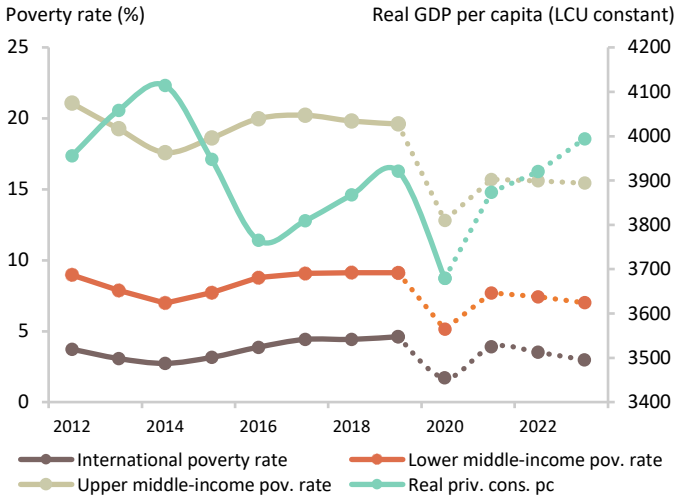
However, the escalation of the pandemic in June and July is likely to have slowed down the recovery. The rapid spread overwhelmed the health system resulting in almost 200 deaths per day in the last week of July 2021, one of the highest COVID death per capita in the world. The pandemic has started to ease in August 2021 following new mobility restrictions and an acceleration in the vaccination campaign, which has benefited from 6 million doses donated to Tunisia by various countries. As of September 25th, 29.2

FIGURE 1 Tunisia / Real GDP: Actual, forecast and pre-covid trend



Sources: National Institute of Statistics and World Bank.

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



Source: World Bank. Notes: see Table 2. Note: Projection using neutral distribution (2015) with pass-through = 0.7 (Low) based on GDP per capita in constant LCU.

percent of the population was fully vaccinated and a further 11.6 percent had received one dose.

Public expenditures rose slightly (by 1.6 percent) in the first semester of 2021 after their steep rise to battle the pandemic and its economic impact in the same period of 2020. This moderate increase was driven by the fall in investment (-39 percent) which compensated the 6 percent increase in wages and15.8 percent increase in subsidies and transfers. Revenues increased by 13.6 percent - mainly because of indirect taxes – and this led the reduction in the budget deficit by 46.2 percent. This helped reduce the rate of growth in the public debt, which had expanded from 67.9 to 79.3 percent of GDP between 2019 and 2020.

This is important considering the perceived uncertainty around public debt sustainability, which the recent political developments have exacerbated. On July 25th in the wake of public protests against the government and parliament for the handling of the health and economic crisis, President Saied dismissed part of the Cabinet including the Prime Minister, suspended the Parliament and removed the immunity of members of Parliament. The day after this move Tunisian Government bonds fell substantially and have remained subdued since then.

Outlook

GDP growth is expected to reach 3 percent in 2021, below that in the first semester. This lower growth is due to the weakening of the base effect and the worsening of the pandemic. The uptick is not large enough to return output to pre-pandemic levels of 2019. Growth is eventually expected to stabilize at a modest 3.3 percent by 2023, reflecting pre-existing structural weaknesses and a gradual global recovery from the pandemic. These estimates are presented with significant downside risks. The pace of the recovery will depend on the political developments, including the nomination of a new Prime Minister and the resumption of parliamentary activities, on the evolution of the pandemic and of the financing of the public debt.

Poverty is not expected to decline to pre-COVID levels before 2023. Predicted poverty rates using the US$3.2 PPP line are expected to reach 3.3 in 2022 and 3.1 percent in 2023 using the US$3.2 PPP line. Using the upper-middle income countries poverty line (US$5.5 PPP), poverty is projected to decrease to 18.7 in 2022 and 17.8 percent in 2023.

The current account deficit is expected to widen slightly to 6.1 percent of GDP in 2021 as imports begin to recover and oil prices increase. The deficit would stabilize around 7 percent of GDP by 2023 as the effects of the pandemic ease and trade flows recover. But risks to the external outlook remain high, including a sluggish export recovery, given the heavy impact of the pandemic on firm capacity and the pace of recovery amongst Tunisia's main trading partners.

The gradual decline of the fiscal deficit is expected to continue in the medium term, reaching 5-7 percent of GDP in 2021-23, as vaccination coverage and the moderately positive trajectory of expenditures and revenues. However, meeting the public financing needs will remain challenging. Even before the fall in government bonds following the July 25th events, Fitch had downgraded Tunisia's sovereign rating to "B-". This reflects increased fiscal and external liquidity risks amid further delays in agreeing a new program with the IMF. As a result, Tunisia has furthered its reliance on debt monetization with Central Bank reserves steadily declining from US$ 8.2 billion at the end of 2020 to US$ 7.1 billion in August 2021. This increases the risks on the monetary financial stability side, which are exacerbated by the Central Bank soaking liquidity from the banking system and the high level of Non-Performing Loans (13.6 percent in 2020).

TABLE 2 Tunisia / 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	2.5	1.5	-9.2	2.9	3.5	3.3
Private Consumption	2.4	1.9	-4.9	1.0	2.5	2.2
Government Consumption	0.6	0.4	-2.6	-26.5	-3.2	-1.0
Gross Fixed Capital Investment	2.1	-2.6	-38.9	18.7	13.4	4.5
Exports, Goods and Services	4.8	-0.8	-27.4	39.0	12.0	10.1
Imports, Goods and Services	2.6	-5.0	-21.9	38.2	10.6	7.2
Real GDP growth, at constant factor prices	2.5	1.4	-9.5	3.0	3.5	3.3
Agriculture	5.9	5.7	0.4	-4.6	4.0	4.0
Industry	0.9	-1.6	-9.1	8.5	3.5	3.2
Services	2.7	2.1	-11.1	2.0	3.5	3.2
Inflation (Consumer Price Index)	7.3	6.7	5.6	5.6	6.0	6.0
Current Account Balance (% of GDP)	-10.4	-7.9	-6.0	-6.1	-7.6	-7.1
Fiscal Balance (% of GDP)	-4.2	-2.9	-9.4	-7.6	-5.7	-5.2
Debt (% of GDP)	72.7	66.6	81.9	85.1	84.8	85.5
Primary Balance (% of GDP)	-1.7	-0.4	-5.8	-4.3	-2.0	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.2	0.2	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	2.9	2.9	3.7	3.5	3.3	3.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	16.7	16.5	20.1	19.5	18.7	17.7
GHG emissions growth (mtCO2e)	0.8	0.0	-8.2	2.5	5.2	4.6
Energy related GHG emissions (% of total)	73.9	73.8	72.3	73.0	72.4	71.8

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

(a) Calculations based on 2015-NSHBCSL.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2020
Population, million	9.9
GDP, current US$ billion	358.9
GDP per capita, current US$	36252.5
School enrollment, primary (% gross)[a]	108.4
Life expectancy at birth, years[a]	78.0
Total GHG Emissions (mtCO2e)	256.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) WDI for School enrollment (2017); Life expectancy (2019).

After a contraction of real GDP in 2020 due to pandemic related disruptions, the UAE's economy is showing signs of recovery in 2021 driven by a successful vaccination program and a reduction in OPEC+ oil production cuts. Over the medium term the recovery will be bolstered by trade and tourism as health concerns wane. The outlook is subject to risks from slower global recovery, renewed coronavirus outbreaks and oil sector volatility. The authorities continue to work towards UAE's long-run priority—diversification.

Key conditions and challenges

Economic transformation continues, but vulnerability remains. Over the past decade, the authorities have intensified efforts to diversify the economy away from hydrocarbons, successfully positioning the UAE as the region's global trade, financial and travel hub. While the non-hydrocarbon sector accounts for two-thirds of GDP, the economy continues to rely on hydrocarbon activity as the engine of growth and the main source of government revenue, and thus the economy remains vulnerable to oil price volatility. Recent business regulation and investment reforms include the new Companies Law that allows 100 percent foreign ownership at the federal level in selected sectors, wide-ranging reductions in fees, consumer protections and improved bankruptcy provisions. However, economic departments at the emirate-level retain the power to approve business licenses.

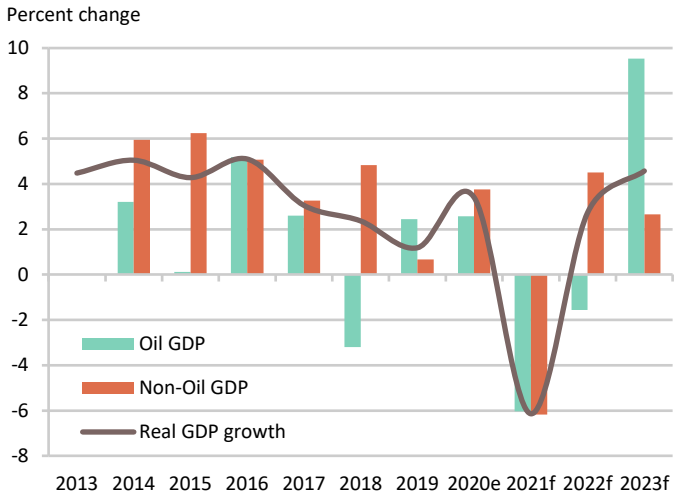
Short-term challenges related to the coronavirus pandemic compound concerns regarding UAE's government related entities (GRE's) and the protracted slump in the real estate sector. The ability of GRE's to meet their debt obligations is uncertain. Aggregate outstanding debt by Abu Dhabi's GRE's was U.S.$41.8 billion in June 2019. Dubai's direct aggregate debt was US$33.6 billion in June 2020 (29 percent of Dubai GDP) while the estimated GRE debt was US$60.3 billion in 2018 (IMF). Almost US$30 billion of debt will fall due in 2023, which is more than what matured during Dubai's debt crisis in 2009. Some of Dubai's contingent obligations include payment guarantee of US$3 billion for the New Dubai World Facility, shortfall guarantees for obligations to contractors of US$2.2 billion for Dubai Aviation City Corporation and US$0.4 billion for Dubai Expo 2020. Meanwhile oversupply in the real estate and hospitality sectors has caused a protracted slump in Dubai's real estate—residential property prices have fallen for the past six years and are 30 percent below their 2014 peak. This structural problem of oversupply may be exacerbated following the Dubai Expo which is now expected to undershoot its original target of attracting 11 million visitors.

While the authorities' mitigation measures have cushioned the impact of the pandemic on the economy, the UAE's near-term economic prospects depend on the recovery in global trade and global demand for oil as well as the risk of potential outbreaks of coronavirus variants. Continued diversification efforts will remain a key priority to maintain the UAE's dynamic comparative advantage in the face of competition from other GCC countries.

Recent developments

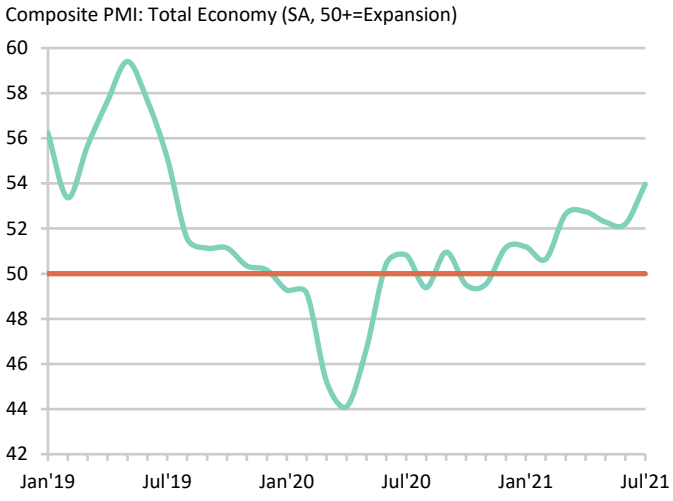
Economic recovery in 2021 appears underway. COVID-19 and its economic fallout led to a contraction of real GDP by 6.1 percent in 2020. Oil production declined by 9 percent in line with OPEC+

FIGURE 1 United Arab Emirates / Annual real GDP growth



Sources: UAE authorities and IMF and World Bank staff estimates.

FIGURE 2 United Arab Emirates / Composite purchasing manager's index



Source: IHS Markit Purchasing Managers Survey.

production cuts. In 2021 a robust rebound in the non-hydrocarbon sector is evident. The Purchasing Manager's Index (PMI) registered positive growth in February 2021 and in July-August it averaged at the highest level in two years. The hydrocarbon sector also picked up pace as OPEC+ production quotas were eased; oil production went up by 6 percent in August compared to Q1-2021. The health situation is improving with daily new cases below 1,000 in September (on a 7-day rolling average basis) for the first time since 2020. The UAE is leading the world in the vaccine race and has begun offering booster shots. The successful vaccination drive, resumption of travel, relaxation of lockdowns, and large-scale monetary and fiscal measures have aided the recovery. The Central Bank extended some pandemic support measures, until 30 June 2022, including the collateralized AED50 billion Zero Cost Facility.

Government finances continue to be strained. Fiscal outturns for the federal government in 2020 showed a deficit of 2.5 percent of GDP, compared with a surplus of 2.6 percent in 2019, due to reduced hydrocarbon revenue and fiscal mitigation measures. The consolidated deficit is estimated at 7.1 percent of GDP in 2020. Financing needs were mostly met by international debt issuances at the emirate level, with total public debt estimated at 37 percent of GDP in 2021.

Inflation in Q1-2021 continued its negative trend since 2019, albeit reduced, driven by lower prices for rents and energy compounded by the departure of expatriates (total population shrank by 2.3 percent in 2020). However, real estate prices that were depressed prior to 2020 due to oversupply of residential properties, are now showing an uptick in Abu Dhabi while in Dubai they continued to decline on average by 5.5 percent y/y.

The current account balance dropped to 6 percent of GDP in 2020 from 8.5 percent in 2019 due to underperformance of both hydrocarbon and non-hydrocarbon exports mitigated by lower imports. However, a rebound is expected in 2021 and the UAE's external position remains strong, with official reserves equivalent to 5.9 months of imports (as of December 2020).

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. According to the CBUAE, employment in March 2021 remained at the same level of December 2020, while salaries paid in Q1 2021 was higher than at the end of 2020 and higher than in February 2020 (the last pre-crisis month), as per CBUAE's Wage Protection System.

Outlook

The rapid roll-out of COVID-19 vaccines is expected to boost domestic spending and lead to a recovery in tourism. This coupled with a recovery in global trade, rising oil production and higher oil prices, will support recovery in the medium term (projected real GDP will average 3.4 percent in 2021-23). Authorities have taken steps to lure tourists to the country ahead of the World Expo, such as providing visas to fully vaccinated travelers, which is expected to provide a boost, albeit a milder one than previously projected, to the economy. As the OPEC+ oil production quotas are eased oil revenues will enable fiscal and external balances to recover to pre-pandemic levels by 2023. Accommodative monetary policy, fiscal stimulus and a rebound in domestic demand, will lead to a return of moderate inflation. The long-run economic prospects continue to hinge on the authorities' efforts to create a favorable business environment to foster non-hydrocarbon growth and create jobs in the private sector.

TABLE 2 United Arab Emirates / 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	1.2	3.4	-6.1	2.7	4.6	2.9
Private Consumption	6.1	10.0	-12.5	3.2	3.8	3.6
Government Consumption	-5.0	10.0	0.7	1.7	2.7	2.9
Gross Fixed Capital Investment	3.6	0.0	5.8	5.6	3.4	3.5
Exports, Goods and Services	11.5	-1.3	-7.0	7.5	5.9	4.8
Imports, Goods and Services	10.9	-5.5	-6.4	9.6	5.5	4.5
Real GDP growth, at constant factor prices	1.2	3.4	-6.1	2.7	4.6	2.9
Agriculture	5.4	3.8	6.9	3.8	4.6	4.9
Industry	1.8	2.6	-5.5	0.4	6.6	2.9
Services	0.6	4.2	-6.9	5.0	2.7	2.9
Inflation (Consumer Price Index)	3.1	-1.9	-2.1	-0.2	1.1	1.7
Current Account Balance (% of GDP)	9.3	8.5	6.0	6.5	7.7	9.1
Fiscal Balance (% of GDP)	1.2	-1.0	-7.1	-1.3	-1.0	0.5
GHG emissions growth (mtCO2e)	-2.4	3.3	-5.6	8.0	4.5	4.2
Energy related GHG emissions (% of total)	75.7	75.8	75.3	76.3	76.4	76.3

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

REPUBLIC OF YEMEN

Table 1	2020
Population, million	29.8
GDP, current US$ billion	18.8
GDP per capita, current US$	630.9
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	66.1

Source: WDI, Macro Poverty Outlook, and official data.
(a) WDI for School enrollment (2016); Life expectancy (2019).

With the conflict continuing in 2021, the value of the Yemeni riyal continues to depreciate to new historic lows, driving large increases in food prices and pushing more people into extreme poverty. Socioeconomic conditions are deteriorating rapidly, further affected by declining remittances, trade disruptions, severe fuel supply shortages, and the disruption and declining humanitarian operations. Intensifying violence and the fragmentation of macroeconomic policies add further strains on the fragile economic conditions. An unprecedented humanitarian crisis persists, further aggravated by COVID-19, leaving many Yemenis dependent on relief and remittances.

Key conditions and challenges

The economic fallout of currency depreciation and COVID-19 continue to hit hard the people and the economy, after more than seven years of armed violence and the unprecedented humanitarian crisis in Yemen. Socioeconomic conditions are deteriorating rapidly in 2021, driven by currency devaluation and the ensuing increase in food and fuel prices, as well as by the adverse climate conditions and depleted coping capacity.

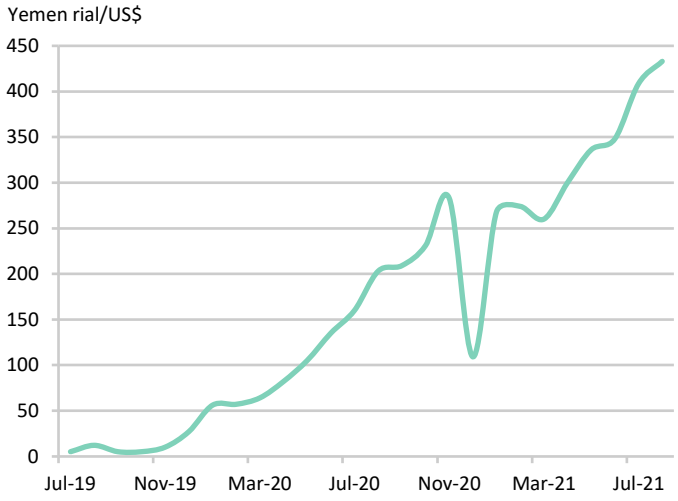
The macroeconomic policy environment remains complicated by the ongoing conflict. Given Yemen's high dependence on imports, the weakening of the currency has passed through to domestic prices, eroding purchasing power of households and businesses. Debt service to external creditors (except for IDA) have been halted since 2015. Regular salary payments to public sector workers continue to experience re-occurring delays and uneven geographical coverage.

The overarching socioeconomic risks derive from perpetuating violence and subsequent competition over resource transfers. In the South, continued monetization of the fiscal deficit, including for public salary payments, remains a major driver for macroeconomic instability. In the North, lack of liquidity and compressed inflow of commercial imports remain key challenge activities. At the same time, the private sector faces enormous challenges due to an arbitrary - and sometimes coercive - business environment in both sides of the country.

Recent developments

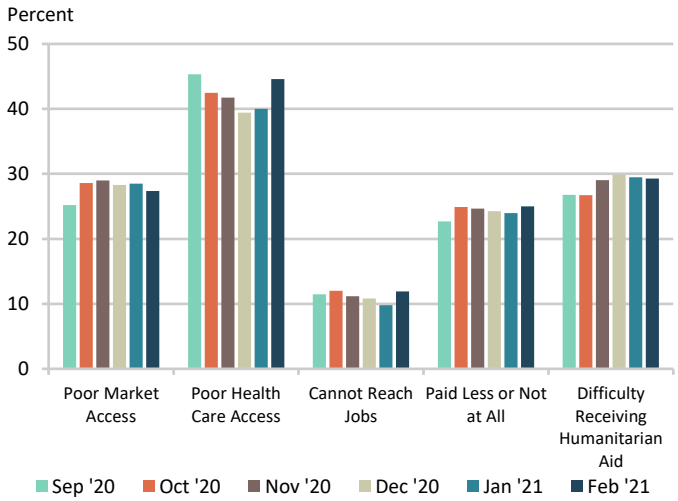
Preliminary estimates suggest that the economy had shrunk by 8.5 percent in 2020. Non-oil economic activity was affected by the COVID-19-induced slowdown in trade, dual taxation systems in the north and south, scarcity of inputs, and commodity price hikes. The negative impact of recent tightening of immigration to Saudi Arabia and the Saudization policies is not clear yet on Yemeni overseas workers and their associated remittances, although trends in workers remittance inflows since 2020 were already affected by the COVID-19 crisis. Shortages in foreign exchange have further intensified in 2021, due to the slow recovery in oil production and export capacity and the declining humanitarian funding and operations. The IMF general SDR allocation to Yemen of US$665 million, approved in August 2021, should ease pressures on the balance of payments and foreign exchange markets. Fiscal policy of the internationally recognized government (IRG) continues to rely on money printing to cover the bulk of government expenditures, which focuses on salaries (to recipients under IRG's controlled territories), goods and services, and social transfers (mostly related to COVID-19 spending). Public revenue is underperforming, constrained by the slow recovery in oil production and

FIGURE 1 Republic of Yemen / Divergence between dual exchange rates (eom, daily average)



Source: World Bank staff estimates.

FIGURE 2 Republic of Yemen / Share of respondents with access to food, health care, and employment during pandemic



Sources: WFP Mobile Vulnerability Analysis and Mapping Survey.

exports and the weak non-hydrocarbon revenue, while the fiscal deficit continues to be monetized. It is not clear how previously projected recovery in oil export capacity could translate into improved government's finances in 2021, since any progress in the oil industry remains tightly connected to political stability and security (beside international prices).

Inflation has accelerated in 2021. The average cost of the Minimum/Survivable Food Basket increased in June 2021 (y-o-y) by 52 percent and 19 percent in the southern and northern governorates, respectively.[1] Besides currency devaluation, fuel shortages and dual taxation contribute to domestic price increases and disruptions in basic services delivery. The monthly average of imported fuel products discharged through the Hodeidah port in January-August 2021 have declined by an estimated 72 percent compared to the same period of last year. The divergence in dual exchange rates between Sana'a and Aden have widened considerably in 2021, reaching nearly YR 433 (approximately 72 percent) at the end of the August 2021. The divergence between exchange rates, the increasing demand for foreign currency, and the tightening of exchange controls and payment networks have increasingly fragmented local financial markets, impeding domestic transfer services. Therefore, the cost of financial transfers and associated fees through commercial banks and exchange bureaus from the South to the North (i.e., from new to old banknotes) increased sharply in recent months, reaching more than 70 percent by early September 2021.

The humanitarian response that supported households through years of conflict was significantly scaled back since 2020. Consequently, the risk for a potential famine increases without progress in socioeconomic conditions and scaled up humanitarian assistance. The already difficult situation for the people of Yemen has been exacerbated by both the COVID-19 pandemic and rising food and fuel prices over the first half of 2021. New estimates from the WFP mobile phone survey corroborates the worsening food security situation with at least 40 percent of households reported having inadequate food consumption in 12 of 22 governorates. Moreover, repeated food and fuel price spikes are eroding real incomes, further limiting access to other basic needs and services (e.g., education and healthcare).

Outlook

Economic prospects in 2021 and beyond will critically depend on rapid improvements in the political and security situation, and ultimately whether a cessation of hostilities and eventual political reconciliation will allow for rebuilding the economy and Yemen's social fabric. Without additional external financing and with a continuation of the pandemic, output is expected to further contract by 2 percent in 2021. Improved monetary supervision and policy controls could reduce currency exchange volatility and temporarily limit speculative activities, with possible moderate gains in the relative value of the US dollar in the south. A more durable stabilization of the exchange regime will require solutions to tackle the root causes of volatility.

In the absence of stable sources of foreign currency, expansionary monetary policy risks accelerating the depreciation of the Yemeni riyal. Yet, increasing oil production and export capacity could ease the strain on public finances in the IRG-controlled areas and reduce the recourse to central bank financing, while also requiring military de-escalation and relative security stability around the production sites. Inflation is anticipated to accelerate rapidly in 2021, to an estimated 45 percent compared to 35 percent in 2020. Progress in implementing past agreements on access to supplies and fuel imports through the Hodeidah port, as well as the scaling up of humanitarian funding, would, *ceteris paribus*, improve prices and access to food. It should also enhance the provision of public services and the operational environment for humanitarian operations.

1/ FAO-FSIS & MoPIC-FSTS Quarterly Food Security Report, April-June 2021.

TABLE 2 Republic of Yemen / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018 e	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	0.8	1.4	-8.5	-2.0
Inflation (Consumer Price Index, eop)	14.3	10.0	35.0	45.0
Current Account Balance (% of GDP)	-0.8	-3.9	-5.9	-8.8
Fiscal Balance, cash basis (% of GDP)	-7.8	-5.6	-5.2	-5.2

Source: IMF, World Bank, Macroeconomics, Trade & Investment Global Practice.
Notes: e = estimate, f = forecast.

South Asia

Annual Meetings 2021

Afghanistan
Bangladesh
Bhutan
India
Maldives
Nepal
Pakistan
Sri Lanka

AFGHANISTAN

In August the Taliban assumed power in Afghanistan, with immediate repercussions across an economy already facing daunting development challenges. Rapid reduction in international grant support, loss of access to offshore assets, and disruption to international financial linkages are expected to lead to a major economic contraction, increasing poverty and food insecurity, and macroeconomic instability.

Key conditions and challenges

The August political crisis has resulted in an abrupt cessation of most international aid and all international security assistance (security and civilian grant inflows were previously equivalent to 45 percent of GDP, financing 75 percent of public expenditure). Under international sanctions arrangements, Afghanistan has lost access to offshore central bank assets of around $9 billion (45 percent of GDP), while the capacity of commercial banks to transact internationally has been substantially curtailed. The financial sector has been hobbled by a shortage of both foreign and domestic currency notes. The combined impacts of rapidly declining grants, loss of access to offshore assets, and financial sector dysfunction are likely to include a sharp contraction of economic activity, inflation or shortages of imported goods, and a severe increase in poverty and hardship.

Beginning in April 2021, Afghanistan experienced a third COVID-19 wave. Infection rates have reached record highs, with less than five percent of the population fully vaccinated. At the same time, severe drought conditions are driving a mounting food security crisis. The UN is now estimating that the total number facing acute food insecurity could increase to 14 million (or more than one-third of the total population). As a result of recent conflict, an estimated 3.5 million internally displaced persons, 80 percent of whom are women and children, will need humanitarian assistance.

Recent Developments

Afghanistan's economic growth was slow up to August 2021, reflecting weak confidence amid a rapidly worsening security situation. In addition, drought conditions negatively affected agricultural production. Output is expected to have contracted sharply since the Taliban takeover due to the combined impacts of a sudden stop in donor and government expenditure, disruptions to trade, and dysfunction of the banking sector.

Inflation accelerated gradually over the first half of 2021. Energy prices increased by 12 percent in the first half of the year in line with global trends. Prices for basic household goods, including food and fuel, increased substantially as the Taliban captured border posts and key transit hubs, disrupting supply chains. Inflation further accelerated following the Taliban takeover, reflecting depreciation, hoarding, and disruptions to international trade.

Government revenues fell short of budgeted levels throughout 2021, reflecting excessively optimistic revenue targets. Since mid-July, revenue performance worsened as the Taliban captured major border crossings. Budget execution faltered in the context of deteriorating security conditions for project implementation (the development budget execution rate was 28.4 percent at end-July, compared to 32.1 percent in 2020, and slowed sharply thereafter). By early August, the Taliban had gained control of customs points accounting for around 57 percent of total customs collections, equivalent to roughly 27 percent of total government revenue collection. In the Mid-Year Budget Review, government revised down revenue targets by 26 percent and slashed allocations to development projects and other discretionary expenditures by 45 percent (or $0.5 billion). Limited information is available regarding fiscal performance since the Taliban takeover. The interim Taliban government has resumed centralized customs collections, with daily collections equal to around 50-60 percent of the 2020 average.

The financial sector, already facing important constraints, has been pushed into crisis. Liquidity of both commercial banks and the central bank were substantially eroded in the lead-up to August 15, due to a high volume of cash withdrawals from commercial banks and intensified USD auctions. Banks ceased operating immediately following the Taliban takeover, and since reopening have faced major difficulties in processing international transactions due to central bank regulatory measures to control capital outflows and offshore corresponding banks' reluctance to engage in transactions given sanctions concerns. Firms and households have been unable to access bank deposits, with strict limits imposed by the central bank on the withdrawal of USD and local currency. Constrained ability to process international transactions has undermined formal sector international trade, with firms unable to transfer funds overseas to pay for imports.

Severe uncertainty and anticipated lower donor inflows placed pressure on the exchange rate through the first half of 2021 with the Afghani depreciating by around four percent against the USD. The central bank responded through increased USD interventions (totaling $1.2 billion, or around 15 percent over 2020 levels) leading to a slight depletion of international reserves. Money market fragmentation and sporadic Taliban efforts to control rates offered by traders preclude any accurate assessment of exchange rate movements since the Taliban takeover.

The poverty rate for the April-September 2020 period was estimated at 49.5 percent. Poverty is expected to have remained at similar levels over the first half of 2021, with recovery from the COVID-19 crisis impeded by political developments and drought conditions.

Outlook

The economic and development outlook is stark. Sharp reductions in international aid are driving a collapse in basic health and education services. The sudden loss of public sector activity will have impacts throughout the economy, especially in the service and construction sectors (which account for 58 percent of GDP). Declining grants combined with a loss of access to foreign exchange is expected to result in a balance of payments crisis, with Afghanistan historically reliant on grant inflows to finance its very large trade deficit (28 percent of GDP in 2020). On the current trajectory, Afghanistan is likely to face depreciation of the Afghani, inflation, and shortages of critical household goods, including food and fuel (around 80 percent of electricity, between 20-40 percent of wheat, and nearly all fuel oil is imported).

A substantial share of the population is expected to move below the poverty line, reflecting negative impacts through employment and price channels. Ten million Afghans are vulnerable to falling into poverty, living with incomes between one and 1.5 times the poverty line ($0.94 per person per day). The food security situation will also deteriorate, with potential long-term negative impacts given Afghanistan's young population.

Note: The World Bank has paused disbursements in our operations in Afghanistan and does not have the authorizing environment to engage in financing. We are closely monitoring and assessing the situation in line with our internal policies and procedures. As we do so, we will continue to consult closely with our Board of Directors, the international community, and development partners.

BANGLADESH

Table 1	2020
Population, million	164.7
GDP, current US$ billion	323.1
GDP per capita, current US$	1961.7
International poverty rate ($1.9)[a]	14.3
Lower middle-income poverty rate ($3.2)[a]	52.3
Upper middle-income poverty rate ($5.5)[a]	84.2
Gini index[a]	32.4
School enrollment, primary (% gross)[b]	116.5
Life expectancy at birth, years[b]	72.6
Total GHG Emissions (mtCO2e)	234.8

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

A modest recovery in GDP growth was sustained in the second half of FY21, despite ongoing movement restrictions to control the COVID-19 pandemic. The recovery is expected to gradually accelerate, particularly if the supply of vaccines rises and if the economic scarring effects of the pandemic can be contained. Downside risks include new waves of COVID-19 that could dampen external demand for Bangladesh's exports and overseas labor force. The poverty rate is expected to marginally reduce to 12.5 percent in FY21, using the international poverty rate ($1.9 in 2011 PPP).

Key conditions and challenges

Bangladesh made rapid development progress over the past two decades, reaching lower-middle-income country status in 2015. Growth was supported by a demographic dividend, sound macroeconomic policies, and an acceleration in readymade garment (RMG) exports, while job creation and remittance inflows contributed to a sharp decline in poverty. However, from 2013 onward, the pace of job creation and poverty reduction slowed, even as GDP growth accelerated. Persistent structural weaknesses include low institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, unbalanced urbanization, and slow improvements in the business environment. Bangladesh is also highly vulnerable to the effects of climate change. Bangladesh's expected graduation from the UN's Least Developed Country status in 2026 will present opportunities but also challenges, including the eventual loss of preferential access to advanced economy markets.

The COVID-19 pandemic continued to weigh on economic growth and poverty reduction in FY21, as movement restrictions hampered industrial and service sector activity. On the demand side, losses in employment income dampened consumption growth, although robust remittance inflows provided some buffer. Exports and imports bounced back, but investment remained muted due to lingering uncertainties and pre-existing structural weaknesses. The government's COVID-19 stimulus program provided firms with access to working capital and low-cost loans to sustain operations and retain employees, although lending to smaller firms and the informal sector has been limited. After initial delays in the delivery of vaccine doses, the immunization campaign picked up in July and August 2021.

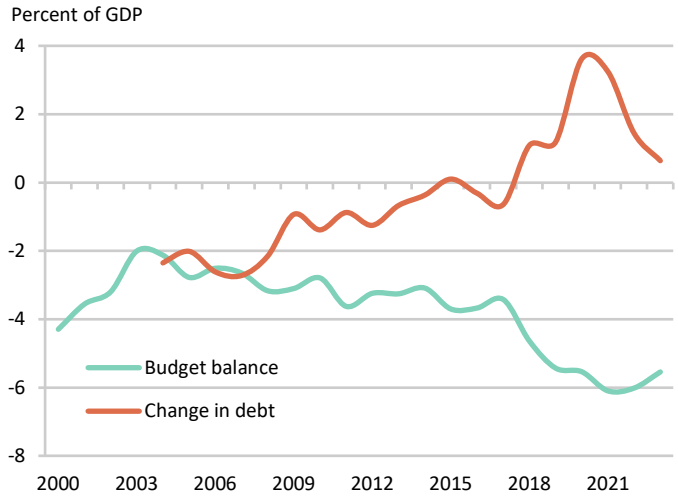
Downside risks to the outlook persist. New waves of COVID-19 could necessitate additional movement restrictions, dampen demand for RMG, and/or limit the outflow of migrant workers. Vulnerabilities in the financial sector and realization of contingent liabilities stemming from nonperforming loans could pose a fiscal burden and may impair investment, limiting the pace of the economic recovery.

Recent developments

After decelerating in FY20, economic growth accelerated modestly to 5.0 percent in FY21. Merchandise exports grew by 15.4 percent as RMG export orders were reinstated and factories remained open despite recurrent lockdowns. On the demand side, growth was primarily supported by private consumption, underpinned by a recovery in labor income and robust remittance inflows. Growth in imports of consumer goods and capital goods point toward a broad-based recovery.

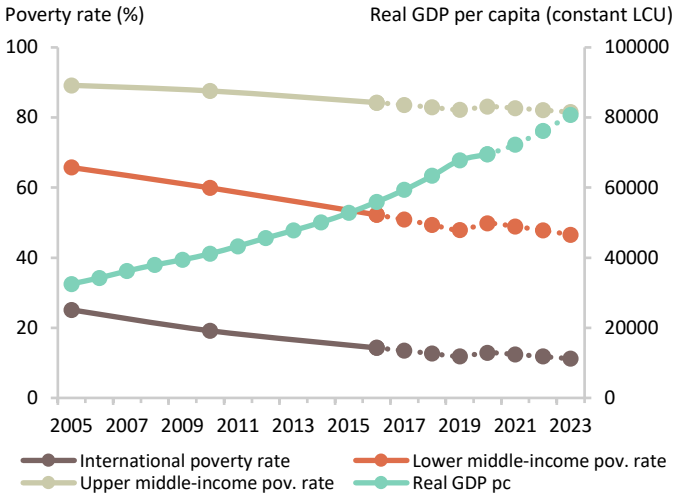
Inflation remained stable at 5.6 percent in FY21, marginally above the Bangladesh Bank's (BB) target of 5.5 percent. BB

FIGURE 1 **Bangladesh** / Budget balance and change in debt



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

continued its expansionary monetary policy despite ample liquidity. Growing risk aversion among commercial banks, a cap on lending rates, and rising non-performing loans limited the transmission of monetary policy to lending volumes. Private sector credit growth continued to decline, falling from a high of 13.3 percent (y-o-y) in December 2018 to just 8.4 percent (y-o-y) by the end of FY21.

The balance of payments surplus rose in FY21. The current account deficit contracted as official remittance inflows surged by 36.1 percent (y-o-y), while the trade deficit widened. Official remittance flows likely reflect increased use of formal payment systems, as the traditional hundi system was disrupted by travel restrictions. The financial account surplus rose with higher external short and long-term loans. Foreign exchange reserves remained adequate at 7.6 months of goods and non-factor services imports at the end of FY21.

The fiscal deficit is estimated to have widened marginally to 6.1 percent of GDP in FY21. Expenditure growth remained modest as the rising costs of COVID-19 related social protection programs and stimulus packages were partially offset by deferral of low priority development projects. Real revenue collection is estimated to have increased in FY21 with the recovery in trade and domestic economic activities despite the disruptions caused by the pandemic. Borrowing has increased to finance a growing deficit and debt-to-GDP was estimated at 40.0 percent by the end of FY21.

The COVID-19 pandemic has put the substantial poverty reduction gains of the past decade at risk. Poverty increased from 11.9 percent in FY19 to an estimated 12.9 in FY20, using the international poverty rate ($1.9 in 2011 PPP). A nationally representative phone survey showed income losses and high levels of self-reported food insecurity in FY20. In poor areas of Dhaka and Chittagong, surveys showed that adults who stopped working due to COVID-19 were 11 percent more likely to report food insecurity. As growth strengthened in FY21, household surveys point to a gradual recovery in employment and earnings. Estimated poverty remained flat, although food security improved across the country, with the greatest increase in Chittagong.

Outlook

A gradual recovery is expected as Bangladesh navigates the persistent effects of COVID-19. GDP growth is forecast to reach 6.4 percent in FY22, before accelerating to 6.9 percent in FY23 as exports and consumption continue to recover. The surge in official remittance inflows is unlikely to persist if the net outflow of migrant workers slows in FY22 and use of formal payment channels declines as travel restrictions are eased. The fiscal deficit is projected to remain above 5.5 percent of GDP over the medium term. Revenue mobilization will be supported by ongoing policy and administrative reforms to VAT and income tax, while higher capital expenditure on infrastructure megaprojects is expended to increase public expenditure. Sustaining the economic recovery and further reducing poverty will depend in part on mitigating economic scarring through targeted support to vulnerable households and businesses.

Downside risks to the outlook persist. Fiscal risks include weak domestic revenue growth (if tax reforms are delayed) and higher COVID-19-related expenditure. In the financial sector, contingent liabilities from non-performing loans combined with weak capital buffers could necessitate recapitalizations of state-owned banks and depress credit growth. External risks remain elevated. While demand for RMGs appears to be stabilizing, the recovery is fragile. Demand for Bangladesh's overseas workforce in the Persian Gulf region may also be impacted by the ongoing recession in that region, impairing future remittance inflows.

TABLE 2 Bangladesh / 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	7.9	8.2	3.5	5.0	6.4	6.9
Private Consumption	11.0	3.9	5.2	5.3	5.5	5.7
Government Consumption	15.4	9.0	6.0	9.5	8.7	8.2
Gross Fixed Capital Investment	10.5	8.4	1.9	6.2	7.4	8.4
Exports, Goods and Services	8.1	10.9	-18.2	10.5	9.4	9.9
Imports, Goods and Services	27.0	-2.0	-10.4	13.8	7.7	8.1
Real GDP growth, at constant factor prices	7.9	8.4	3.9	4.8	6.3	6.6
Agriculture	4.2	3.9	4.6	3.9	4.1	4.6
Industry	12.1	12.7	3.2	6.8	8.1	8.5
Services	6.4	6.8	4.2	3.6	5.6	5.9
Inflation (Consumer Price Index)	5.8	5.5	5.6	5.6	5.6	5.8
Current Account Balance (% of GDP)	-3.5	-1.5	-1.5	-1.1	-2.3	-2.6
Net Foreign Direct Investment (% of GDP)	0.6	0.9	0.4	0.5	0.6	0.6
Fiscal Balance (% of GDP)	-4.6	-5.4	-5.5	-6.1	-6.0	-5.5
Debt (% of GDP)	31.9	33.1	36.7	39.9	41.4	41.9
Primary Balance (% of GDP)	-2.8	-3.5	-3.4	-3.9	-3.7	-3.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	12.7	11.9	12.9	12.5	11.9	11.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	49.4	47.9	49.8	48.9	47.8	46.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	82.9	82.2	83.1	82.7	82.1	81.5
GHG emissions growth (mtCO2e)	3.1	3.8	2.4	1.9	3.1	3.4
Energy related GHG emissions (% of total)	38.2	39.4	40.3	41.4	42.5	43.8

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

(a) Calculations based on SAR-POV harmonization, using 2010-HIES and 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

(b) Projection using annualized elasticity (2010-2016) with pass-through = 1based on GDP per capita in constant LCU.

BHUTAN

Table 1	2020
Population, million	0.8
GDP, current US$ billion	2.5
GDP per capita, current US$	3125.0
International poverty rate ($1.9)[a]	1.5
Lower middle-income poverty rate ($3.2)[a]	12.2
Upper middle-income poverty rate ($5.5)[a]	38.9
Gini index[a]	37.4
School enrollment, primary (% gross)[b]	105.8
Life expectancy at birth, years[b]	71.8
Total GHG Emissions (mtCO2e)	-5.3

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2020); Life expectancy (2019).

Output is estimated to contract by 1.2 percent in FY20/21, reflecting the standstill in the tourism industry and COVID-19-related disruptions in the non-hydro industrial sector. While the country has been highly successful in fighting the pandemic, strict COVID-19 containment measures and resulting delays in hydro projects are expected to constrain the economic rebound in the short to medium term. Poverty is expected to slightly increase due to high food price inflation and continued disruption in economic activities.

Key conditions and challenges

Annual real GDP growth has averaged 7.5 percent since the 1980s, fueled by a rapid expansion of the public sector-led hydropower production. Significant hydro rents have helped the country to substantially reduce poverty. From 2007 through 2017, the poverty rate dropped from 36 percent to 12 percent, based on the $3.20/day poverty line. While hydropower has provided a reliable source of growth, non-hydro sectors, facing constraints related to the country's challenging investment climate including high trade costs and a small domestic market, remain less competitive. As a result, job creation outside of the public sector and agriculture has been limited.

Bhutan has been successful in fighting the COVID-19 pandemic, thanks to stringent containment measures. But it came with high economic costs as well. The border remained closed in FY20/21 (July 2020 to June 2021), despite fast vaccination progress with over 90 percent of the eligible population fully vaccinated by August 2021. Tourism activities did not resume in FY20/21, and non-hydro industrial activities were adversely impacted by foreign labor shortages and trade disruptions with India, Bhutan's largest trading partner. As a result, the unemployment rate rose to 5 percent in 2020, from 2.7 percent in 2019, whereby the rate of job losses was highest in urban areas and among the youth.

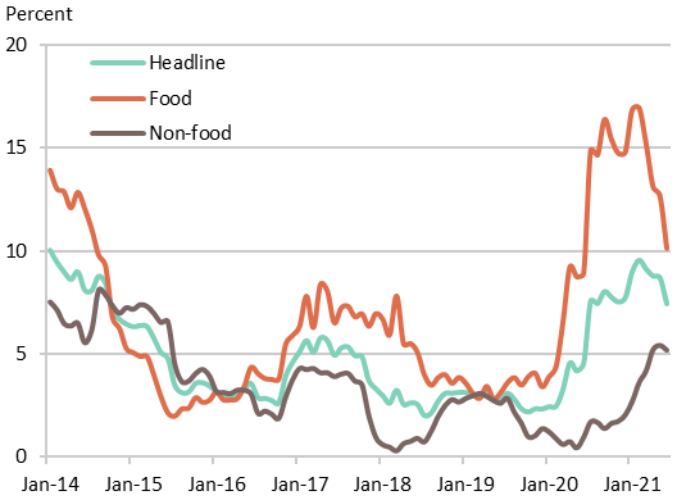
While COVID-19 relief measures have helped businesses to maintain operations in the short term, especially SMEs, financial sector vulnerabilities are expected to reemerge with elevated levels of non-performing assets once forbearance measures are phased out. A delay in large hydro projects and spending pressures, including sizable COVID-19 relief measures, have exacerbated fiscal risks. As the threat of a domestic outbreak subsides, the government will need to shift its attention from relief efforts, which include income support measures and a partial interest rate waiver, to supporting the economic recovery and resilience, including reforms to strengthen financial sector stability. The pace of the recovery will also depend on the vaccination progress globally, and specifically in India given significant tourism and trade linkages between the two countries.

Recent developments

The economy contracted by 1.2 percent in FY20/21. Services sector output fell by 3.6 percent, as the tourism industry remained at a standstill. While the hydro sector supported industry sector growth, construction and manufacturing were adversely affected by labor shortages and high input prices. On the demand side, private consumption contracted due to domestic COVID-19 containment measures and lower incomes.

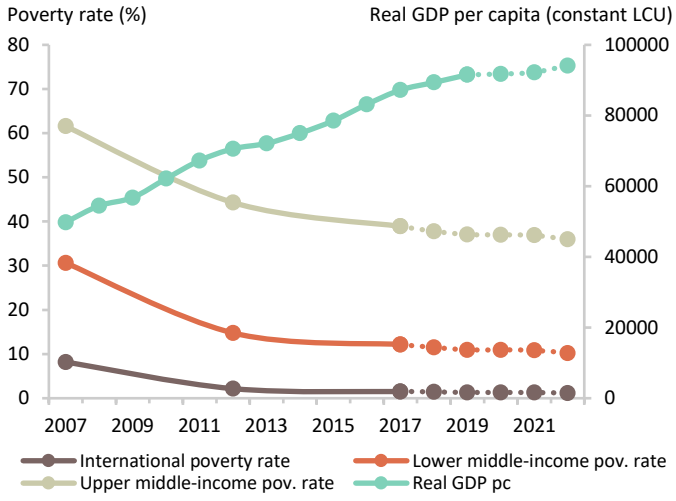
Average inflation increased from 3.0 percent in FY19/20 to 8.2 percent in FY20/21. While food inflation eased to 10.1 percent

FIGURE 1 **Bhutan** / Inflation (y/y)



Sources: Government of Bhutan and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

in June 2021, from a peak of 17.0 percent in February 2021, non-food inflation accelerated in FY20/21, in line with price development in India and higher fuel prices. High food inflation likely eroded the real incomes of many rural poor. This is expected to have led to a slight increase in the $3.20 poverty rate, from 10.3 in FY18/19 to 11.0 percent in FY19/20.

The current account deficit has further narrowed to 11.5 percent of GDP in FY20/21, driven by a smaller trade deficit than in FY19/20. Goods exports (as a share of GDP) remained resilient, supported by an increase in hydro exports from Mangdechhu and trade facilitation measures for non-hydro goods, mainly minerals and metals. Goods imports declined further compared to FY19/20. Gross international reserves increased by 16 percent (y-o-y) to $1.6 billion in May 2021, equivalent to 15.8 months of goods and services imports.

The fiscal deficit widened to 8.1 percent of GDP in FY20/21. Total revenues declined sharply because of weak economic activity, despite a one-off increase in hydro profit transfers from the on-streaming of Mangdechhu. Total expenditures increased, driven by an increase in capital expenditures (largely covered by external grants) and COVID-19 relief measures (projections include expenses from the Druk Gyalpo's Relief Kidu program, which includes temporary income support and a partial interest rate waiver). Public debt stands at 124.7 percent of GDP as of June 2021 (up from 119.9 percent in FY19/20). However, debt sustainability risks are moderate as the bulk of the debt is linked to hydropower project loans from India (to be paid off from future hydro revenues) with low refinancing and exchange rate risks.

Outlook

The growth rebound in the short to medium term will be constrained by continued COVID-19 related restrictions and lower hydro outputs due to maintenance works and further delays in the Puna II hydro project, which will affect hydro exports and government revenues. The economy is expected to gradually recover in FY21/22, with output returning to pre-pandemic levels in real terms. Construction activity is expected to normalize, with improved availability of migrant labor from India and an expansion of public infrastructure projects. Non-hydro exporting industries will be supported by improved external demand from India. With tourism likely to recover gradually, services sector growth is expected to pick up in FY22/23.

Inflation is projected to remain elevated in the short term, in line with price developments in India and higher fuel prices. The current account deficit is expected to remain low relative to pre-COVID levels. Non-hydro exports, including tourism services, are projected to recover gradually, offsetting the temporary reduction in hydro exports due to maintenance works. Imports are expected to increase from FY21/22 on the back of higher capital imports related to infrastructure and hydro construction.

The fiscal deficit is expected to remain elevated at 6.6 percent in FY21/22. The increase in tax revenues, reflecting the recovery in the non-hydro sectors, will be more than offset by a decline in hydro profit transfers from Mangdechhu. Spending pressures also remain high, as the government plans to frontload capital expenditure under the 12th Five-Year Plan to support the economic recovery. The deficit is expected to narrow from FY22/23 onward as revenues from the tourism sector recover. Public debt is projected to remain elevated as a share of GDP due to low economic growth and high fiscal deficits, and to increase further in FY22/23 with an increase in hydropower investments.

The $3.20 poverty rate is projected to rise further to 11.6 percent in FY20/21, given continued disruptions in economic activities.

TABLE 2 Bhutan / 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	3.8	4.3	-0.6	-1.2	3.6	4.3
Private Consumption	10.0	10.1	1.0	-4.0	3.5	4.5
Government Consumption	3.7	7.0	30.2	0.3	-15.7	-1.0
Gross Fixed Capital Investment	-3.6	-11.4	-27.2	1.0	17.6	-1.6
Exports, Goods and Services	5.5	9.6	6.3	-10.5	6.4	16.7
Imports, Goods and Services	3.6	0.5	-6.1	-9.1	5.3	6.3
Real GDP growth, at constant factor prices	3.2	4.5	0.5	-1.2	3.6	4.3
Agriculture	3.6	2.7	1.9	3.5	3.5	3.5
Industry	-1.3	-1.6	-1.3	0.2	3.5	3.6
Services	7.8	10.8	1.7	-3.6	3.8	5.0
Inflation (Consumer Price Index)	3.7	2.8	3.0	8.2	4.9	4.2
Current Account Balance (% of GDP)	-18.4	-20.5	-12.1	-11.5	-11.4	-8.9
Fiscal Balance (% of GDP)	-1.6	-1.6	-1.9	-8.1	-6.6	-5.4
Debt (% of GDP)	113.4	106.6	119.9	124.7	125.0	136.6
Primary Balance (% of GDP)	-0.3	-0.7	-1.4	-7.1	-5.0	-4.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	1.2	1.3	1.4	1.3	1.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.3	10.3	11.0	11.6	10.9	9.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	37.6	36.3	37.1	38.0	37.0	35.3
GHG emissions growth (mtCO2e)	-0.2	-0.2	0.3	0.1	-1.3	-1.5
Energy related GHG emissions (% of total)	-15.1	-15.6	-15.5	-15.3	-15.9	-16.7

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

(a) Calculations based on SAR-POV harmonization, using 2017-BLSS.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

INDIA

Table 1	2020
Population, million	1380.0
GDP, current US$ billion	2661.1
GDP per capita, current US$	1928.3
International poverty rate ($1.9)[a]	22.5
Lower middle-income poverty rate ($3.2)[a]	61.7
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	96.8
Life expectancy at birth, years[b]	69.7
Total GHG Emissions (mtCO2e)	3141.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2011/2), 2011 PPPs.
(b) Most recent WDI value (2019).

The COVID-19 pandemic led India's economy into a deep contraction in FY21 despite well-crafted fiscal and monetary policy support. Following the deadly second wave, growth in FY22 is expected to be closer to the lower bound of the range of 7.5 to 12.5 percent. The pace of vaccination, which is increasing, will determine economic prospects this year and beyond. Successful implementation of agriculture and labor reforms would boost medium-term growth, while weakened household and firm balance sheets may constrain it.

Key conditions and challenges

Growth recovered during the second half of FY21, driven primarily by investment and supported by "unlocking" the economy and targeted fiscal, monetary and regulatory measures. Manufacturing and construction growth recovered steadily. Amid spending hesitancy due to health and economic uncertainty, private consumption contracted over the first three quarters of FY21 and expanded by 2.7 percent in year-on-year terms only in 2021Q4 (January to March). This gradual pace of recovery was impeded by the second wave of COVID-19 at the beginning of FY22, with daily infections peaking above 400,000 in May 2021—more than four times the caseload at the peak of the "first wave" (September 2020). While the loss of human lives during the second wave was significantly higher than during the first one, economic disruption was limited since restrictions were localized, with GDP growing by 20.1 percent year-on-year in FY2022Q1. This was driven by a significant base effect, strong export growth and limited damage to domestic demand.

The toll of the crisis has not been equal, and the recovery so far is uneven, leaving behind the most vulnerable sections of the society—low-skilled, women, self-employed and small firms. To address these gaps, the government has undertaken steps to strengthen social safety nets and ease structural supply constraints through agricultural and labor reforms. In parallel, the government continued investing in health programs. These measures have started to address the weaknesses in health infrastructure and social safety nets (especially in the urban areas and the informal sector) exposed by the pandemic.

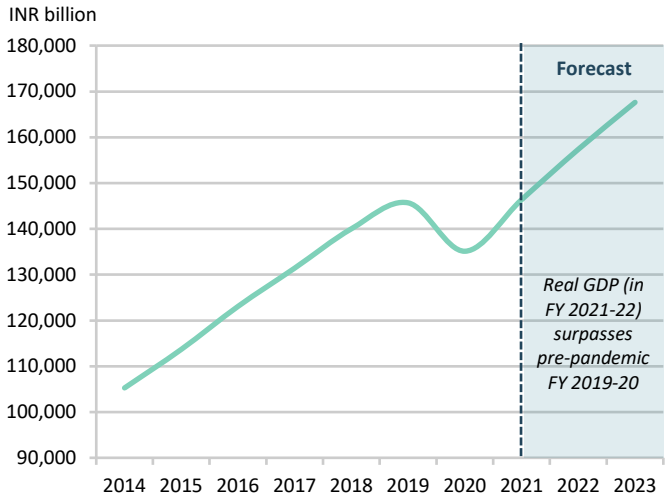
The extent of recovery in FY22 will depend on how quickly household incomes recover and activity in the informal sector and smaller firms normalizes. Downside risks include a worsening of financial sector stress, higher-than-expected inflation constraining monetary-policy support, and a slowdown in vaccination.

Recent developments

The economy shrank by 7.3 percent in FY21 as both private consumption and investment contracted by 9.1 and 10.8 percent, respectively. On the supply side, services contracted more than industry, due to the contact-intensive nature of the former, whereas agriculture growth remained steady.

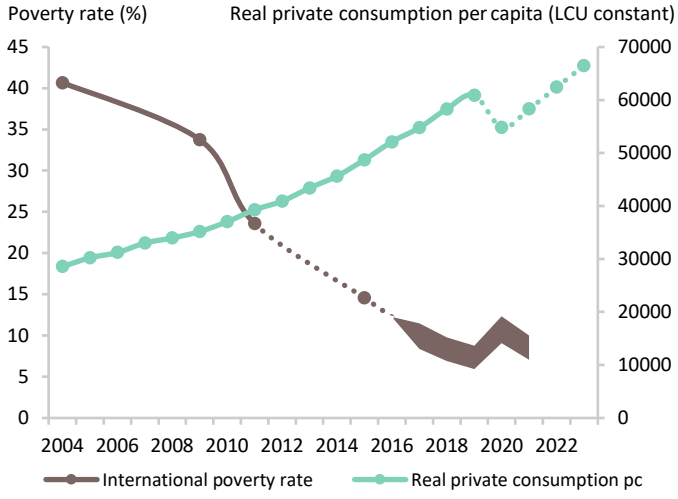
Headline inflation averaged 6.2 percent in FY21, exceeding the RBI's target range, driven up by higher international food and fuel prices, and domestic supply disruptions. Additionally, urban inflation expectations, over the 3 month and one-year horizons, have risen by nearly 3 percentage points in July 2021 compared to the pre-pandemic level. Notwithstanding these pressures, the RBI has maintained an accommodative stance. Given the extended forbearance measures, the RBI has

FIGURE 1 **India** / Real GDP



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

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



Source: World Bank. Notes: see Table 2.

assessed the current outlook of the financial sector to be stable while highlighting the need to monitor asset quality in the small firms and non-banking segments.

The current account balance turned into a small surplus in FY21 due to a sharp fall in the trade deficit. Coupled with robust foreign investment inflows and exchange rate intervention by the RBI to reduce volatility, foreign exchange reserves increased to an all-time high of USD 633.6 billion (end-August) or 15 months of FY20 imports.

The general government fiscal deficit in FY21 climbed to above 13 percent of GDP (from 7.0 percent of GDP in FY20) due to lower revenues and higher expenditures. A discretionary fiscal stimulus to mitigate the pandemic's economic impact was well targeted while part of the spending increase (around 1.5 percent of GDP) reflected bringing off-budget subsidies into the books. Public debt increased to 89 percent of GDP from 72.7 percent in FY20. The rebound in tax revenues supported central government's capital expenditure (that increased by 26 percent y-o-y in FY2022Q1).

Before the second wave, earnings of urban high-skilled workers had rebounded to pre-pandemic levels. However, with the exacerbation of the pandemic in the first half of 2021, lockdowns and preventive measures returned in some localities. Low-skilled and urban workers faced the brunt of employment shocks due to the second wave. Their earnings have yet to return to 2019 levels. While poverty rates are estimated to have fallen from their peak in the 2020 lockdown, they are still well above pre-pandemic levels (ranging from 7 to 10 percent at the $1.90 line) as labor markets have yet to fully recover.[1]

Outlook

With continued uncertainty related to the COVID-19 pandemic and weakened household and firm balance sheets, real GDP growth is expected to be closer to the lower bound of the range of 7.5 to 12.5 percent in FY22. The Production-Linked Incentives scheme to boost manufacturing, and a planned increase in public investment, should support domestic demand. The trajectory of the pandemic will cloud the outlook in the near term until herd immunity is achieved. Growth is projected to stabilize around 7 percent FY23 onward, helped by recent structural reforms to ease supply-side constraints and increased infrastructure investment.

However, the degree of asset-quality deterioration from the pandemic-shock is unclear and may pose downside risks to the outlook. The main risks to consumer spending include higher than expected inflation and a slow recovery of the informal sector. Persistently high inflation can also put pressure on the RBI's accommodative monetary policy stance.

The current account is expected to turn into a deficit in FY22, albeit less than in the years prior to the pandemic. The deficit is expected to be adequately financed by capital inflows amid sufficient international liquidity.

The fiscal deficit is projected to shrink in FY22 as revenues recover and pandemic-related support winds down. Still, it will remain above 10 percent of GDP in FY22, driven by a rise in capital spending. Public debt is expected to decline gradually in the medium-run driven by lower deficits and a favorable growth-interest rate dynamic.

As labor markets continue to improve, poverty reduction is expected to slowly resume its pre-pandemic trajectory. However, employment rates are still lingering well below pre-pandemic levels despite improvements after the 2020 lockdown. As earnings of low skill workers remain well below 2019 levels, it might take longer than previously expected for India to achieve the goal of reducing extreme poverty to below 3 percent.

1/ Center for Monitoring the Indian Economy https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=20210726180747&msec.

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

	2018/19	2019/20	2020/21	2021/22 e	2022/23 f	2023/24 f
Real GDP growth, at constant market prices	6.5	4.0	-7.3	8.3	7.5	6.5
Private Consumption	7.6	5.5	-9.1	7.5	8.0	7.5
Government Consumption	6.3	7.9	2.9	7.3	8.3	9.3
Gross Fixed Capital Investment	9.9	5.4	-10.8	12.4	7.3	7.2
Exports, Goods and Services	12.3	-3.3	-4.7	21.9	8.1	9.5
Imports, Goods and Services	8.6	-0.8	-13.6	24.3	9.7	13.2
Real GDP growth, at constant factor prices	5.9	4.1	-6.2	7.9	7.3	6.4
Agriculture	2.6	4.3	3.6	4.0	3.4	3.5
Industry	5.3	-1.2	-7.0	11.2	6.2	6.0
Services	7.2	7.2	-8.4	7.2	9.0	7.3
Inflation (Consumer Price Index)	3.4	4.8	6.2	5.5	4.6	4.0
Current Account Balance (% of GDP)	-2.1	-0.9	0.9	-1.2	-1.3	-1.5
Net Foreign Direct Investment (% of GDP)	1.1	1.5	1.7	1.7	1.6	1.6
Fiscal Balance (% of GDP)	-5.8	-7.0	-13.5	-10.5	-8.5	-7.5
Debt (% of GDP)	68.6	72.7	88.9	87.6	85.6	83.8
Primary Balance (% of GDP)	-1.1	-2.5	-8.1	-4.8	-2.3	-1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	6.9-9.8	5.9-8.7	9-12.3	7.0-10.0		
GHG emissions growth (mtCO2e)	4.5	1.5	-7.6	6.2	5.5	3.5
Energy related GHG emissions (% of total)	70.8	70.4	68.1	68.6	69.7	70.3

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

(a) Calculations based on SARMD harmonization, using 2011NSS-SCH1.Nowcast: 2018-2020. 2021is a forecast.

(b) Projection using neutral distribution (2011) base on HFCE and equivalent pass-through that estimate 2015 poverty and 2017 poverty range presented in PSPR2020. Pass-through = .67 for 2018-19 and pass-through = 0.85 after 2020.

MALDIVES

Table 1	2020
Population, million	0.5
GDP, current US$ billion	3.8
GDP per capita, current US$	7600.0
Upper middle-income poverty rate ($5.5)[a]	3.6
Gini index[a]	31.3
School enrollment, primary (% gross)[b]	98.0
Life expectancy at birth, years[b]	78.9
Total GHG Emissions (mtCO2e)	1.8

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

The tourism rebound has gained momentum. Visitor arrivals are at 67 percent of 2019 levels, leading to a strong recovery in growth, revenues, and exports. Although public spending growth has been subdued due to slower execution of the capital budget, the need to deliver electoral pledges, especially on mega infrastructure projects and housing, will continue to place upward pressure on spending. Maldives remains at high risk of overall and external debt distress and is highly vulnerable to external shocks.

Key conditions and challenges

High-end tourism has been the key driver of growth and poverty reduction. Annual real GDP growth averaged 6.3 percent from 2015 to 2019, faster than other small island and upper middle-income economies. Only 3.6 percent of the population lived below the poverty line ($5.50/person/day in PPP) in 2016. Inequality, as measured by the Gini coefficient, is relatively low at 31.3, but there are wide disparities in welfare between Male' and the other atolls. Creating more good jobs is a challenge: while tourism and construction drive growth, many Maldivians are unwilling and/or unable to fill vacancies in these sectors, partly due to societal norms and skills mismatches.

To close development gaps and boost growth, the government has ramped up public infrastructure investment since 2016. While these projects have boosted construction activity, their high import content and reliance on external non-concessional financing have worsened external and fiscal vulnerabilities. The government intends to continue increasing capital spending as it strives to complete mega projects ahead of the 2023 presidential elections.

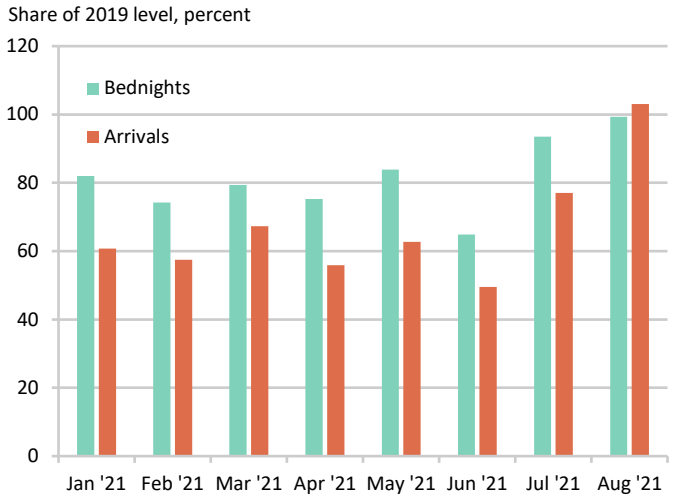
Maldives' solid reputation for luxury tourism and the ongoing expansion of tourist infrastructure bodes well for medium-term growth. Nonetheless, high dependence on tourism and limited near-term prospects for diversification mean that the economy remains highly vulnerable to external shocks. A more prudent fiscal policy, including through better planning and prioritization of public infrastructure projects, would improve Maldives' ability to cope with such shocks. Addressing skills mismatches in the labor market can enable more Maldivians to reap the benefits from growth.

Recent developments

Real GDP contracted by 8.6 percent year-on-year (y-o-y) in 2021Q1, a marked improvement from larger contractions in preceding quarters. Tourism rebounded (though still-11.4 percent y-o-y) as resilient demand from India and Russia compensated for the absence of tourists from China. Construction activity contracted by 39.5 percent y-o-y due to delays in public investment projects.

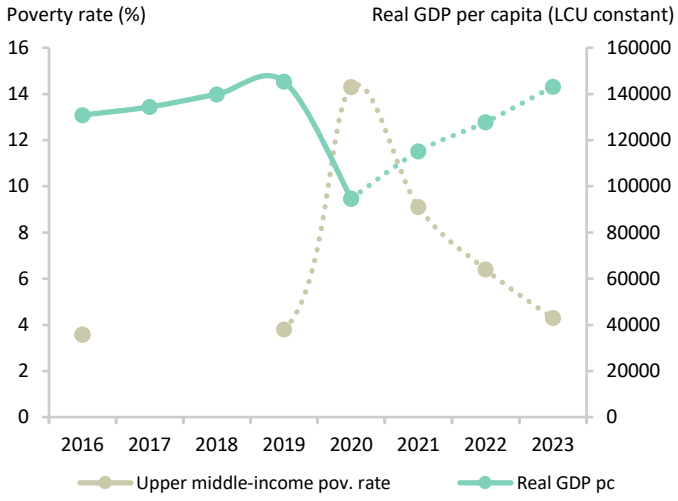
The momentum in tourism has continued despite the COVID-19 pandemic. From January to August 2021, Maldives received 755,966 visitors or 67 percent of the number of tourists over the same period in 2019. With tourists staying longer on average, bednights have reached an estimated 82 percent of 2019 levels over the same period. Relatively straightforward entry requirements and the unique "one island, one resort" concept have boosted Maldives' appeal. Moreover, 93 percent of all resort workers and about 60 percent of the population are fully vaccinated.

FIGURE 1 Maldives / Visitor bednights and arrivals as a share of 2019 levels



Sources: Ministry of Tourism, World Bank calculations.

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



Sources: HIES 2019/20 and World Bank Poverty Model (POVMOD) projections.
Notes: Estimates do not take into account the impact of government policies.

The pickup in activity and low base effects led prices to rise by 2.3 percent y-o-y on average in 2021Q2. Prices rose faster in the atolls (2.6 percent) compared to Malé (2.1 percent). Higher global oil prices, which prompted three hikes in domestic retail fuel prices in 2021, drove these increases.

Travel receipts, which account for 80 percent of services exports, amounted to $1.5 billion in 2021H1, only 9 percent below the same period in 2019. Nonetheless, tourism-linked services imports also likely increased, offsetting the effect on the trade balance. Growth in merchandise imports (14.9 percent y-o-y) outpaced that of exports (4.3 percent y-o-y), as food and fuel imports rose to keep up with tourist demand. The nominal exchange rate remained stable under the de facto stabilized arrangement. Gross official reserves stood at $874.3 million as at end-August 2021, equivalent to 3.1 months of estimated 2021 imports. Usable reserves (netting out short-term foreign currency liabilities to domestic banks), however, are estimated at a quarter of that amount.

Thanks to higher collections of the tourism goods and services tax, total revenues and grants amounted to $632 million in 2021H1, 34 percent higher y-o-y and only 16 percent below 2019 levels. Expenditure growth was relatively contained, growing 3.2 percent y-o-y, as capital expenditures slowed. As at end-August, the government has only spent a third of its annual capital budget.

Total public and publicly guaranteed debt stood at $5.6 billion as at end-March 2021, about 125 percent of estimated 2021 GDP. The issuance of a $300 million sukuk in April helped to reduce rollover risks by extending the maturity of most of the $250 million Eurobond due in June 2022. However, the cost of refinancing was high, and Maldives remains at high risk of overall and external debt distress.

Updated poverty rate estimates based on the 2019 household survey indicate that the poverty increased temporarily from 3.8 percent in 2019 to 14.3 percent in 2020. The estimates do not consider the impact of government stimulus measures, which likely helped to soften the blow.

Outlook

Recovery prospects have improved. Assuming borders remain fully open, Maldives is expected to welcome at least 1.1 million tourists in 2021, double the amount recorded last year and 65 percent of 2019 levels. Real GDP is therefore projected to grow by 22.3 percent in 2021, largely reflecting base effects. Arrivals are expected to pick up steadily as global travel normalizes, driving real GDP to recover to 2019 levels by 2023. The poverty rate is expected to decline to 9.1 percent in 2021 and subsequently to 4.3 percent by 2023.

The current account deficit is expected to remain in double-digit shares of GDP as imports linked to tourism and construction increase. The fiscal deficit is expected to moderate as revenues recover. Delayed collections of resort rent from 2020 and higher airport departure taxes starting January 2022 will support revenue growth. The deficit is expected to remain elevated due to spending pressures to deliver infrastructure projects, especially public housing, and the expected implementation of a minimum wage in 2022. The debt ratio is expected to moderate as growth picks up, but remain above 120 percent of GDP for the forecast period.

There are risks to the upside and downside. Resilient tourism demand and a more rapid normalization of international travel could boost arrivals, but the gains may be limited by increased competition as other destinations begin to reopen. Future COVID-19 outbreaks, both locally and in major tourist markets, could slow the pace of the recovery. The low level of usable reserves and high indebtedness pose significant risks to macroeconomic stability.

TABLE 2 Maldives / 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	8.1	7.0	-33.6	22.3	11.0	12.0
Private Consumption	10.6	5.5	-30.0	18.0	14.6	11.4
Government Consumption	9.0	-4.2	-7.2	3.6	4.0	4.3
Gross Fixed Capital Investment	29.1	-2.7	-22.4	5.8	13.0	13.4
Exports, Goods and Services	10.1	6.1	-55.0	42.7	21.8	16.0
Imports, Goods and Services	12.8	0.3	-42.0	25.8	22.8	16.5
Real GDP growth, at constant factor prices	8.1	7.1	-30.8	22.3	11.0	12.0
Agriculture	4.8	5.0	6.4	4.2	3.7	3.3
Industry	15.6	1.5	-26.0	2.1	7.8	6.2
Services	7.3	8.0	-33.8	27.3	12.0	13.4
Inflation (Consumer Price Index)	-0.1	0.2	-1.4	2.5	1.3	1.2
Current Account Balance (% of GDP)	-28.3	-26.4	-29.6	-26.0	-27.7	-28.6
Net Foreign Direct Investment (% of GDP)	10.9	17.0	8.4	10.6	12.9	13.5
Fiscal Balance (% of GDP)	-5.3	-6.6	-22.4	-16.2	-14.1	-10.2
Debt (% of GDP)	73.9	78.3	144.0	131.6	129.4	123.5
Primary Balance (% of GDP)	-3.5	-4.9	-19.6	-12.5	-10.7	-7.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		3.8	14.3	8.2	5.6	3.4
GHG emissions growth (mtCO2e)	6.5	6.3	-27.0	37.6	11.1	11.7
Energy related GHG emissions (% of total)	81.5	82.0	80.8	81.7	82.2	82.7

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

(a) Calculations based on SAR-POV harmonization, using 2016 and 2019 HIES.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

NEPAL

Table 1	2020
Population, million	29.1
GDP, current US$ billion	33.7
GDP per capita, current US$	1158.1
International poverty rate ($ 1.9)[a]	15.0
Lower middle-income poverty rate ($ 3.2)[a]	50.9
Upper middle-income poverty rate ($ 5.5)[a]	83.0
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	142.1
Life expectancy at birth, years[b]	70.8
Total GHG Emissions (mtCO2e)	58.3

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2010), 2011 PPPs.
(b) Most recent WDI value (2019).

A second wave of COVID-19 infections beginning April 2021 has led to renewed containment measures. Economic growth is now estimated at 1.8 percent in FY21, below previous expectations, and is projected to rise to 3.9 percent in FY22. Poverty is expected to increase, despite increased coverage of social protection in FY22 (from a low base). Downside risks to the outlook include delays in vaccine deployment, new COVID-19 variants, higher public debt burdens, and longer-term scarring of the economy.

Key conditions and challenges

While Nepal has achieved respectable growth in the past, averaging 4.9 percent over FY09-FY19, the country faces significant vulnerabilities to achieve inclusive and sustainable growth going forward. The ongoing disruptions by the pandemic are compounded by structural constraints, such as slow domestic job creation, high vulnerability to natural disasters (including climate change and environmental degradation), and large infrastructure gaps. Furthermore, the pandemic has recently triggered a surge in debt levels that needs to be addressed.

Recent developments

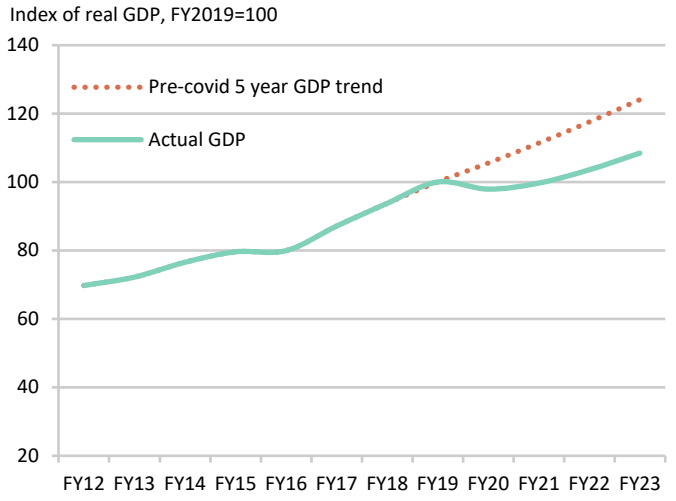
Following a GDP contraction of 2.1 percent in FY20, the economy is estimated to have grown by 1.8 percent in FY21 even with renewed containment measures imposed in the fourth quarter of the fiscal year. Agriculture, contributing over one-fifth of nominal GDP, has been a bright spot, registering 2.2 and 2.7 percent growth in FY20 and FY21, respectively, on the back of favorable summer monsoons. Industry and the services sectors were more severely impacted by the renewed containment measures. After contracting during FY20, the industry and service sectors are estimated to have grown by only 0.9 and 1.6 percent in FY21, respectively.

Consumer price inflation cooled from 6.1 percent in FY20 to 3.6 percent in FY21, considerably below the central bank's ceiling of 7 percent, with food inflation (5.0 percent) outstripping non-food inflation (2.5 percent). Monetary policy remained accommodative to ensure the continuous flow of credit amid COVID-19. As a result, private sector credit expanded by 26.6 percent in FY21.

The current account deficit widened from 0.9 percent to 8.1 percent of GDP between FY20 and FY21. Surging imports, helped in part by a stronger recovery in industrial supplies, and lower exports in FY21 widened the goods and services trade deficit from 27.1 percent to 34.5 percent of GDP from FY20 to FY21. Service exports remained low as tourist arrivals contracted by more than 90 percent in FY21. Remittance inflows have remained robust throughout the pandemic, dipping only slightly during FY20 and strengthening during FY21 to 23.2 percent of GDP. In the absence of significant FDI inflows, the current account deficit was financed by external debt. The central bank's foreign exchange reserves remain robust at $10.5 billion by mid-July 2021, equivalent to 9 months of imports.

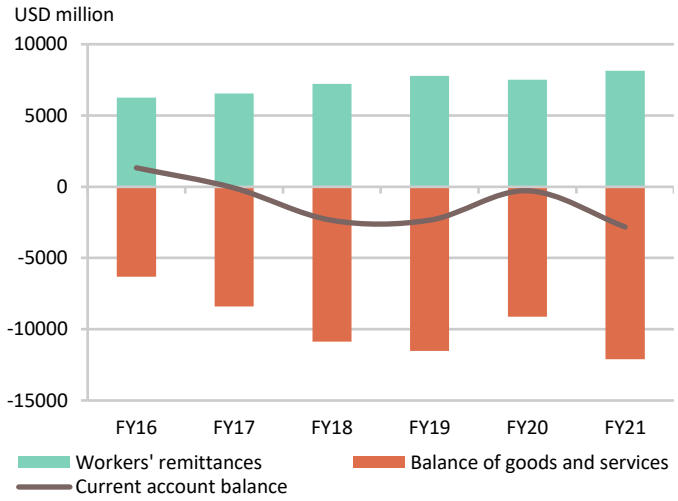
The World Bank's 2020 SAR COVID-19 phone monitoring survey reports significant labor income shocks from the crisis in the latter half of 2020. Six months into the first national lockdown beginning March 2020, 25 percent of workers reported permanent job loss and 19 percent reported a prolonged work absence of 4.4

FIGURE 1 **Nepal** / Real GDP levels: Actual vs. pre-covid trend



Sources: World Bank staff projections and Nepal Central Bureau of Statistics.

FIGURE 2 **Nepal** / The current account deficit has widened



Sources: World Bank staff calculations and Nepal Rastra Bank.

months on average (with a gap of 4 months since the last pay). In addition, 46 percent of employed workers reported earnings losses. With a negligible scale-up (2 percent) of social assistance in response to these shocks in 2020, the risks of increased poverty and longer-term inequality remain high.

The fiscal deficit narrowed from 5.3 percent of GDP in FY20 to 4.6 percent of GDP in FY21. A recovery in VAT and customs revenue collections associated with the pick up in imports was partially offset by lower non-tax revenue reflecting decreased tourism-related royalties and visa fee collections. Concurrently, government spending picked up with ongoing COVID-19 relief and a resumption of capital spending. Public debt increased by around 6 percentage points of GDP to 41.8 percent of GDP in FY21.

Outlook

The new wave of localized lockdowns beginning in April 2021 have stalled the nascent recovery. The forecast assumes (i) no return to nationwide lockdowns despite the rise in new COVID-19 cases, (ii) an effective vaccination rollout to the entire eligible population by mid-April 2022, (iii) a gradual increase in international migration and tourist arrivals as global vaccination rates rise thereby reaching pre-pandemic levels in FY24, and iv) the gradual resumption of economic activities alongside social distancing and public-health measures.

Under the baseline scenario, the economy is expected to gradually recover to 3.9 percent and 4.7 percent growth in FY22 and FY23, respectively. Above-normal rainfall during summer monsoons and the availability of chemical fertilizers should boost agricultural output in FY22. Industrial and service sector activities are expected to expand with the vaccination rollout and are likely to reach pre-pandemic levels by FY22.

The current account deficit is expected to widen to 9.0 percent of GDP in FY22 and to remain elevated in FY23 even as remittances stabilize at a high 22.5 percent of GDP. Import growth will likely remain strong reflecting ongoing COVID-related medical purchases and the construction of health and local infrastructure. Service exports, equivalent to 4.8 percent of GDP in FY19, are expected to remain below their pre-pandemic level at less than 3.0 percent of GDP through FY23.

The fiscal deficit is projected to increase to 5.8 percent of GDP in FY22 as expenditure growth continues to outstrip revenue growth and remain elevated at 5.0 percent of GDP in FY23. Revenues will remain moderately high at 24.2 percent of GDP in FY22 and rise to 24.9 percent of GDP by FY23 on the back of an expected continued recovery of imports. Expenditures are expected to continue rising at a faster rate, reaching 30 percent of GDP in both years. As a result, public debt is projected to reach 45.4 percent of GDP in FY22 and 47.7 percent of GDP by FY23, a significant increase and 20.5 percentage points of GDP higher than the pre-pandemic level.

The economic outlook is subject to downside risks. A slower than expected vaccine rollout or a new COVID-19 variant reducing vaccine effectiveness could derail the nascent economic recovery. Financial risks could increase as borrowers face repayment difficulties, which could be triggered by a slowdown in remittance growth. These factors combined with unproductive public spending and recurring climate-related natural disasters are likely to result in increased risks to government finances. The lack of pre-existing policy mechanisms that can be scaled up to reach poor and vulnerable groups is likely to increase the downside risk to poverty, especially given the severity of the second wave. On the upside, effective vaccination campaigns could help decouple economic trends from future pandemic waves.

TABLE 2 **Nepal** / 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	7.6	6.7	-2.1	1.8	3.9	4.7
Private Consumption	6.2	8.1	3.6	2.4	2.5	2.6
Government Consumption	2.1	9.8	3.8	2.0	20.8	2.0
Gross Fixed Capital Investment	11.8	11.3	-12.4	-0.5	9.3	12.9
Exports, Goods and Services	7.7	5.5	-15.9	-19.8	11.2	13.4
Imports, Goods and Services	19.0	5.8	-15.2	16.9	9.0	7.5
Real GDP growth, at constant factor prices	7.4	6.4	-2.1	1.8	3.9	4.7
Agriculture	2.6	5.2	2.2	2.7	2.8	3.0
Industry	10.4	7.4	-3.7	0.9	3.3	5.8
Services	9.3	6.8	-4.0	1.6	4.7	5.3
Inflation (Consumer Price Index)	4.1	4.6	6.1	3.6	4.3	4.7
Current Account Balance (% of GDP)	-7.1	-6.9	-0.9	-8.1	-9.0	-8.5
Fiscal Balance (% of GDP)	-5.8	-5.0	-5.3	-4.6	-5.8	-5.0
Debt (% of GDP)	26.5	27.2	36.3	41.8	45.4	47.7
Primary Balance (% of GDP)	-5.4	-4.5	-4.7	-3.7	-4.8	-4.0
GHG emissions growth (mtCO2e)	2.8	5.1	1.7	3.7	3.2	3.8
Energy related GHG emissions (% of total)	43.2	43.5	43.5	46.3	47.2	48.2

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

PAKISTAN

Table 1	2020
Population, million	220.9
GDP, current US$ billion	262.6
GDP per capita, current US$	1188.8
International poverty rate ($1.9)[a]	4.4
Lower middle-income poverty rate ($3.2)[a]	35.7
Upper middle-income poverty rate ($5.5)[a]	76.2
Gini index[a]	31.6
School enrollment, primary (% gross)[b]	95.4
Life expectancy at birth, years[b]	67.3
Total GHG Emissions (mtCO2e)	435.8

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

Despite repeated COVID-19 waves, Pakistan's economy recovered in FY21 amid effective targeted lockdowns and an accommodative monetary policy stance. Economic growth is expected to ease in FY22 before strengthening again in FY23. However, potential delays in the IMF program, high demand-side pressures, potential negative spillovers from the evolving situation in Afghanistan and more severe and contagious COVID-19 waves pose downside risks to the outlook.

Key conditions and challenges

With the pandemic, the government has been focused on managing the repeated COVID-19 infection waves, implementing a mass vaccination campaign, expanding its cash transfer program, and providing accommodative monetary conditions to sustain economic growth. Grappling with the fourth COVID-19 wave, the government, as before, implemented micro-lockdowns that successfully limited the infection spread, while permitting economic activity to continue and thereby mitigating the economic fallout. While they have been accelerating, vaccination rates remain low. As of September 15, only around 10 percent of the total population has been fully vaccinated.

The 39-month IMF-Extended Fund Facility (IMF-EFF) is likely to resume in FY22 with the 6th Review mission expected in October 2021. Key reforms include domestic revenue mobilization, the reduction of power sector arrears, electricity subsidy reform and more central bank operational autonomy, all of which are expected to strengthen long-term growth.

Major downside risks include delays and stalling of the IMF-EFF program and the consequent external financing difficulties, exceedingly high domestic demand leading to unsustainable external pressures, more contagious COVID-19 strains requiring widespread lockdowns, and a worsening of regional and domestic security conditions, including those stemming from the Afghanistan situation. All these could delay critical structural reforms.

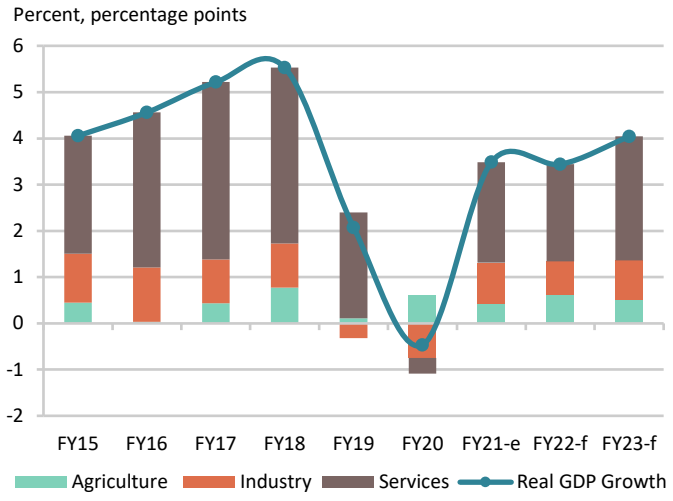
Recent developments

Due to low-base effects and recovering domestic demand, real GDP growth (at factor cost) is estimated to have rebounded to 3.5 percent in FY21 from a contraction of 0.5 percent in FY20 (Figure 1). Buttressed with record-high official remittance inflows, received through formal banking channels, and an accommodative monetary policy, private consumption and investment are both estimated to have strengthened during the fiscal year. Government consumption is also estimated to have risen, but at a slower pace than in FY20 when the COVID-19 fiscal stimulus package was rolled out. In contrast, net exports are estimated to have contracted in FY21, as imports growth almost doubled that of exports due to strong domestic demand.

On the production side, supported by strong large-scale manufacturing, industrial activity is projected to have rebounded after contracting for two consecutive years. Similarly, the services sector that accounts for 60 percent of GDP is estimated to have expanded, as generalized lockdown measures were increasingly lifted. In contrast, agriculture sector growth is expected to have slowed, partly due to a near 30 percent decline in cotton production on adverse weather conditions.

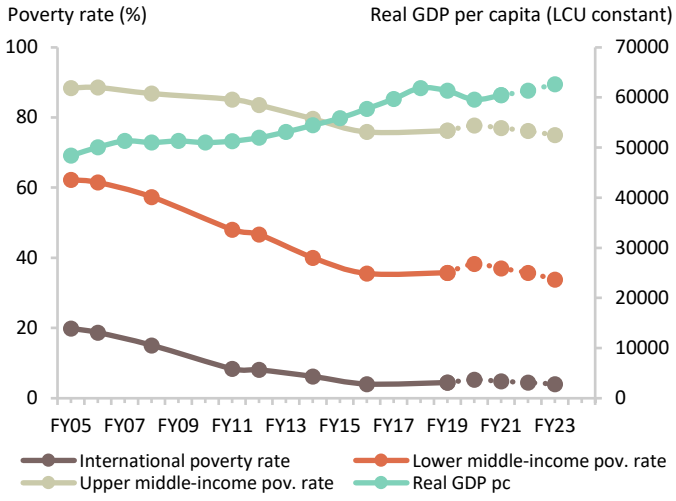
Despite slowing to 8.9 percent in FY21 from 10.7 percent in FY20, headline consumer

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



Sources: Pakistan Bureau of Statistics and World Bank staff estimates.
Notes: Pakistan reports data on fiscal year (FY) basis. The fiscal year runs from July 1 through June 30.

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



Source: World Bank. Notes: see Table 2.

price inflation remained elevated—mostly because of high food inflation, which is likely to disproportionately impact poorer households that spend a larger share of their income on food items compared to non-food items. With the policy rate being held at 7.0 percent throughout FY21, real interest rates were negative, supporting the recovery.

The current account deficit narrowed from 1.7 percent of GDP in FY20 to 0.6 percent in FY21 as robust remittance inflows offset a wider trade deficit. Foreign direct investment decreased, while portfolio inflows increased with the issuance of $2.5 billion Eurobonds. Overall, the balance of payments surplus was 1.9 percent of GDP in FY21, and the official foreign exchange reserves rose to $18.7 billion at end-FY21, the highest since January 2017 and equivalent to 3.4 months of total imports. Accordingly, the Rupee appreciated by 5.8 percent against the U.S. dollar over the fiscal year, while the real effective exchange rate rose by 10.4 percent.

In FY21, the fiscal deficit narrowed to 7.2 percent of GDP from 8.0 percent in FY20, as revenue growth, underpinned by stronger domestic activity, outpaced higher expenditures. Public debt, including guaranteed debt, ticked down to 90.7 percent of GDP at end-June FY21 from 92.7 percent of GDP at end-June FY20.

Bolstered by the recovery in the industry and services sectors and resultant off-farm employment opportunities, poverty incidence, measured at the international poverty line of $1.90 PPP 2011 per day, is expected to have declined to 4.8 percent in FY21 from 5.3 percent in FY20 (Figure 2). However, this change is not statistically significant, and downside risks arising from lockdown-induced disruptions to employment and high food inflation remain.

Outlook

In line with the 25-basis point policy rate hike in September 2021, fiscal and monetary tightening are expected to resume in FY22, as the government refocuses on mitigating emerging external pressures and managing long-standing fiscal challenges. Output growth is therefore projected to ease to 3.4 percent in FY22, but strengthen thereafter to 4.0 percent in FY23 with the implementation of key structural reforms, particularly those aimed at sustaining macroeconomic stability, increasing competitiveness and improving financial viability of the energy sector. Inflation is projected to edge up in FY22 with expected domestic energy tariff hikes and higher oil and commodity prices before moderating in FY23. Poverty is expected to continue declining, reaching 4.0 percent by FY23.

The current account deficit is projected to widen to 2.5 percent of GDP in FY23 as imports expand with higher economic growth and oil prices. Exports are also expected to grow strongly after initially tapering in FY22, as tariff reform measures gain traction supporting export competitiveness. In addition, the growth of official remittance inflows is expected to moderate after benefiting from a COVID-19 induced transition to formal channels in FY21.

Despite fiscal consolidation efforts, the deficit is projected to remain high at 7.0 percent of GDP in FY22 and widen to 7.1 percent in FY23 due to pre-election spending. Implementation of critical revenue-enhancing reforms, particularly the General Sales Tax harmonization, will support a narrowing of the fiscal deficit over time. Public debt will remain elevated in the medium-term, as will Pakistan's exposure to debt-related shocks. This outlook assumes that the IMF-EFF program will remain on track.

TABLE 2 Pakistan / 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	5.8	1.1	-0.9	3.5	3.4	4.0
Private Consumption	6.2	3.1	-4.1	4.2	3.9	4.1
Government Consumption	8.6	0.8	6.8	2.2	2.7	5.8
Gross Fixed Capital Investment	11.2	-12.5	-1.0	5.7	4.5	4.7
Exports, Goods and Services	12.7	14.5	2.5	4.8	3.7	4.2
Imports, Goods and Services	17.6	4.3	-7.9	8.1	6.0	5.7
Real GDP growth, at constant factor prices[a]	5.5	2.1	-0.5	3.5	3.4	4.0
Agriculture	4.0	0.6	3.3	2.2	3.2	2.7
Industry	4.6	-1.6	-3.8	4.6	3.8	4.3
Services	6.3	3.8	-0.6	3.5	3.4	4.4
Inflation (Consumer Price Index)	4.7	6.8	10.7	8.9	9.0	7.5
Current Account Balance (% of GDP)	-6.1	-4.8	-1.7	-0.6	-1.9	-2.5
Net Foreign Direct Investment (% of GDP)	0.9	0.5	1.0	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-6.4	-9.0	-8.0	-7.2	-7.0	-7.1
Debt (% of GDP)	75.9	89.7	92.7	90.7	90.6	89.3
Primary Balance (% of GDP)	-2.1	-3.5	-1.7	-1.3	-1.2	-1.5
International poverty rate ($1.9 in 2011 PPP)[b,c]		4.4	5.3	4.8	4.4	4.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]		35.7	38.3	37.0	35.7	33.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]		76.2	77.8	77.0	76.2	75.0
GHG emissions growth (mtCO2e)	3.9	0.2	-0.7	2.8	2.0	2.9
Energy related GHG emissions (% of total)	45.0	44.4	43.4	43.3	43.1	43.3

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

(a) The Government's preliminary growth estimate for FY21is 3.9 percent.

(b) Calculations based on SAR-POV harmonization, using 2018-PSLM .Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

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

SRI LANKA

Table 1	2020
Population, million	21.9
GDP, current US$ billion	80.7
GDP per capita, current US$	3684.9
International poverty rate ($ 19)[a]	0.9
Lower middle-income poverty rate ($3.2)[a]	110
Upper middle-income poverty rate ($5.5)[a]	42.0
Gini index[a]	39.3
School enrollment, primary (% gross)[b]	100.2
Life expectancy at birth, years[b]	77.0
Total GHG Emissions (mtCO2e)	34.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

Growth is expected to recover to 3.3 percent in 2021, but the medium-term outlook is clouded by pre-existing macroeconomic weaknesses and the economic scarring from the COVID-19 pandemic. With jobs and earnings lost, poverty is projected to remain above pre-pandemic levels in 2021. Official reserves remain low relative to short-term liabilities amid constrained market access. A severe foreign exchange shortage is exerting pressure on the exchange rate. Urgent policy measures are needed to address risks to debt sustainability and external stability.

Key conditions and challenges

The COVID-19 crisis is exerting a profound, long-lasting impact on output and welfare. The economy contracted by 3.6 percent in 2020 amid stringent measures to control the spread of the virus. Low revenue collections, due to a pre-pandemic fiscal stimulus and the post-pandemic impact on economic activity, and rising expenditures widened the fiscal deficit and increased debt. Market access has been constrained by sovereign rating downgrades.

The country has been struggling to contain the spread of the virus in 2021 and the Delta variant has been spreading fast since June. The government focused on an expeditious vaccination process and approximately 50 percent of the population has been fully vaccinated by mid-September.

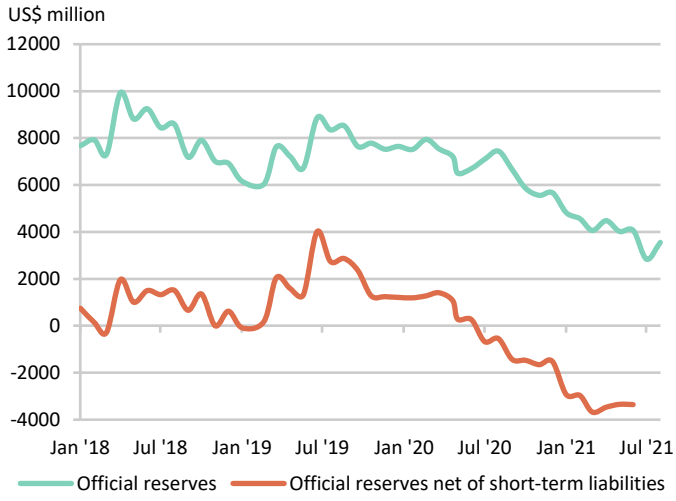
The economy showed signs of weakness already before the COVID-19 pandemic. Growth averaged only 3.1 percent between 2017 and 2019. Structural reforms to shift the growth model toward wider private sector participation, export-orientation, and integration into global value chains progressed slowly and some reforms have been reversed. In addition, economic activity has been disrupted by frequent macroeconomic shocks, including from a political crisis in 2018 and the Easter Sunday attacks in 2019. Sri Lanka is highly exposed to global financial market sentiments as its debt repayment profile requires frequent access to financial markets.

Recent developments

Real GDP grew by 8.0 percent, year-on-year, in the first half of 2021 from a low base with significant contributions from manufacturing, trade, financial services, and real estate activity. The subsequent pick-up of COVID-19 infections likely weakened the pace of recovery in the second half of 2021. The crisis precipitated widespread losses in livelihoods, which are expected to have increased the $3.20 poverty rate from 9.2 percent in 2019 to 11.7 percent in 2020.

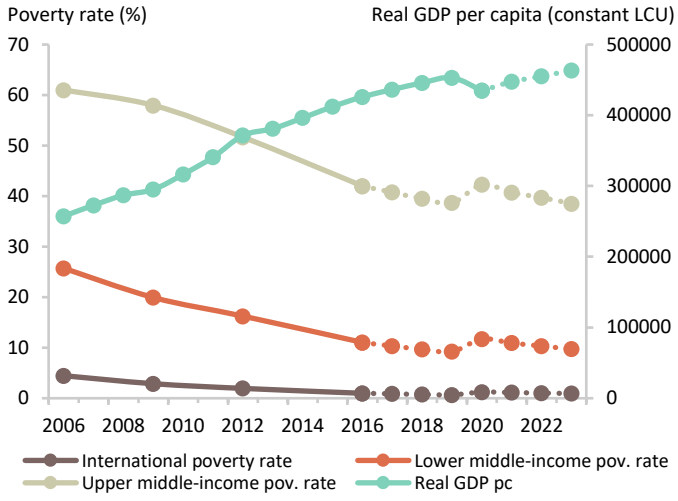
Year-on-year inflation (measured by the Colombo Consumer Price Index) increased to 6.0 percent in August 2021 due to high food inflation (at 11.5 percent) and a fuel price hike in June (the first in 21 months). Food insecurity has been acute throughout the pandemic—a phone monitoring survey previously showed that 44 percent of households were concerned about running out of food, while weak safety nets heightened vulnerability. The government invoked emergency regulations to curb speculative practices of traders amid high food prices and shortages of some essential commodities. To curb rising inflationary pressures, the Central Bank increased policy rates by 50 basis points (Standing Deposit Facility to 5.0 percent and Standing Lending Facility to 6.0 percent) and the reserve ratio by 200 basis points.

FIGURE 1 **Sri Lanka** / Official reserves vs. short-term foreign exchange liabilities



Sources: Central Bank of Sri Lanka and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

External vulnerabilities have further elevated in the first half of 2021. The trade deficit widened as a rising import bill (despite restrictions on non-essential goods) driven by intermediate and investment goods, offset the increase in earnings from exports. Remittances declined and weak tourism receipts widened the current account deficit. Official reserves declined to $3.6 billion in August (equivalent to 2.0 months of imports, estimated as of August), as the government continued to use reserves for debt service. Reserves include the proceeds from the SDR allocation equivalent to $787 million and excludes a currency swap of RMB 10 billion (equivalent to approximately $1.5 billion) with the People's Bank of China. The LKR depreciated by 7.4 percent against the US Dollar in the first eight months according to the official exchange rate. However, the parallel market premia have been rising. Depleted net foreign assets in the banking system, at $-3.5 billion by July, suggests increasing challenges in meeting foreign exchange demand.

Fiscal accounts deteriorated in the first four months of 2021. An increase in expenditures (due to higher interest payments and a higher salary bill) offset a marginal improvement in revenue collection, compared to the corresponding period of the previous year. The Central Bank and the banking sector financed 38.7 percent and 41.4 percent of the budget deficit, respectively.

Outlook

The pandemic continues to cloud an already challenging outlook. While the economy is expected to grow by 3.3 percent in 2021 from a low base, output will remain 0.4 percent below its pre-COVID level. Poverty at $3.20 per day is projected to fall to 10.9 percent in 2021, which is still significantly above the 2019 level. Continued macroeconomic challenges, particularly the high debt burden, large gross financing needs and weak external buffers, will adversely affect growth and poverty reduction over the medium-term. Despite increased policy rates and price controls, inflationary pressure is expected to remain strong amid partial monetization of the fiscal deficit, currency depreciation, and rising global commodity prices. Food insecurity could worsen and poverty reduction slow if food prices remain elevated and shortages prevail. The current account deficit is expected to gradually increase toward pre-pandemic level. Significant additional borrowings will be required to close the external financing gap in 2021 and beyond, as external public debt service requirements are estimated above $4.0 billion in 2022 and 2023. Continued drawdown on reserves for debt service could erode external buffers further.

The fiscal deficit is projected to stay high in the forecast period, with weak revenue collection and rigid expenditures. Public and publicly guaranteed debt is expected to reach 116.5 percent of GDP in 2021 and to rise further between 2022-2023.

Sri Lanka needs to continue its successful vaccination process and implement targeted measures to prevent new COVID-19 waves. Financial sector vulnerabilities, which may emerge once the regulatory relaxation is phased out, should be carefully monitored. Measures to reducing debt vulnerabilities and restoring fiscal and external buffers remain front and center. Supporting students recovering from learning losses, with a focus on reducing equity gaps, will be important to uphold Sri Lanka's human capital achievements and long-term growth prospects.

TABLE 2 Sri Lanka / 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	2.3	-3.6	3.3	2.1	2.2
Private Consumption	4.0	3.0	-3.0	3.4	2.0	2.2
Government Consumption	-5.1	13.0	4.4	3.8	1.6	1.6
Gross Fixed Capital Investment	1.8	1.0	-9.5	4.3	2.1	2.7
Exports, Goods and Services	0.5	7.2	-9.6	7.9	5.6	4.4
Imports, Goods and Services	1.8	-5.8	-11.4	7.3	3.7	3.7
Real GDP growth, at constant factor prices	3.7	2.2	-3.1	3.3	2.1	2.2
Agriculture	5.8	1.0	-2.4	1.0	1.5	1.5
Industry	1.3	2.6	-6.9	4.0	2.0	2.2
Services	4.6	2.2	-1.5	3.2	2.2	2.3
Inflation (Consumer Price Index)	4.3	4.3	4.6	5.1	6.0	6.3
Current Account Balance (% of GDP)	-3.2	-2.2	-1.3	-2.1	-2.6	-2.8
Net Foreign Direct Investment (% of GDP)	1.8	0.7	0.6	0.9	1.0	1.2
Fiscal Balance (% of GDP)[a]	-5.3	-6.8	-14.0	-10.5	-10.1	-9.1
Debt (% of GDP)[a]	92.2	94.3	109.7	116.5	121.9	124.9
Primary Balance (% of GDP)[a]	0.6	-0.8	-7.4	-4.0	-3.3	-2.3
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.7	0.6	1.2	1.1	1.0	0.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	9.7	9.2	11.7	10.9	10.3	9.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	39.5	38.6	42.3	40.7	39.7	38.5
GHG emissions growth (mtCO2e)	-1.8	-2.3	-5.1	4.0	-1.7	-0.2
Energy related GHG emissions (% of total)	63.6	62.7	62.3	66.1	65.9	66.2

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

(a) Fiscal balance in 2020 includes arrears payments pertaining to 2019 and foreign funded project related expenditures not included in the audited financial statements in 2019.
(b) Calculations based on SAR-POV harmonization, using 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.
(c) Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

Sub-Saharan Africa

Annual Meetings 2021

Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Central African Republic
Chad
Comoros
Congo, Dem. Republic
Congo, Republic
Côte d'Ivoire
Equatorial Guinea
Eritrea
Eswatini
Ethiopia
Gabon
The Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Namibia
Niger
Nigeria
Rwanda
São Tomé and Príncipe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
South Sudan
Sudan
Tanzania
Togo
Uganda
Zambia
Zimbabwe

ANGOLA

Table 1	2020
Population, million	32.9
GDP, current US$ billion	58.8
GDP per capita, current US$	1787.2
International poverty rate ($1.9)[a]	49.9
Lower middle-income poverty rate ($3.2)[a]	71.5
Upper middle-income poverty rate ($5.5)[a]	88.5
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	113.5
Life expectancy at birth, years[b]	61.1
Total GHG Emissions (mtCO2e)	112.5

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2015); Life expectancy (2019).

Angola's economy is returning to modest growth in 2021 after five years of recession, as declining oil prices and production, and then Covid-19, shrank the country's GDP by 10.8 percent from its peak in 2015. The long recession and rising inflation increased poverty. Although the outlook beyond 2021 remains challenging, ongoing economic reforms and active debt management have achieved debt reprofiling, more credible monetary policy, and a larger non-oil revenue base, creating the basis for continued recovery.

Key conditions and challenges

Excessive dependence on oil exposes Angola to macroeconomic instability and hinders inclusive growth and poverty reduction. From a peak of 1.8 million barrels per day in 2015, oil output has declined by 30 percent as existing fields are depleted and Angola's remaining blocks have failed to attract adequate investment. With lower oil prices and production, export receipts have fallen 72 percent in 2020 from their peak in 2012, yet oil still makes up 94 of Angola's exports, highlighting the persistent lack of diversification of the economy. Given global decarbonization, Angola´s transition out of the oil sector becomes even more urgent. Meanwhile, diversification will require investments to adapt Angola's cities and agriculture to the effects of climate change, with the already-growing number of droughts and floods expected to increase further.

Oil wealth allowed Angola to engage in large-scale borrowing and the debt burden rose sharply once oil prices and the currency declined, reaching a peak of 135 percent of GDP in 2020. Debt remains a concern over the medium term, despite a partial rescheduling of external debt service, including under the Debt Service Suspension Initiative.

The government has floated the currency and implemented important macroeconomic reforms since it assumed office in late 2017. However, progress on broader structural reforms has been slower. Pending reforms include privatization of large state-owned enterprises, overhaul of sectoral regulations to enable competition, and removal of high fuel subsidies and price controls.

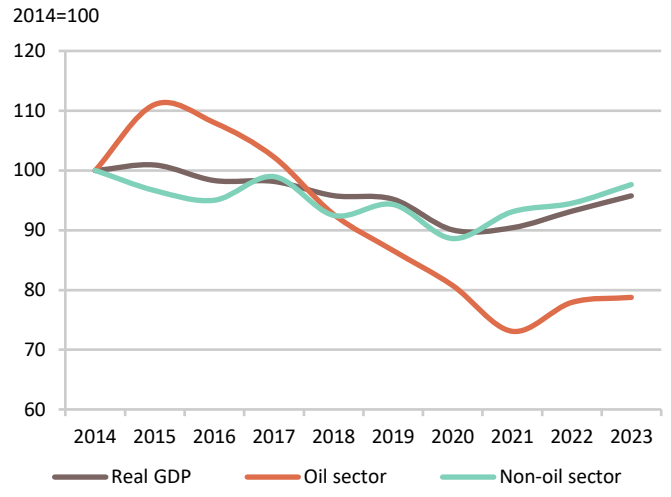
Angola´s income inequality remains high, with about half of its young and fast-growing population living on less than US$1.90 per day (2011 PPP) as of 2019. Years of high inflation, strained public finances, and lack of growth and job creation in non-oil sectors have reversed much of the little progress made on poverty reduction during the oil boom years. Given growing social pressure and upcoming elections, there is a risk of measures such as new subsidies, price controls and import restrictions that may offer some short-term benefits but could further delay the emergence of a productive private sector.

Recent developments

Angola has avoided high infection rates of COVID-19 so far. A total of 47,784 cases (145 per 100,000) were registered as of September 2, 2021, and the 7-day average incidence peaked at 6.2 per 100,000 in May 2021. However, progress on vaccination has been slow to date, with only 2.8 percent of the population fully vaccinated as of September 2.

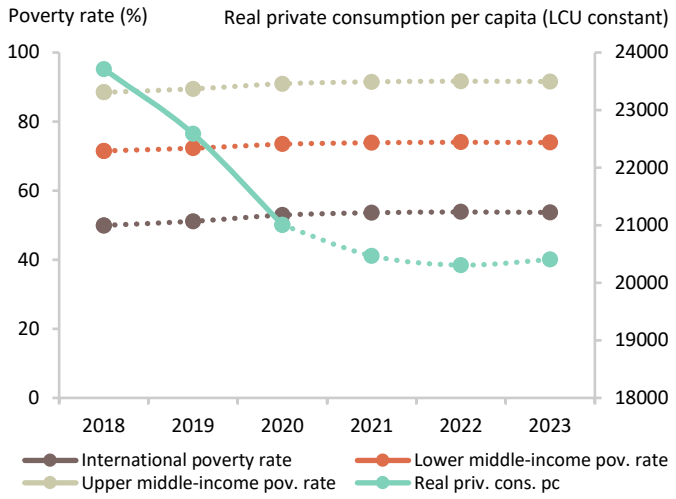
As a result of falling oil output and the COVID-19-related impact on services, GDP contracted 5.4 percent in 2020. This marks the fifth consecutive year of recession, with

FIGURE 1 **Angola** / Real GDP (index, 2014 = 100)



Sources: National Statistics Institute of Angola. World Bank - MTI.

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



Source: World Bank. Notes: see Table 2.

a total GDP decline of 10.8 percent (see Figure 1). In the first half of 2021, oil output remained low but non-oil activity began to recover, rising 3.8 percent year-on-year in the first quarter.

Higher oil prices in 2021 are generating higher fiscal and export revenues, even with falling production. Tax measures introduced since 2019, including the VAT, have resulted in increased non-oil revenues which grew by 45 percent year-on-year in the second quarter.

The exchange rate, sensitive to oil prices and concerns about debt sustainability, depreciated by 37 percent in 2020 but stabilized in 2021. Although central bank net-reserves declined by 25 percent in 2020 and an additional 5 percent by July 2021 (to US$8.3 billion), import coverage remains adequate at about 11 months. Currency depreciation along with rising commodity prices and domestic crop failures from a major drought have fueled inflation, which increased to 25 percent in 2020 and has remained at this level through July 2021. In July 2021, the central bank tightened monetary policy by raising the policy rate to 20 percent (from 15.5 percent) to contain inflation.

The employment rate reached 61.7 percent in the second quarter of 2021, remaining below its 2019 level. Moreover, 76 percent of new jobs are in the informal sector, including a heavy reliance on subsistence activities. The Kwenda cash transfer program was rolled out in 2020 but so far only covers about 9,000 families out of around 2.7 million families living on less than U$1.90 per day. The combination of continued high unemployment and food inflation, along with severe drought in some parts of the country, are expected to have increased food insecurity and poverty.

Outlook

GDP growth is expected to accelerate to about 3 percent in 2022–23 as oil production temporarily recovers and non-oil growth accelerates, benefitting from market creating reforms and the lagged impact of macroeconomic reforms. The outlook is conditional on COVID-19 remaining relatively well controlled in Angola and vaccination covering around 52 percent of adults by the end of 2022.

Monetary tightening and a more stable exchange rate are expected to result in gradual disinflation. Improved supply conditions through structural reforms can also accelerate disinflation in the longer-term. The central government is expected to run sizable primary fiscal surpluses, decreasing public debt-to-GDP levels, though this remains vulnerable to oil price risks.

Projections, tentative due to limited data, suggest that the share of the Angolan population living on less than US$1.90 per day (2011 PPP) is expected to peak in 2022, reaching about 53.9 percent, an increase of nearly 3.5 million people since 2018. In 2023, the poverty rate is expected to fall by 0.2 percentage points. Expansion of the Kwenda program and measures to support job creation, especially for youth, are critical to protect human capital and reduce poverty.

Policy uncertainty and heightened political and social tensions in advance of the August 2022 general elections could result in further delays in the reform agenda.

TABLE 2 **Angola** / 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	-0.6	-5.4	0.4	3.1	2.8
Private Consumption	-3.4	-1.6	-4.0	0.6	2.4	3.7
Government Consumption	-1.7	-1.6	-14.1	9.9	1.4	-1.9
Gross Fixed Capital Investment	-5.1	-3.1	-8.9	-2.2	9.7	6.8
Exports, Goods and Services	1.2	0.8	-6.2	-4.3	1.5	1.5
Imports, Goods and Services	-16.9	0.0	-23.5	8.5	7.2	6.0
Real GDP growth, at constant factor prices	-7.5	-1.0	-6.3	0.3	3.0	2.6
Agriculture	-7.6	-4.4	0.8	-1.9	2.6	4.7
Industry	-11.4	-2.8	-10.2	-0.3	4.3	3.6
Services	-1.7	2.0	-2.4	1.3	1.6	1.1
Inflation (Consumer Price Index)	19.6	17.1	22.3	24.4	18.1	10.9
Current Account Balance (% of GDP)	7.3	5.7	-0.4	5.3	6.6	4.6
Net Foreign Direct Investment (% of GDP)	-6.4	-2.0	-3.3	-3.3	-0.3	0.6
Fiscal Balance (% of GDP)	2.8	0.7	-1.9	2.8	2.8	2.7
Debt (% of GDP)	88.6	107.3	134.4	100.1	92.3	88.0
Primary Balance (% of GDP)	7.5	6.0	4.9	8.0	7.5	7.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	49.9	51.1	52.9	53.6	53.9	53.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.5	72.3	73.5	73.9	74.0	74.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	88.5	89.5	90.9	91.5	91.6	91.5
GHG emissions growth (mtCO2e)	-9.3	-5.8	-4.2	5.1	1.3	-0.1
Energy related GHG emissions (% of total)	15.7	17.1	16.9	17.4	17.9	18.6

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

(a) Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.

(b) Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

BENIN

Table 1	2020
Population, million	12.1
GDP, current US$ billion	15.4
GDP per capita, current US$	1272.7
International poverty rate ($1.9)[a]	49.6
Lower middle-income poverty rate ($3.2)[a]	76.2
Upper middle-income poverty rate ($5.5)[a]	90.6
Gini index[a]	47.8
School enrollment, primary (% gross)[b]	116.7
Life expectancy at birth, years[b]	61.8
Total GHG Emissions (mtCO2e)	29.3

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2019).

Spared a major domestic COVID-19 outbreak, Benin's economy was relatively resilient in 2020 with real GDP growth decelerating to +3.8 percent. The fiscal deficit and external debt increased to support the economy that is expected to rebound in 2021, due to higher commodity prices, the gradual reopening of Nigerian borders, and continued dynamism in the construction sector. Commodity price volatility, the spread of new COVID-19 variants, and vaccine roll-out cloud the outlook.

Key conditions and challenges

Prior to the pandemic, Benin experienced robust real GDP growth averaging 6.4 percent in 2017-2019, thanks to a relatively favorable external environment and commitment to macroeconomic stability. Growth in recent years has been boosted by private investment, higher agricultural production with record-levels of cotton output, and an expanding services sector. The Government Action Plan (PAG) has underpinned investments in infrastructure and focused on strengthening governance. Fiscal consolidation efforts since 2016 enabled the authorities to respond to the COVID-19 crisis with fiscal stimulus, keeping the GDP deceleration among the lowest in SSA.

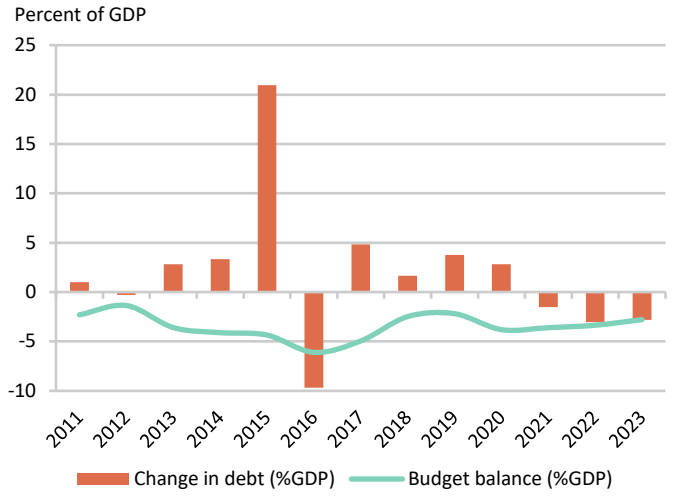
The high growth momentum, however, has yet to result in structural change: agriculture still accounts for 40 percent of employment, and productivity growth in the absorbing services and industry sector has been slow. The increasing fiscal deficit and higher external debt levels since the onset of the global crisis have highlighted the vulnerabilities of the growth model, notably the reliance on exports of raw agricultural commodities and re-export activities with neighboring countries, the low levels of human capital, large gender gaps, and structurally low domestic revenue mobilization that limits productive spending. While the COVID-19 cases remained relatively contained in 2020, the duration and the amplitude of future waves convey substantial downside risks. Price volatility, notably in food products, would negatively impact vulnerable households, increasing food insecurity pressures. A prolonged outbreak would compromise economic recovery, increasing the fiscal and external financing requirements and debt pressures. Weather shocks and increased regional insecurity could further exacerbate spatial inequalities between the North and more urban Southern regions.

Recent developments

Real GDP growth decelerated to +3.8 percent in 2020 (1 percent in per capita terms) driven by lower agricultural output and the impact of social distancing measures on services during the first half of the year. On the demand side, public consumption (+19.6 percent y-o-y) and public investment (+88.4 percent y-o-y) supported growth. Activity continued to rebound in the first quarter of 2021, with growth up +3.9 percent y-o-y. Industrial production and services were up for the first half of 2021. Inflation reached 3 percent in 2020, driven by higher food prices, before stabilizing at 2.7 percent at end-July 2021.

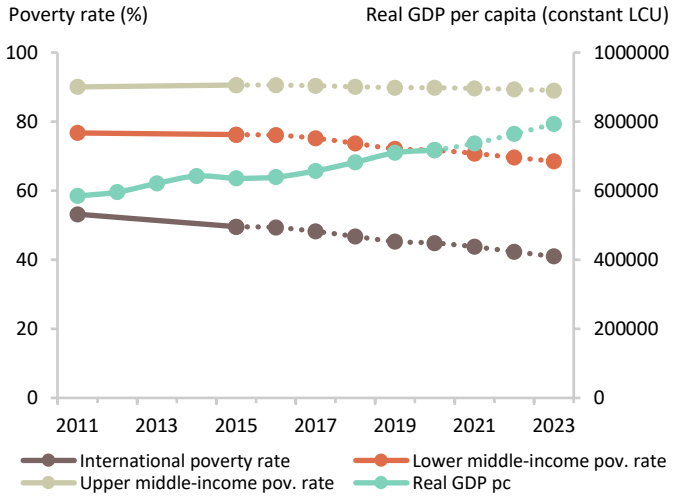
The current account deficit (including grants) was almost unchanged at 3.9 percent of GDP in 2020 as lower re-export activities with neighboring countries contained goods and services imports, and current transfers were higher due to increased remittances. As the border with Nigeria opened up, the trade balance deteriorated in Q1 2021 with imports up +9.4 percent for re-export activity.

FIGURE 1 Benin / Budget balance and change in PPG debt



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

Fiscal policy was expansionary with the deficit (including grants) increasing from 0.5 percent of GDP in 2019, to 4.7 percent in 2020. Capital expenditures were up +75 percent as infrastructure projects were used to support the economy. Despite a drop in customs revenue (due to border closures and disruptions in trade), total tax revenues were almost unchanged mostly due to the outperformance of excise taxes on oil products. Public and publicly guaranteed (PPG) debt increased to 46.1 percent of GDP in 2020 (+4.9 ppt compared to 2019), with concessional borrowing representing the bulk of the additional financing. Benin's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a peg between the CFA Franc and the Euro. Its reserves have remained stable since 2019 and reached an estimated 5.8 months of imports in 2020 due to donor support and Eurobond issuance in Cote d'Ivoire. To support the regional economy and COVID-19 related extra spending, the BCEAO implemented a set of monetary and macroprudential measures beginning in March 2020, including a policy rate cut and extended refinancing operations with 3-month COVID-19 bonds. These measures were extended into 2021.

Poverty and vulnerability remain high. The poverty rate based on the national poverty line was 38.5 percent in 2019 with strong spatial disparities, rural poverty stands at 44.2 percent, +12.8 ppts higher compared to urban areas. World Bank estimates suggest that $1.9 a day (2011 PPP) poverty reduction significantly slowed down in 2020 (-0.9 percent reduction y-o-y) versus 2019 (-3.2 percent reduction y-o-y). Employment data and social indicators from the first half of 2021 suggest that poverty reduction trends gradually revert to their pre COVID-19 trends.

Outlook

Real GDP growth is expected to rebound to 5.5 percent in 2021 (2.7 percent in per capita terms). On the supply side, agriculture, fostered by higher cotton prices, and the continuous dynamism of the construction sector will be the main drivers of the recovery. On the demand side, exports, public investments, and a gradual increase in private investment will drive growth. After reaching 3 percent in 2021, inflation should ease to 2 percent in 2022. The current account deficit (including grants) is expected to widen slightly to 4 percent in 2021. It will be largely financed by portfolio flows due to large issuances in international markets (EUR 1.5 billion). In August 2021, the BCEAO received 1.4 percent of aggregate GDP in additional SDR allocations from the IMF, which have been temporarily onlent to member countries. The fiscal deficit (including grants) is expected to decline slightly at 4.5 percent of GDP in 2021, as authorities continue to support the recovery, but should return to around the WAEMU ceiling of 3 percent of GDP by 2023 as authorities gradually reduce current spending. PPG debt is expected to peak at 52.3 percent of GDP at end-2021, before gradually receding to 40 percent of GDP by 2026. External debt remains sustainable. In July 2021, Benin issued the first Sustainable Development Goals (SDG) Bond in Africa.

Poverty reduction is expected to gradually revert to its pre-crisis levels during the 2021-2022 period as the economy rebounds, and on the back of improved employment indicators as COVID-19 restrictions ease and businesses adapt their operations to the new environment. The $1.9/day PPP poverty headcount rate is expected to decrease to 43.8 percent in 2021 (-2.4 percent y-o-y), and to 42.4 percent in 2022 (-3.2 percent y-o-y).

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.7	6.9	3.8	5.5	6.5	6.5
Private Consumption	3.5	3.5	3.0	5.0	6.0	6.5
Government Consumption	6.0	5.8	19.6	-1.0	7.7	4.7
Gross Fixed Capital Investment	16.3	8.4	-1.1	9.6	7.4	7.8
Exports, Goods and Services	5.0	-1.6	-29.5	28.0	7.0	8.1
Imports, Goods and Services	4.8	-6.1	-24.7	22.5	6.9	8.2
Real GDP growth, at constant factor prices	6.7	6.9	3.8	5.5	6.5	6.5
Agriculture	7.3	7.2	5.6	5.5	7.8	8.6
Industry	6.2	6.2	5.2	5.8	7.0	5.7
Services	6.7	7.1	1.1	5.3	4.8	5.1
Inflation (Consumer Price Index)	0.8	-0.9	3.0	3.0	2.0	2.0
Current Account Balance (% of GDP)	-4.5	-4.0	-3.9	-4.0	-4.3	-4.4
Net Foreign Direct Investment (% of GDP)	1.2	1.3	0.5	1.5	1.0	1.0
Fiscal Balance (% of GDP)	-2.9	-0.5	-4.7	-4.5	-3.8	-3.0
Debt (% of GDP)	41.1	41.2	46.1	52.3	48.9	46.3
Primary Balance (% of GDP)	-1.3	1.1	-2.7	-2.4	-2.2	-1.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	46.8	45.3	44.9	43.8	42.4	41.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	73.7	72.1	71.7	70.8	69.6	68.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	90.1	89.9	89.8	89.6	89.3	89.0
GHG emissions growth (mtCO2e)	4.1	3.0	1.0	3.6	4.2	4.6
Energy related GHG emissions (% of total)	35.0	35.8	36.1	36.4	37.4	38.3

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

(a) Calculations based on 2015-EMICOV.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

BOTSWANA

Table 1	2020
Population, million	2.4
GDP, current US$ billion	15.1
GDP per capita, current US$	6291.7
International poverty rate ($1.9)[a]	14.5
Lower middle-income poverty rate ($3.2)[a]	36.5
Upper middle-income poverty rate ($5.5)[a]	59.1
Gini index[a]	53.3
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	69.6
Total GHG Emissions (mtCO2e)	64.0

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

Botswana's economy is expected to rebound to 8.5 percent in 2021 following an 8.5 percent contraction last year. Careful management of mineral resources allowed Botswana to enter the pandemic with more fiscal space than most peers. Addressing structural impediments to higher medium-term growth is needed to improve living standards. The unemployment rate currently stands at 24.5 percent. Poverty is expected to decline by 2 percentage points to 57.6 percent, based on the upper middle-income country poverty line in 2021.

Key conditions and challenges

Botswana's macroeconomic policy framework is anchored on prudent macroeconomic policies and good governance. However, the economy is largely dependent on a single commodity, diamonds, making it vulnerable to external shocks. The ongoing COVID-19 crisis and structural rigidities mean that Botswana's growth outlook remains vulnerable to external shocks.

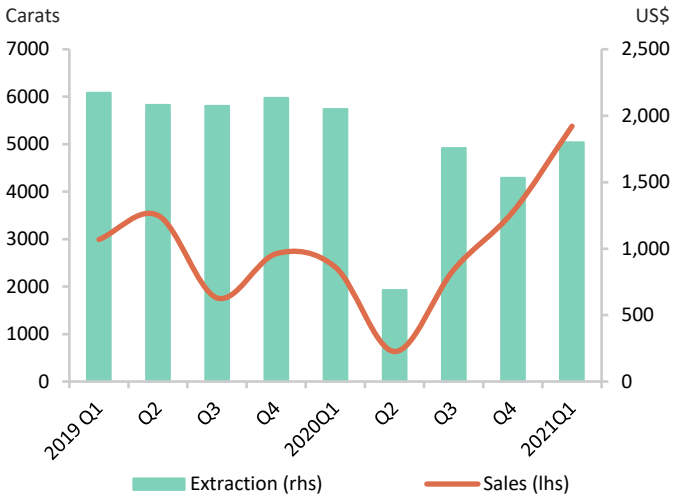
Structural challenges pre-dating the pandemic led to weak growth and widening fiscal deficits over the past 4 years. This highlighted the need for Government to support policies to diversify the economy and to speed up implementation of the planned fiscal consolidation to create sustained, high, job-rich growth and preserve macroeconomic stability. Unemployment is structurally high, at 19.8 percent over the last 5 years. Inequality remains among the highest in the world, while the COVID-19 crisis set back the gains in poverty reduction from the previous 4 years. Measures to improve export competitiveness, encourage inward investments by promoting a favorable business environment, and preserve fiscal sustainability would all support higher inclusive growth.

The country experienced a spike in COVID-19 cases over the winter, with rising infections and deaths amidst shortage of vaccines leading to a slower than anticipated vaccine rollout. In response, government maintained containment measures translating in a slower rebound in economic activity. Key risks to the economy include continued resurgence of COVID-19-related cases and rising deaths domestically and globally. Economic activity remains stagnant amid fears of travelling amongst tourists; delays in roll out of vaccines and potential lockdowns. The resurgence of cases also has the potential to cause great uncertainty in the global, regional and domestic economies, with implications on demand, especially for diamonds.

Recent developments

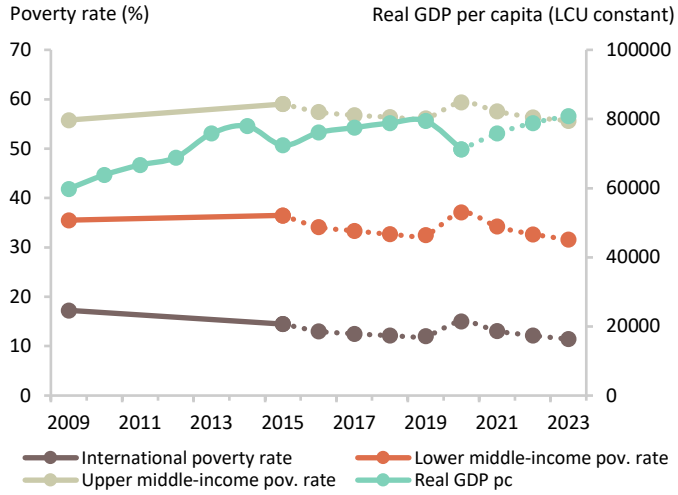
Real GDP increased by 0.7 percent in Q1 on an annual basis, driven by diamond trading and wholesale and retail trade. Provisional results for the seven sights of 2021 show an increase in diamond sales, highlighting recovering demand for the key export. Other sectors' activity remained subdued as the third wave of local infections prompted additional restrictions. The latest figures show unemployment at 24.5 percent in Q4 2020, an increase from previous years, while poverty under the upper middle income poverty line also increased in 2020 by 3 percentage points. Household consumption contracted by 2.7 percent in Q1 on an annual basis. Though rising, household debt remains manageable at 25 percent of disposable income in Q12021 compared to 23.7 percent in Q12020.

FIGURE 1 Botswana / Diamond sales and diamond extraction



Source: Statistics Botswana.

FIGURE 2 Botswana / Poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

CPI inflation averaged 5.2 percent over January-July 2021 compared to 1.9 percent in 2020. Inflationary pressures are on an upward trajectory following the rebound in oil prices, and increases in fuel levy, VAT rate, and administered prices. Bank of Botswana maintained an accommodative monetary policy stance, keeping the repo rate at 3.75 percent to support the recovery as it anticipates inflationary pressures to be transitory. Real exports of goods and services increased by 84.3 percent in Q1 2021, driven by diamonds. Foreign exchange reserves declined to an estimated P50.8 billion as of July 2021, but import coverage, at 9.4 months, remains sound.

Government expenditure has faced pressures from the pandemic. On the other hand, measures to increase revenue mobilization have been implemented, including broadening the tax base, increasing VAT by two percentage points to 14 percent, fuel and sugar levies, a tax on plastic bags and withholding tax adjustments, all estimated to yield about 1 percent of GDP. A tax amnesty to reduce tax arrears and an increase in service fees should increase revenue collection this year by an additional 0.5 percent of GDP. Nevertheless, amid elevated financing needs, Botswana has sought budget support from multilateral banks amounting to US$387 million.

Outlook

Growth is expected to be robust in 2021, at 8.5 percent, although GDP is projected to remain below its 2019 level until 2022. The recovery will be driven by a rebound in mining, supported by the global recovery. This will mainly translate into a positive contribution to growth from net exports while the domestic drivers of growth will remain constrained by the pandemic. Poverty levels under the upper middle-income poverty line are expected to decline to 57.6 percent in 2021 due to the economic recovery. The vaccination rollout has gained traction with 21.6 percent of the eligible 1.5 million population fully vaccinated adding renewed optimism to economic activity. Improved domestic demand will boost the recovery of other sectors as the implementation of the Economic Recovery and Transformation Plane (ERTP) unfolds to pursue an outward looking growth strategy that spurs private sector development and competitive external trade. Growth is expected to average around 5.1 percent over 2022-23 and poverty is projected to decline further to around 56 percent.

The current account deficit is expected to narrow to 2.6 and 2.2 percent of GDP in 2021 and 2022, respectively, as the rebound in diamond production and favorable terms of trade are expected to more than offset the projected drop in SACU revenue. The recent allocation of SDR 189m by the IMF will strengthen reserve buffers and resilience in the medium term. The fiscal deficit is expected to decline to 6.6 percent of GDP in 2021/22, driven by higher revenue collection (mining and revenue mobilization measures) while expenditure remains. Public debt is estimated to reach 28.3 percent this year and 30.2 percent by 2023, driven by a rise in external borrowing.

The pandemic continues to pose a major risk to the anticipated upturn in economic activity as new variants and uncertainties surrounding vaccines could lead to further lockdowns and subsequently weaken global demand for diamonds in the future.

TABLE 2 Botswana / 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	3.0	-8.5	8.5	5.9	4.4
Private Consumption	4.4	3.5	-2.7	2.3	3.7	4.1
Government Consumption	1.4	9.8	3.6	-0.3	-3.4	-0.6
Gross Fixed Capital Investment	8.6	10.2	-7.7	6.6	13.1	4.9
Exports, Goods and Services	11.9	-7.1	-18.1	41.8	9.0	7.9
Imports, Goods and Services	15.9	11.9	5.2	5.3	5.5	5.5
Real GDP growth, at constant factor prices	4.0	3.2	-8.9	8.5	5.9	4.4
Agriculture	10.3	3.0	-1.7	3.0	3.0	2.8
Industry	5.5	-1.5	-20.6	40.6	9.0	4.4
Services	2.7	6.8	-0.8	-9.7	3.2	4.4
Inflation (Consumer Price Index)	3.2	2.8	1.9	5.0	4.5	4.1
Current Account Balance (% of GDP)	0.7	-8.4	-10.6	-2.6	-2.2	-0.1
Net Foreign Direct Investment (% of GDP)	1.2	1.3	-0.1	1.4	1.5	1.5
Fiscal Balance (% of GDP)[a]	-5.1	-6.2	-8.9	-6.6	-4.6	-1.3
Debt (% of GDP)	19.9	21.4	21.2	28.1	30.4	29.9
Primary Balance (% of GDP)[a,b]	-4.5	-5.5	-8.1	-5.7	-3.3	0.1
International poverty rate ($1.9 in 2011 PPP)[c,d]	12.1	12.0	15.0	13.1	12.1	11.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	32.7	32.5	37.1	34.2	32.7	31.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	56.4	56.2	59.4	57.6	56.3	55.7
GHG emissions growth (mtCO2e)	-1.7	-0.1	-2.3	4.7	1.2	1.1
Energy related GHG emissions (% of total)	27.1	27.0	25.1	26.4	27.1	27.7

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

(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).
(b) Refers to Public and Publicly Guaranteed debt.
(c) Calculations based on 2015-BMTHS.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.
(d) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

BURKINA FASO

Table 1	2020
Population, million	20.9
GDP, current US$ billion	15.9
GDP per capita, current US$	760.8
International poverty rate ($1.9)[a]	43.8
Lower middle-income poverty rate ($3.2)[a]	76.7
Upper middle-income poverty rate ($5.5)[a]	92.3
Gini index[a]	35.3
School enrollment, primary (% gross)[b]	94.5
Life expectancy at birth, years[b]	61.6
Total GHG Emissions (mtCO2e)	65.5

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

Economic growth is expected to rebound slightly above its potential in 2021 associated with some inflationary pressure, especially of food products. The current account deficit will widen with less favorable terms of trade and strong import demand. The fiscal deficit will remain large at 5.5 percent of GDP in 2021 before gradually returning to the WAEMU convergence criteria by 2024. Over the medium term, annual per capita income growth is projected at around 2.4 percent, contributing to a modest pace of poverty reduction.

Key conditions and challenges

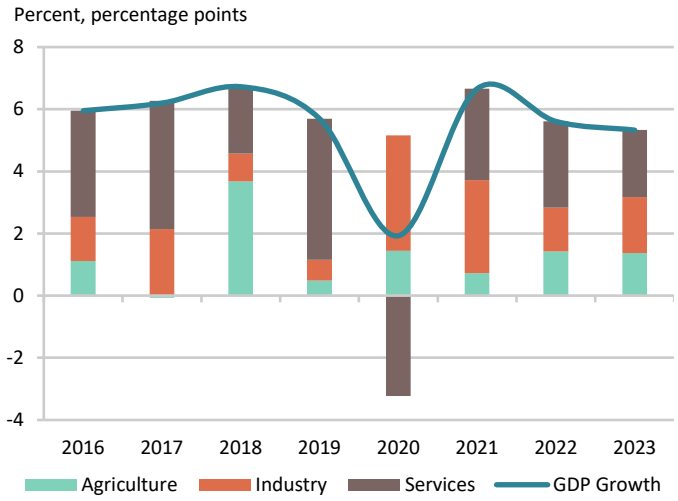
The primary sector contributes a quarter of the country's GDP. Cotton, once the largest export commodity, remains the major cash crop. The secondary sector contributes a similar share to the economy, almost 75 percent of which is generated by a booming mining industry, with gold now accounting for about 85 percent of export proceeds. Services account for about half of GDP, with retail, transportation, and the public sector generating most jobs and value addition. Public service delivery has been facing an increasingly difficult security context outside the capital city of Ouagadougou with growing violence and conflict and an unprecedented increase in internally displaced persons (IDPs). For the poor, access to basic services such as electricity and water is extremely limited and has seen little progress over time. Absolute levels of access are still very low compared to the regional average, while the gap in progress between those at the top 60 percent and bottom 40 percent of the consumption distribution has widened.

Burkina Faso's prospects are fraught with uncertainties. The COVID-19 pandemic continues to subject the economy to significant risks, as lockdowns and slow vaccination rollout could lead to further waves of infections and subdue domestic demand. An extended negative shock to foreign demand could impede foreign investment inflows and keep the tourism and hospitality sector in a state of crisis. The terms of trade could also quickly shift back to the disadvantage of Burkina Faso, expanding the trade deficit. The security crisis could further destabilize an already fragile situation, affecting mining activities and/or disrupting labor supply in the agricultural sector. Finally, the agricultural sector remains highly vulnerable to climate shocks and natural disasters, particularly droughts, floods, and locust invasion.

Recent developments

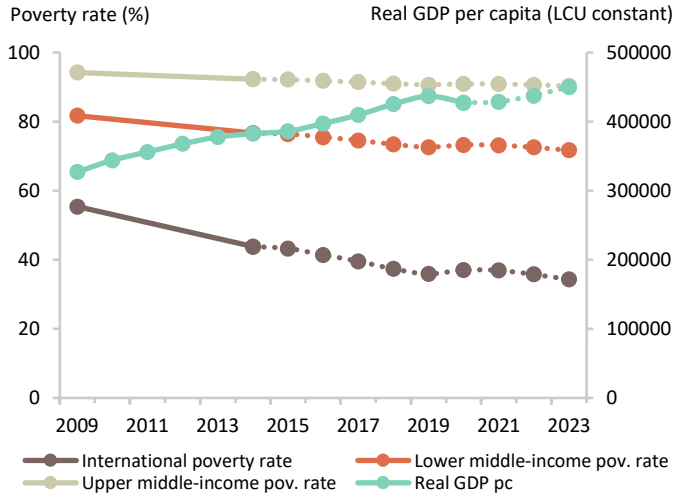
In the wake of the COVID-19 shock, real GDP only rose by 1.9 percent (-1 percent in per capita terms) in 2020. The primary sector sustained relatively high production levels throughout the year, both for subsistence crops and cotton. The secondary sector suffered some early losses in the year but bounced back strongly, supported by gold extraction (+25 percent). In contrast, the tertiary sector contracted in 2020, severely affected by mass closures of businesses and social distancing measures. Strong growth was reported in 2021-Q1 (+14.7 percent y/y). By August 2021, CPI inflation picked up to 2.8 percent (y/y), driven by a rise in food prices (+6.3 percent y/y) that continues to put pressure on food security. High gold and low oil prices positively impacted the country's trade balance. The fiscal balance deteriorated to 5.7 percent in 2020, mostly on account of unforeseen COVID-19-related expenditures, translating into an

FIGURE 1 **Burkina Faso** / Real GDP growth and contributions to real GDP growth



Source: World Bank staff estimates.

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



Source: World Bank. See Table 2.

increase in public debt. Burkina Faso's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a peg between the CFA Franc and the Euro. Its reserves have remained stable since 2019 and reached an estimated 5.8 months of imports in 2020, due to large donor support and Eurobond issuances. To support the regional economy and COVID-19 related extra spending, the BCEAO implemented a set of monetary and macroprudential measures beginning in March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds. These measures were extended into 2021.

The extreme poverty rate measured by the US$1.9 a day (2011 PPP) poverty line was 38 percent in 2019. Simulations suggest that in 2020 the COVID-19 crisis increased the extreme poverty rate by about one percentage point. This increase in the poverty rate combined with the fast increase in population growth results in additional 330,000 extreme poor people. Findings from eight waves of high frequency surveys conducted between 2020 and 2021 suggest that the pandemic negatively impacted economic activities and led to an increase in unemployment and a sharp reduction in households' incomes. With less or no sources of income, many households were not able to make ends meet, and about 50 percent of the interviewees reported that they can no longer meet their dietary needs. At the same time, the intensifying insecurity in the country has put more people (especially the poor and vulnerable) at risk of being displaced and deprived of employment opportunities and access to basic services. The coverage and generosity of social protection programs have been limited and not always well targeted. Only 8.8 percent of households declared receiving COVID-19-related assistance.

Outlook

The economy is expected to rebound in 2021 with growth projected at 6.7 percent—before falling back to its medium-term potential of around 5.3 percent (2.4 percent per capita). CPI inflation is projected to stabilize at around 2.5 percent in the medium term. The CAD is expected to increase in 2022 as the negative trade balance continues to widen on account of higher imports in the mining and health sectors and a deterioration in the terms of trade. The fiscal deficit is projected to remain high at 5.5 percent of GDP in 2021, but to gradually converge toward WAEMU's 3 percent of GDP target by 2024. As grants are projected to decline to about 2 percent of GDP, an increase in mining revenues and further improvements in tax collection are expected to support the revenue base. Public debt is projected to peak at below 50 percent of GDP in 2023 and to decline thereafter. With about half of the debt stock on concessional terms the risk of debt distress remains moderate. In August 2021, the BCEAO received 1.4 percent of aggregate GDP in additional SDR allocations from the IMF. The SDRs have been temporarily on-lent to member countries, with Burkina Faso receiving the equivalent of 0.9 percent of its 2020 GDP.

The poverty rate is projected to fall back to pre-COVID (2019) levels by 2021. However, due to fast population growth, the number of poor people will fall back to pre-COVID (2019) levels only in 2023.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.7	5.7	1.9	6.7	5.6	5.3
Private Consumption	2.0	3.5	1.2	11.0	7.9	6.9
Government Consumption	8.1	13.4	8.0	7.7	0.9	-2.1
Gross Fixed Capital Investment	16.1	3.3	-19.8	21.3	13.3	6.9
Exports, Goods and Services	10.1	4.8	15.4	8.0	5.7	3.4
Imports, Goods and Services	7.7	2.5	-0.7	25.2	12.0	4.3
Real GDP growth, at constant factor prices	6.7	5.7	1.9	6.7	5.6	5.3
Agriculture	13.3	1.7	5.2	4.7	5.0	5.0
Industry	2.8	2.3	12.2	7.9	4.1	5.5
Services	5.6	9.6	-5.1	7.0	6.8	5.3
Inflation (Consumer Price Index)	2.0	-3.2	1.9	3.5	3.0	2.5
Current Account Balance (% of GDP)	-4.1	-3.3	-0.1	-2.5	-4.1	-4.3
Net Foreign Direct Investment (% of GDP)	1.2	0.9	0.6	0.5	0.5	0.6
Fiscal Balance (% of GDP)	-4.3	-3.2	-5.7	-5.5	-4.8	-4.0
Debt (% of GDP)	39.4	43.9	47.8	49.5	49.8	49.8
Primary Balance (% of GDP)	-3.2	-1.9	-4.4	-3.9	-2.9	-2.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	39.7	38.1	38.6	36.6	35.2	34.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	74.6	73.8	74.1	73.0	72.2	71.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.5	91.2	91.3	90.9	90.5	90.3
GHG emissions growth (mtCO2e)	0.9	4.1	4.1	4.1	4.1	4.1
Energy related GHG emissions (% of total)	9.0	9.3	9.7	10.0	10.3	10.7

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

(a) Calculations based on 2009-ECVM and 2014-EMC.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.

(b) Projection using annualized elasticity (2009-2014) with pass-through = 1based on GDP per capita in constant LCU.

BURUNDI

Table 1	2020
Population, million	11.9
GDP, current US$ billion	3.2
GDP per capita, current US$	268.9
International poverty rate ($1.9)[a]	72.8
Lower middle-income poverty rate ($3.2)[a]	89.6
Upper middle-income poverty rate ($5.5)[a]	96.9
Gini index[a]	38.6
School enrollment, primary (% gross)[b]	119.0
Life expectancy at birth, years[b]	61.6
Total GHG Emissions (mtCO2e)	9.5

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

Economic growth is projected at 2 percent in 2021 from 0.3 percent in 2020, driven by a recovery in services and continued growth in agriculture. Industrial growth will be subdued due to mining disputes. Growth is expected to improve further to 2.5-3 percent in 2022-2023, but it remains below population growth, resulting in rising extreme poverty, which is estimated to reach 87.1 percent in 2021. Burundi faces severe macroeconomic challenges, including large external imbalances, fiscal pressures, and growing public debt.

Key conditions and challenges

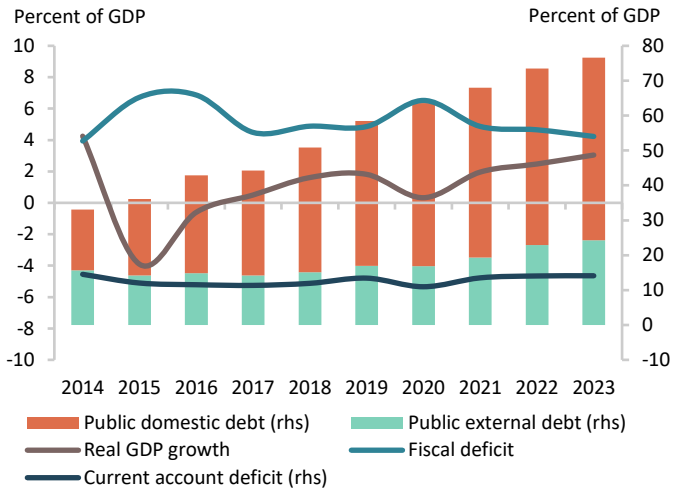
Burundi's development has been hampered by structural weaknesses. The challenges are numerous and can be most readily summarized in the persistent over-reliance on low-productivity subsistence agriculture, which reflects limited job-creating, productivity-enhancing private sector growth. An unconducive business climate, weak governance, high aid dependence, and low and volatile public and private investments constrain development of the private sector. High population growth and food insecurity add to the human development challenges. These weaknesses have been exacerbated since 2015 by large external imbalances, fiscal pressures, constrained access to forex, exchange rate overvaluation and fiscal dominance of monetary policy.The COVID-19 pandemic poses additional challenges to households, firms, and macroeconomic performance. A survey revealed large proportions of households with declining off-farm incomes and facing food insecurity as well as large proportions of businesses with declining sales, difficulty accessing inputs and cash flow crunches because of the pandemic. The effects of the pandemic have also intensified macroeconomic imbalances with lower economic growth and persistently high fiscal and external deficits. The National Development Plan 2018-2027 outlines growth drivers, associated with the objectives of improving infrastructure provision, human development, and environmental management. However, acceleration of economic growth will depend on adequate financing and reforms to address key weakness in economic management.

Recent developments

Growth in 2021 is projected at 2 percent, up from 0.3 percent in 2020. This has been supported by an easing of COVID-19 related restrictions, including a lifting of quarantine requirements and re-opening of borders. The services sector is expected to rebound, while agricultural growth is also expected to pick up slightly. Industrial sector growth is expected to decline due to a suspension of mining. On the demand-side, growth was supported by private consumption and recovery in investment. Inflation is projected to remain high at 7 percent in 2021 mainly due to higher food prices and likely by the monetization of the fiscal deficit.

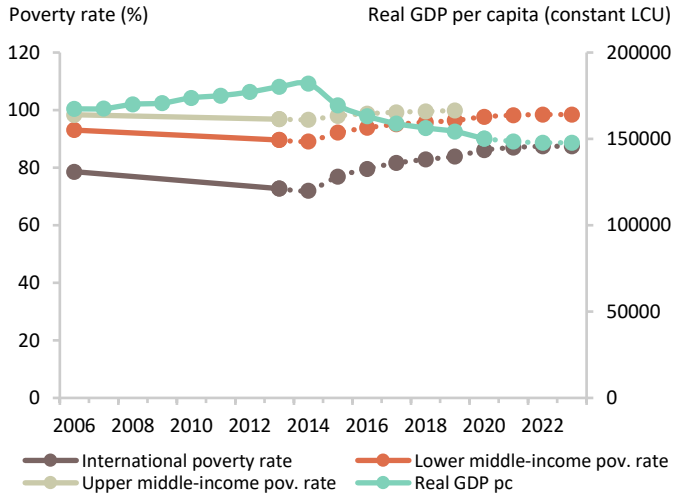
The fiscal deficit is expected to decline but remain high at 4.9 percent of GDP in 2021 from 6.5 percent of GDP in 2020 and 4.9 percent in 2019. The projected increase in revenue collection is insufficient to offset expenditures, especially with costly recurrent COVID-19 related expenditures. Fiscal deficit financing led to further increases in public debt projected to reach 68 percent of GDP (of which 74 percent is domestic).

FIGURE 1 Burundi / Real GDP growth, public debt, fiscal and current account deficit



Sources: Official statistics and World Bank calculations.

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



Source: World Bank. Notes: see table 2.

Driven by higher oil prices, the current account deficit (CAD) remained high at an estimated 13.5 percent of GDP, reinforcing concerns about its financing and sustainability. The rebound in exports was limited by weak mining exports as the government suspended the activities of multinational mining companies to renegotiate contract. The exchange rate remained overvalued with the parallel market premium averaging 70 percent in end-June 2021, while the official exchange rate depreciated only by 3.2 percent year-on-year. International reserves remained low covering 0.8 months of imports in June 2021.

GDP growth per capita remains negative. Poverty has been estimated at 87.1 percent in 2021 (based on international poverty line of $1.90/capita/ day, in 2011 PPP), up from 72.8 percent in 2013 (the last year with data availability). Progress has been made in education and health, yet Burundi's Human Capital Index remains low at 0.39. Literacy rates remain particularly low among women and rural residents and stunting rates are alarmingly high, affecting an estimated 57.6 percent of children under 5. COVID-19 is likely exacerbating these vulnerabilities.

Outlook

Considering only the limited economic reforms that have been announced, economic growth is projected at 2.5-3 percent during 2022-23, supported by gains in all sectors. Assuming favorable rainfall, agriculture will grow faster in 2022 as borders are reopened for regional trade. Industrial activity is projected to pick up assuming a resolution in mining disputes and increased power generation from a regional hydroelectric dam that is expected to be completed by end-2021. On the demand side, private consumption and investment in public and private sectors are projected to remain high under the gradual economic recovery.

The fiscal deficit is expected to narrow in 2022-23, driven by measures to bolster revenue collection. However, it will remain above 4 percent of GDP as the pace of increase in revenue mobilization and external support will only pick up gradually. With limited external grants, public debt is expected to rise further to 77 percent of GDP in 2023 due to issuance of new external and domestic debt. The CAD is expected to remain high at around 14 percent of GDP in 2022–23, as the overvalued exchange rate leads real growth in imports to outstrip export growth (expected to be driven by minerals alongside traditional exports). The deficit will continue to be financed primarily by trade credits and external government borrowing. Forex reserves are expected to improve significantly with SDR allocations. Poverty (measured against the US$ 1.90 poverty line) is projected to reach 87.5 percent in 2022–23.

Given the country's continued dependence on agriculture and growing risks of weather variability due to climate change, the growth outlook is subject to especially high risks. The outlook is also vulnerable to the COVID-19 pandemic as Burundi has only now taken a first step towards the AVAT initiative but has not yet started a national vaccination campaign. On the upside, the Government's efforts to reengage with development partners could help resume aid flows though it is likely to take time to translate into significant increases in external support. Reforms such as in forex, monetary policy and public financial management would accelerate growth.

TABLE 2 Burundi / 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	1.6	1.8	0.3	2.0	2.5	3.0
Private Consumption	3.5	3.1	0.3	2.7	3.1	3.3
Government Consumption	6.7	8.3	19.2	0.4	0.5	1.1
Gross Fixed Capital Investment	24.9	32.9	-16.6	14.4	11.8	11.9
Exports, Goods and Services	11.0	-0.5	-14.9	4.8	7.7	7.9
Imports, Goods and Services	19.0	17.1	3.4	6.0	5.8	5.7
Real GDP growth, at constant factor prices	1.7	1.8	0.3	2.0	2.5	3.0
Agriculture	3.0	3.1	2.8	3.1	3.2	3.2
Industry	2.4	2.1	1.8	1.6	2.2	2.5
Services	0.7	0.9	-1.7	1.4	2.1	3.0
Inflation (Consumer Price Index)	-2.6	-0.8	7.5	7.0	6.0	5.4
Current Account Balance (% of GDP)	-11.9	-13.4	-10.9	-13.5	-14.1	-14.1
Net Foreign Direct Investment (% of GDP)	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Fiscal Balance (% of GDP)	-4.9	-4.9	-6.5	-4.9	-4.6	-4.2
Debt (% of GDP)	50.9	58.5	63.6	68.0	73.5	76.6
Primary Balance (% of GDP)	-4.5	-4.3	-5.2	-3.3	-3.0	-2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	82.9	84.0	86.2	87.1	87.5	87.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	95.8	96.5	97.7	98.3	98.5	98.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	99.6	99.9				
GHG emissions growth (mtCO2e)	1.3	2.4	2.9	4.3	4.1	4.5
Energy related GHG emissions (% of total)	14.5	14.4	14.1	12.2	11.5	10.9

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

(a) Calculations based on 2006-QUIBB and 2013-ECVMB.Actual data: 2013. Nowcast: 2014-2020. Forecast are from 2021to 2023.

(b) Projection using point-to-point elasticity (2006-2013) with pass-through = 1based on GDP per capita in constant LCU.

CABO VERDE

Table 1	2020
Population, million	0.6
GDP, current US$ billion	1.7
GDP per capita, current US$	2833.3
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	15.4
Upper middle-income poverty rate ($5.5)[a]	41.3
Gini index[a]	42.4
School enrollment, primary (% gross)[b]	104.0
Life expectancy at birth, years[b]	73.0
Total GHG Emissions (mtCO2e)	0.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

The COVID-19 crisis led to a contraction in real GDP of 14.8 percent in 2020, exacerbating pre-existing fiscal, debt, and external imbalances. Progress in poverty reduction since 2015 was erased. A modest recovery is projected in 2021, led by the gradual recovery of tourism. Over the medium-term, growth should pick up as tourism and foreign direct investment rebound. The outlook is subject to substantial downside risks stemming from new COVID-19 variants, the speed of global recovery, and climatic shocks.

Key conditions and challenges

Political stability, democratic institutions, and pro-market reforms have generated significant economic and social progress since independence in 1975. However, Cabo Verde's development model, based on tourism and Foreign Direct Investment (FDI) has shown signs of fatigue since the 2008 Global Financial Crisis. The subsequent sluggish recovery in Europe reduced the influx of funds, with dwindling private investment and growth. Ineffective expansionary fiscal policy between 2010-2015 led to growing fiscal financing needs and public debt. To put public debt on a sustainable path, authorities initiated a fiscal consolidation program in 2016, including reform of key loss-making State Own Enterprises (SOEs).

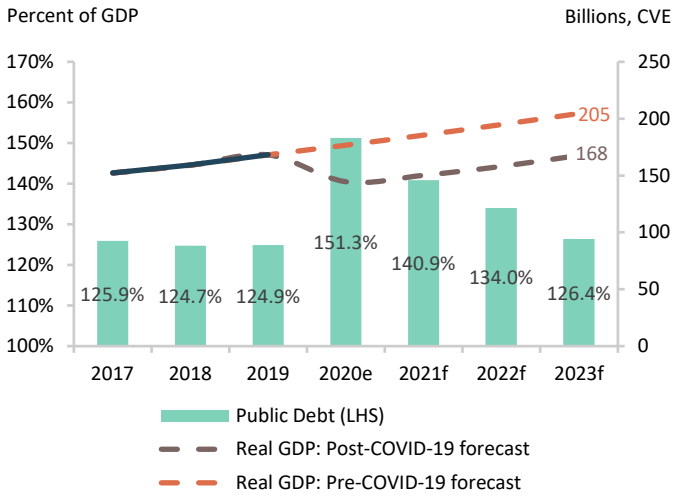
The impact and persistence of the COVID-19 pandemic exacerbated the vulnerabilities of the growth model. In addition to the adverse economic effects of domestic containment and mitigation measures, international travel restrictions led to a sharp contraction in tourism and related activities. Rising global uncertainty also depressed FDI. Authorities responded to the crisis by expanding public health services and social protection programs, as well as providing financial support to small businesses and hard-hit sectors. However, poverty reduction gains made over the past five years were reversed driven largely by substantial temporary job losses, particularly in the tourism sector. The pace of the economic recovery is tied to the duration of the pandemic, the emergence of new COVID variants, and the speed of global recovery, particularly international tourism from Europe. Fiscal risks are high as the government is exposed to contingent liabilities in sectors that are particularly vulnerable to the crisis. A protracted pandemic would aggravate the current crisis, potentially triggering these liabilities and leading to macroeconomic instability. Cabo Verde remains significantly exposed to natural disasters that could further weigh on external and fiscal balances.

Recent developments

Economic activity contracted by 14.8 percent in 2020, the largest contraction on record. The deceleration was driven by the shutdown of the tourism sector. The services sector contracted by 19.2 percent, while industrial and agriculture output declined by 2 and 6.3 percent, respectively. During the first quarter of 2021, real GDP continued contracting by 10.9 percent (year-on-year). Leading indicators show that growth resumed in the second quarter, driven by a small recovery in tourism.

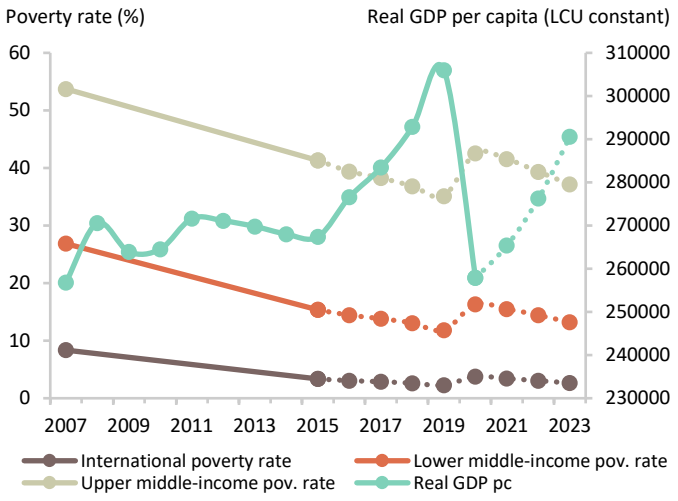
The Current Account Deficit (CAD) increased from 0.4 percent of GDP in 2019 to 16.5 percent in 2020, due to the collapse in services exports. The CAD was financed primarily by grants and concessional loans. International reserves stood at 7.8

FIGURE 1 **Cabo Verde** / GDP per capita and debt outlook



Sources: World Bank and IMF staff estimates. Note: Pre COVID-19 GDP forecast refers to the 2019 Annual Meetings Macro-.poverty Outlook.

FIGURE 2 **Cabo Verde** / Actual and projected poverty rates and GDP per capita



Source: World Bank. Notes: See Table 2.

months of imports. In the first quarter of 2021, the CAD improved, relative to the previous three quarters, as the trade and service balance deficits declined.

The overall fiscal deficit reached 8.8 percent of GDP in 2020, driven by a fall of 20 percent in tax revenue and an increase of 0.7 percent in current expenditure. Financing needs of 11 percent of GDP were covered by concessional credits, grants, domestic borrowing, and resources freed by the Debt Service Suspension Initiative (DSSI). The stock of public debt climbed to 155.2 percent in 2020. The risk of external and total debt distress is high but public debt remains. The overall deficit continued deteriorating in the first quarter of 2021, recorded a deficit of 2.1 percent of GDP.

Cabo Verde's monetary policy is aligned with the Eurozone, as the Escudo is pegged to the Euro. Despite an accommodative monetary policy stance, inflation remained subdued at 0.6 percent in 2020.

The pandemic erased gains in poverty reduction achieved since 2015. The population living under the lower-middle income country poverty line of $3.2/day (2011) increased from 11.8 percent in 2019 to 16.3 percent in 2020. The large contractions in tourism and related sectors, particularly Boa Vista and Sal islands influence the increase in poverty.

Outlook

The economy will recover modestly from the pandemic. Real GDP growth is projected to be 4 percent in 2021 and gradually accelerate to 6.1 by 2023 with GDP per capita reaching the 2019 level by 2024. In the short-term, the recovery will be driven by a gradual reactivation of the tourism sector. Over the medium-term, private consumption and investment in tourism and the blue economy will contribute to closing the output gap. The outlook is subject to substantial downside risks stemming from climate shocks, delays in the recovery of tourism, financial flows, and SOE reforms.

The CAD is projected to reach 13.5 percent of GDP in 2021, converging to 3.7 by 2023. Medium-term external financing needs are expected to be covered mainly by FDI, which is expected to reach 4.2 percent of GDP in 2023. International reserves would remain steady at about 6 months of imports.

Authorities are committed to macroeconomic stabilization in the short-term and fiscal consolidation in the medium-term. Consolidation measures will include the removal of some COVID-19 measures, enhanced management of fiscal risks, notably from SOEs, and revenue mobilization. The primary deficit is projected to reach 11.1 percent of GDP in 2021 and improve over the medium term to 1 percent by 2023. The public debt-to-GDP ratio is expected to fall to 139.6 by 2023. The decision to reverse the privatization of Cabo Verde Airlines further exacerbate fiscal risks. Inflation is projected to remain below 1.5 percent over the medium-term.

The poverty rate (using the low-middle income poverty line of $3.2/day) is projected to decline to 15.5 percent in 2021 and 13.2 percent by 2023. Social protection reforms in response to COVID-19 supporting the poorest and most vulnerable households will support poverty reduction. In 2020, 5,450 additional households received emergency cash transfers, more than doubling the regular coverage. And In 2021 the Government further expanded the temporary emergency cash transfers, reaching a total of over 22,000 households in July 2021.

TABLE 2 Cabo Verde / 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	4.5	5.7	-14.8	4.0	5.2	6.1
Private Consumption	1.5	5.9	-11.3	3.8	4.9	5.8
Government Consumption	2.2	4.8	0.8	1.9	1.1	1.0
Gross Fixed Capital Investment	4.1	-6.3	19.7	1.1	4.3	4.0
Exports, Goods and Services	11.7	8.7	-58.4	20.2	28.1	17.6
Imports, Goods and Services	5.7	0.8	-22.5	7.9	13.1	8.6
Real GDP growth, at constant factor prices	4.5	5.7	-14.8	4.0	5.2	6.1
Agriculture	-18.5	-6.8	-6.3	0.1	0.8	1.1
Industry	8.1	7.5	-2.0	3.1	4.7	5.3
Services	6.3	6.3	-19.2	4.7	5.8	6.8
Inflation (Consumer Price Index)	1.3	1.1	0.6	1.0	1.5	1.5
Current Account Balance (% of GDP)	-6.6	-0.4	-16.5	-13.5	-7.5	-3.7
Net Foreign Direct Investment (% of GDP)	4.7	4.2	4.2	4.1	4.2	4.2
Fiscal Balance (% of GDP)	-2.7	-1.8	-8.8	-13.7	-5.4	-3.7
Debt (% of GDP)	124.7	124.1	155.2	158.8	151.9	139.6
Primary Balance (% of GDP)	-0.2	0.8	-5.9	-11.1	-2.4	-1.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	2.6	2.3	3.8	3.4	3.1	2.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	13.1	11.8	16.3	15.5	14.4	13.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	36.8	35.1	42.5	41.5	39.3	37.1
GHG emissions growth (mtCO2e)	4.4	3.9	-6.0	-1.7	2.6	3.9
Energy related GHG emissions (% of total)	87.2	88.4	89.1	92.2	92.7	92.8

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

(a) Calculations based on 2015-IDRF.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

CAMEROON

Table 1	2020
Population, million	26.5
GDP, current US$ billion	39.6
GDP per capita, current US$	1494.3
International poverty rate ($1.9)[a]	26.0
Lower middle-income poverty rate ($3.2)[a]	47.0
Upper middle-income poverty rate ($5.5)[a]	71.0
Gini index[a]	46.6
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	59.3
Total GHG Emissions (mtCO2e)	124.4

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

Cameroon's economy is recovering, with real GDP growth projected to reach 3.4 percent in 2021 (up from 0.7 percent in 2020) and 4.4 percent by 2023. The pandemic is likely to have increased poverty for the first time in a decade. Continued expenditure controls and improved revenue mobilization will support fiscal consolidation in the medium term. The country remains at high risk of debt distress, but public debt is assessed as sustainable.

Key conditions and challenges

Cameroon is a commodity- and oil-dependent country, representing 45 percent of the Central African Economic and Monetary Community's GDP in 2020, making it the largest economy in the region. The oil sector accounted for 2.9 percent of GDP in 2020, 13.6 percent of fiscal revenues and more than 40 percent of export earnings, highlighting the country's high dependency on commodities and vulnerability to demand and prices.

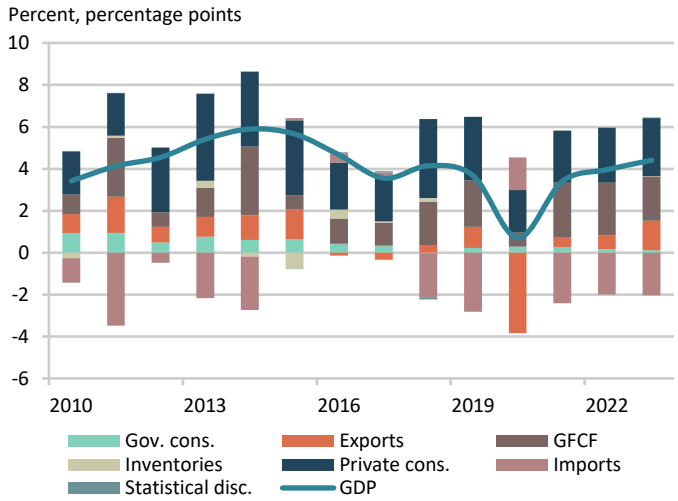
In addition to the challenges brought in by the pandemic, Cameroon faces significant development challenges including high risk of debt distress, incomplete implementation of fiscal reforms, climate change issues, attacks by Boko Haram in the Far North, and a sociopolitical crisis in the North-West and South-West regions. The debt stock has been increasing since 2016, which calls for improved debt sustainability to support the economic recovery and attracting new investment. Between 2007 and 2014, the country managed to reduce the share of the population living in extreme poverty, but the poverty rate at $1.90 a day has stagnated at around 25 percent since then. The COVID-19 crisis has reversed progress in poverty reduction, with the poverty rate estimated to have increased in 2020. Going forward, improving governance, and achieving greater transparency to build public trust are critical to achieve more inclusive and sustainable growth.

Recent developments

Economic activity started to pick up in 2020Q3 and has been sustained since then. On the supply side, this performance is attributable to the positive contribution of the secondary sector, including the textile and chemical industries and the strong performance of construction and public works in the run-up to the 2021 and 2022 football competitions. The primary sector has also had a positive contribution to growth as the Cameroon Development Corporation (CDC), one of the major agribusiness companies, resumed its banana exports after shutting down due to conflicts in the South-West and North-West regions since 2016. Domestic consumption improved in 2021Q1, as reflected by increased food, beverage, and housing prices. The current account deficit widened by 0.2 percent of GDP, year-on-year, at end-2021Q1, driven by an increase in imports since early 2021.

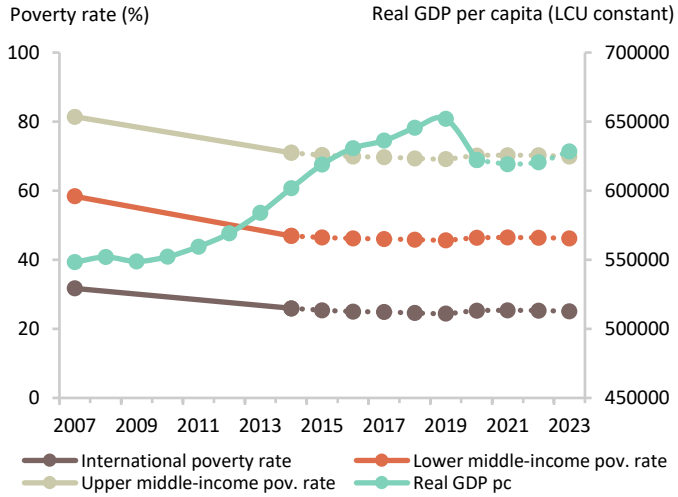
Higher-than-expected oil prices, good VAT collection due to light containment, and public spending reprioritization, helped contain the fiscal deficit at 3.8 percent of GDP in 2020 (from 3.3 percent of GDP in 2019). Since the beginning of 2021, recovering oil prices as well as digitalization of tax and customs procedures further supported the increase in public revenues. Meanwhile, expenditure control measures reduced public spending by 0.4 percent of GDP, year-on-year, in 2021Q1, reflecting reduced staff expenses and savings from Cameroon's renewed participation in the Debt Service Suspension Initiative (expected to last until

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



Source: World Bank.

FIGURE 2 Cameroon / Poverty rate and GDP per capita



Source: World Bank. Notes: see Table 2.

December 2021). The overall fiscal balance showed a surplus of 0.3 percent of GDP at end-March 2021. The latest Debt Sustainability Analysis (July 2021) assessed Cameroon at high risk of external and overall public debt distress.

A national phone survey on the COVID-19 impact revealed a slowdown in business activities, and job and income losses. Containment measures, including the closure of the air and land borders, have impacted vulnerable jobs in both the formal and informal sectors.

The vaccination campaign started in mid-April 2021, with the gradual supply of vaccines from COVAX, AVATT and Sinopharm. However, only 2.6 percent of the population has received at least one dose of the vaccine.

Outlook

Cameroon's economic activity is expected to gradually recover from 2021 onwards on the back of dynamic secondary and tertiary sectors, coupled with improved external demand. Higher oil production and prices, together with a rebound in services and external demand, are expected to translate into more robust private consumption and investment. With an average real GDP growth rate of 3.9 percent over 2021-2023, per capita GDP should return to its pre-COVID-19 level by 2023. The steady rollout of COVID-19 vaccines across the world will support a faster growth recovery. As imports and transfers from abroad increase, the current account deficit is projected to widen from 3.4 percent of GDP in 2020 to 3.7 percent of GDP in 2021 but will narrow to 3.5 percent of GDP by 2023. The deficit will be financed through foreign direct investment and the Eurobond issuance of US$812.20 million to partially buy back the 2015 Eurobond. Meanwhile, the country's fiscal deficit is expected to narrow from 3.8 percent of GDP in 2020 to 2.8 percent of GDP in 2023, reflecting the government's fiscal consolidation efforts. The new allocation of Special Drawing Rights from the International Monetary Fund, equivalent to $370 million (0.87 percent of GDP) will provide additional liquidity to meet some of the country's financing needs. Poverty projections suggest that the rate of extreme poverty will remain high (around 25 percent) and almost unchanged between 2021 and 2023. The number of poor households will continue to increase, with an additional 166,000 people falling into extreme poverty in 2021. Poverty rates are expected to remain above pre-pandemic estimates till 2023. Poverty reduction efforts are expected to resume in the medium term as economic growth returns to pre-pandemic levels. Downside risks include possible renewed restrictions due to the recent surge in COVID-19 cases and a slower rollout and take-up of vaccines.

TABLE 2 Cameroon / 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	4.1	3.7	0.7	3.4	4.0	4.4
Private Consumption	5.7	4.5	3.0	3.6	3.8	4.0
Government Consumption	-0.2	1.8	2.3	2.1	1.4	1.0
Gross Fixed Capital Investment	7.9	8.1	2.4	9.1	8.2	6.7
Exports, Goods and Services	1.8	5.1	-19.1	2.8	4.1	8.8
Imports, Goods and Services	8.1	10.5	-5.4	9.0	7.0	7.0
Real GDP growth, at constant factor prices	4.1	3.6	0.7	3.4	4.0	4.4
Agriculture	5.1	2.8	0.1	4.1	4.8	5.6
Industry	3.1	3.6	1.3	4.1	4.4	4.5
Services	4.4	3.9	0.6	2.9	3.5	4.0
Inflation (Consumer Price Index)	1.1	2.5	2.5	2.5	2.5	2.5
Current Account Balance (% of GDP)	-3.6	-4.4	-3.4	-3.7	-3.2	-3.5
Fiscal Balance (% of GDP)	-2.5	-3.3	-3.8	-3.6	-3.4	-2.8
Debt (% of GDP)	39.3	43.0	45.8	44.3	41.2	38.4
Primary Balance (% of GDP)	-1.6	-2.4	-2.9	-2.5	-2.3	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	24.7	24.5	25.3	25.4	25.3	25.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	45.9	45.7	46.4	46.5	46.4	46.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	69.4	69.1	70.2	70.3	70.3	70.0
GHG emissions growth (mtCO2e)	0.4	1.4	-0.6	5.0	2.6	2.6
Energy related GHG emissions (% of total)	9.3	9.6	10.0	10.9	11.4	11.9

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

(a) Calculations based on 2009- and 2014-ECAM-IV.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 1based on GDP per capita in constant LCU.

CENTRAL AFRICAN REP.

Table 1	2020
Population, million	4.9
GDP, current US$ billion	2.2
GDP per capita, current US$	449.0
Gini index[a]	56.2
School enrollment, primary (% gross)[b]	102.0
Life expectancy at birth, years[b]	53.3
Total GHG Emissions (mtCO2e)	89.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2008), 2011 PPPs.
(b) WDI for School enrollment (2016); Life expectancy (2019).

Renewed insecurity is expected to push the Central African Republic's (CAR) economy into a recession in 2021. The outlook is subject to downside risks arising from a fragile security environment and uncertainties related to the COVID-19 pandemic, especially with delays in deploying vaccines—only 7 percent of adults are fully vaccinated as of August 24, 2021. The republican dialogue which was announced in June 2021 to normalize the political climate following the recent conflict is important to pave the way for peace and reconciliation.

Key conditions and challenges

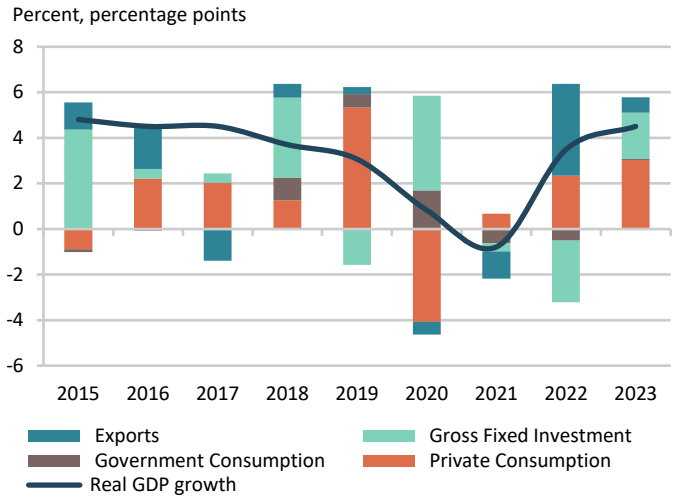
Continued political instability and cycles of violence since independence have made CAR one of the most fragile and poorest countries in the world. While endowed with ample natural resources, CAR's economy is poorly diversified, with agriculture and forestry constituting the backbone of economic activities. The agriculture sector accounts for more than 75 percent of total employment, and timber, cotton, coffee, diamond, and gold represented more than 75 percent of total exports in 2020. Poverty is elevated, with more than seven in ten Central Africans living below the international poverty line (US$1.90 per day, 2011 PPP). Inadequate social protection systems and limited access to education and healthcare facilities are major bottlenecks for human capital accumulation. The formal private sector is small and constrained by several structural challenges, including limited access to medium- and long-term financing, a weak regulatory framework, poor infrastructure (e.g., energy and transportation), lack of skilled labor, and a volatile security environment. The humanitarian situation remains precarious, with 57 percent of the population facing food insecurity, and has been exacerbated by the COVID-19 pandemic and renewed conflicts. As of July 2021, there were 699,000 refugees outside the country—the highest level since December 2013—and 691,000 internally displaced persons.

Recent developments

CAR's economic growth decelerated from 3.1 percent in 2019 to 0.8 percent in 2020 due to the COVID-19 pandemic. Disruption in global value chains delayed private investment in the construction, telecommunication, and manufacturing sectors. Public investment increased from 5.6 percent of GDP in 2019 to 11.4 percent of GDP in 2020. The Constitutional Court's decision in December 2020 to block a former president from running in the presidential elections amid an already tense political situation sparked a new round of conflict. Renewed insecurity, coupled with the protracted effects of COVID-19, is expected to push CAR's economy into a recession in 2021. Economic growth is projected to decline by 0.8 percent in 2021. Containment measures contributed to significant inflationary pressures in the first half of 2020. However, inflation decelerated markedly during the second half of 2020 as containment measures abated. As a result, inflation reached an average of 2.3 percent in 2020—below the 3 percent regional ceiling. Post-election disputes led to a blockade of the Bangui-Douala corridor for three months, which had a significant impact on prices in 2021Q1. Although inflationary pressures have abated, inflation is projected to settle above the regional convergence criteria in 2021, before declining in the medium term.

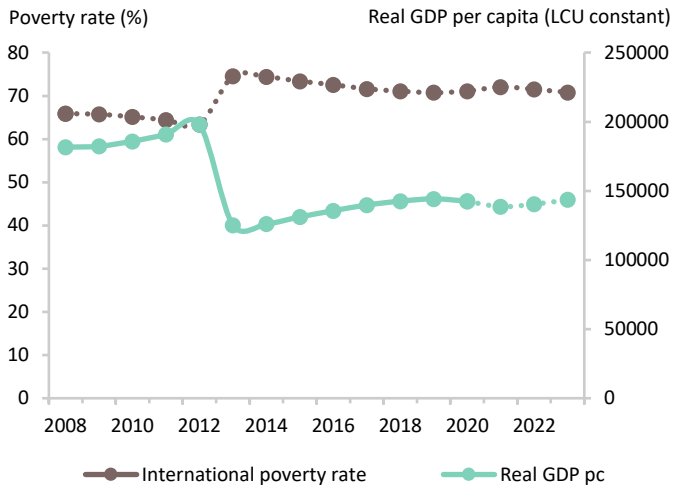
The overall fiscal balance worsened from a surplus of 1.7 percent in 2019 to a deficit of 3.3 percent in 2020, driven by higher

FIGURE 1 Central African Republic / Real GDP growth and contributions to real GDP growth



Source: World Bank.

FIGURE 2 Central African Republic / Actual and projected poverty rate and real GDP per capita



Source: World Bank. Notes: see Table 2.

public spending to fight and contain the COVID-19 pandemic. Pressures on public finances are projected to remain high in 2021 and lead to a wider fiscal deficit. Security expenses are also on the rise because of the war effort. Meanwhile, budget support from development partners has been paused or delayed for a variety reasons, including the lack of clarity and transparency surrounding the financing of certain security services and customs-related technical assistance. The recent cash flow plan indicated a potential liquidity shortage ('fiscal cliff'), implying that the government will accumulate domestic arrears and be unable to pay wages and salaries. To prevent such a situation, the government borrowed on the domestic market in May and August 2021.

The current account deficit widened from 4.8 percent of GDP in 2019 to 8.7 percent in 2020 because of weak external demand and high non-oil imports. The increase in project grants improved the capital account, while global uncertainty related to COVID-19 translated to a sharp contraction of foreign direct investment by more than 60 percent. The current account balance is projected to improve in 2021, owing to lower imports as internal demands slows.

Conflict and COVID-19 are hampering progress in reducing extreme poverty, with an expected 72 percent of the population living in extreme poverty in 2021.

Outlook

Provided that stability and security returns and the COVID-19 vaccination campaign is effectively rolled out, economic growth is expected to average 4 percent in the medium term, supported by solid agricultural and industrial output on the supply side and high private consumption on the demand side. Under these assumptions, per capita income is expected to return to its pre-COVID-19 level by 2023, implying 4 years of loss in per capita income growth. Extreme poverty is projected to remain at a high level, with a slow decline between 2021 and 2023.

Inflation is expected to remain below the convergence criteria in the medium term, contingent on stable and improved security conditions in the Douala-Bangui corridor. The fiscal position is projected to improve in 2022 onward, driven by a gradual increase in domestic revenue collection, sound expenditure management, and greater donor financing. CAR has received a new allocation of Special Drawing Rights from the International Monetary Fund equivalent to 5.8 percent of 2021 GDP, providing additional liquidity to meet some of its financing needs. Public debt is projected to remain sustainable and fall below 40 percent of GDP in 2023. The current account balance is projected to improve in the medium term, reflecting an improvement in the trade balance, but should remain structurally in deficit.

This outlook remains subject to significant improvement in the security situation throughout the country. A deterioration of the security context could delay the pace of reforms and increase poverty and vulnerabilities. The humanitarian situation could deteriorate further and fuel a renewed cycle of violence and fragility. A protracted conflict could lead to a high-country risk premium, heighten investment uncertainty, and undermine private sector development. Finally, prolonged delays in rolling out COVID-19 vaccines could expose CAR to a new wave of contamination.

TABLE 2 Central African 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	3.7	3.1	0.8	-0.8	3.5	4.5
Private Consumption	1.3	5.7	-4.2	0.7	2.5	3.3
Government Consumption	14.1	7.7	21.1	-6.5	-5.5	0.6
Gross Fixed Capital Investment	26.0	-9.6	28.9	-2.0	-14.9	13.6
Exports, Goods and Services	3.8	1.9	-3.5	-7.9	28.8	3.9
Imports, Goods and Services	8.0	4.9	1.0	-2.1	-1.0	4.0
Real GDP growth, at constant factor prices	3.6	2.6	0.8	-0.8	3.5	4.5
Agriculture	3.4	3.1	4.5	2.3	3.2	4.5
Industry	1.5	2.1	0.0	-0.2	0.3	1.0
Services	4.4	2.3	-1.3	-3.1	4.8	5.7
Inflation (Consumer Price Index)	1.6	2.8	2.3	3.8	2.6	2.5
Current Account Balance (% of GDP)	-8.0	-4.8	-8.7	-6.2	-6.2	-5.6
Fiscal Balance (% of GDP)	-1.0	1.7	-3.3	-7.1	-0.6	1.5
Debt (% of GDP)	50.0	47.9	44.1	46.2	44.0	39.5
Primary Balance (% of GDP)	-0.6	2.0	-3.0	-6.8	-0.1	2.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	71.1	70.7	71.1	72.1	71.5	70.8
GHG emissions growth (mtCO2e)	0.5	1.4	1.2	-2.0	1.1	2.0
Energy related GHG emissions (% of total)	39.2	39.3	39.1	40.1	40.7	41.4

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

(a) Calculations based on 2008-ECASEB.Actual data: 2008. Nowcast: 2009-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2008) with pass-through = 0.7 based on GDP per capita in constant LCU.

CHAD

Table 1	2020
Population, million	16.4
GDP, current US$ billion	10.6
GDP per capita, current US$	646.3
International poverty rate ($1.9)[a]	38.1
Lower middle-income poverty rate ($3.2)[a]	66.3
Upper middle-income poverty rate ($5.5)[a]	86.2
Gini index[a]	43.3
School enrollment, primary (% gross)[b]	89.2
Life expectancy at birth, years[b]	54.2
Total GHG Emissions (mtCO2e)	114.7

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

The COVID-19 pandemic led to a GDP contraction of 0.9 percent in 2020, with the poverty rate increasing to 41.7 percent and highlighting Chad's difficulties in servicing external debt. The sudden death of the President exacerbated socio-political tensions and paralyzed economic activities in the second quarter of 2021. The pandemic, growing insecurity, and climate risks, along with the dependence on oil, have heightened Chad's economic vulnerabilities. Recovery will be fragile and subject to significant downside risks related to these sources of vulnerability.

Key conditions and challenges

Since the 2015-2016 oil prices shock, Chad's oil-dependent economy has been performing below potential, keeping the country at the bottom of most development rankings. Notwithstanding a recovery during 2018-19, annual GDP growth contracted by 0.9 percent on average over the past five years, which, given the rapidly growing population, translated into an annual decrease in per capita income of 3.9 percent. Living conditions and access to essential services remain poor due to the combined effects of severe weather conditions, cyclical insecurity, political unrest, weak governance, including in the management of oil revenues, poor trade networks, low human capital investment, and the lack of infrastructure.

The pandemic and the political uncertainty have exacerbated Chad's socio-economic vulnerabilities linked to its oil dependency and exposure to conflict and climatic shocks. The combination of the global recession, disruptions in supply chains, COVID-containment measures, and financial disruptions have taken a heavy toll on the economy. In an already fragile setting, Chad has not been able to strengthen regional integration, economic transformation, or social inclusion, with poor quality health care and limited access to electricity and digital technologies.

Recent developments

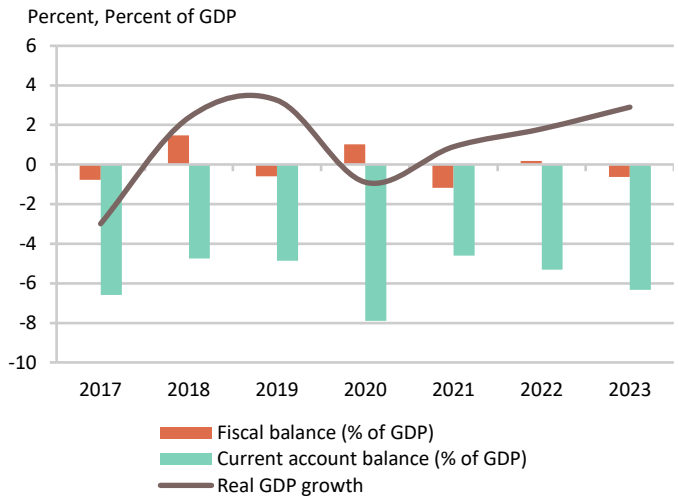
Chad entered into recession in 2020 as the economy contracted by 0.9 percent, and the output gap widened to 4.3 percent. Agriculture and the oil sector remain the main growth drivers, contributing 1.1 percentage points (pp), while services contributed negatively (-2 pp). The impact of containment measures on domestic supply chains pushed up prices, and inflation rose from -1 percent in 2019 to 3.5 percent in 2020. The passing of President Deby deepened the slowdown in economic activity in the second quarter of 2021, as the new authorities shifted public resources from critical investments toward the political transition and security-related spending.

The current account deficit widened from 4.9 percent of GDP in 2019 to 7.9 percent in 2020. The value of exports decreased by 32.4 percent, driven by a sharp drop in oil prices, although exports grew by 1.1 percent in volume terms. Import growth did not adjust proportionately.

Chad's monetary and exchange rate policies are managed by the regional Bank of Central African States (BEAC). In order to cushion the pandemic's impact, BEAC relaxed the monetary stance by cutting the policy interest rate from 3.5 to 3.25 percent in March 2020. Regional reserves stayed at their 2019 level of 3.5 months of imports in 2020 and in the first half of 2021.

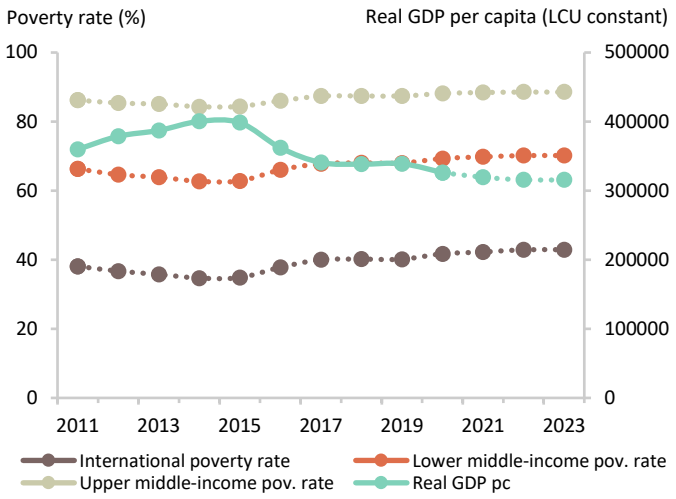
Despite a significant increase in oil revenue, due to the one-year lag in oil-revenue taxation, Chad posted a fiscal deficit, excluding grants, of 3.5 percent of GDP in

FIGURE 1 Chad / GDP growth, current account and fiscal balance



Source: The World Bank.

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



Source: World Bank. Notes: See table 2.

2020, as it increased spending to mitigate the impact of the pandemic. A significant increase in grants resulted in an overall fiscal surplus, including grants and on a commitment basis, of 1 percent of GDP. Nevertheless, increasing liquidity needs, partly stemming from growing political and security expenses and high levels of debt service relative to domestic revenue, have constrained Chad's ability to improve the delivery of basic services and infrastructure. Hence, the Government requested a debt restructuring to help restore a sustainable fiscal balance.

The international poverty rate (US$1.9/day, 2011 PPP) has increased by 1.6 pp between 2019 and 2020 to stand at 41.7 percent. It implies an increase in the number of poor from 6.4 to 6.8 million. In 2020, two-thirds of households reported a loss in their total income, 57 percent of the recipients of transfers, a decline in this source of income, and a fifth of households, not getting access to health care when needed.

Outlook

Economic growth is projected to gradually rise due to the recovery in global oil markets, international trade, and economic activity in agriculture and industry. While oil exports have already picked up, the recovery is projected to be modest in 2021, with a growth of 0.9 percent due to economic disruptions resulting from insecurity and political unrest that heavily affect services. The rollout of COVID-19 vaccines in 2021-22 might slightly boost the recovery in 2022-23, with economic growth reaching 2.4 percent on average. However, the delay in debt restructuring (necessary for donor support) could hamper the economic recovery in 2021. Inflation should decelerate to 3 percent in 2021 and remain below the CEMAC convergence criteria as the effects of supply chain disruptions subside.

The current account deficit is projected to narrow, driven by stronger crude oil export growth. Still, the current account deficit will remain substantial, averaging 5.2 percent of GDP over 2021-23. Foreign direct investment and financial support from donors are expected to help finance the deficit. CEMAC regional reserves are projected to remain below five (5) months of imports by 2023.

The fiscal balance, including grants, will turn into a deficit of 1.2 percent of GDP in 2021. Fiscal revenues are projected to decrease by 13.8 percent due to a sharp fall in oil revenue in 2020. An increase in security spending will dampen the effect of the gradual removal of COVID-related spending. By 2022, the fiscal balance should reach a surplus of 0.5 percent of GDP owing to the government's efforts to mobilize domestic revenues, a rise in oil revenue, and the gradual removal of COVID-related spending. In the absence of a significant debt restructuring, Chad will not be able to service its debts while increasing social and investment spending to meet the population's basic needs.

The adverse effects of the COVID-19 crisis on poor and vulnerable households are expected to last for several years, with the poverty rate expected to increase to 42.9 percent by 2023 and the number of poor reaching 7.7 million. The downside risks related to domestic and external shocks put at risk of falling back into poverty a large share of vulnerable households living just above the international poverty line. Moreover, the low coverage of social protection programs and lack of structural economic transformation limit the space for poverty reduction.

TABLE 2 Chad / 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	3.2	-0.9	0.9	1.8	2.9
Private Consumption	0.7	1.4	0.3	0.8	2.3	2.6
Government Consumption	-11.8	1.7	11.1	-4.4	3.4	2.8
Gross Fixed Capital Investment	5.4	6.6	-9.2	-3.0	8.8	16.3
Exports, Goods and Services	4.6	6.0	1.1	5.0	0.7	0.4
Imports, Goods and Services	1.4	4.0	1.8	4.0	4.1	4.1
Real GDP growth, at constant factor prices	2.3	3.3	-0.9	0.9	1.7	2.9
Agriculture	4.0	4.6	2.4	4.8	3.2	2.8
Industry	0.6	0.9	-0.2	0.8	1.6	1.6
Services	1.0	2.5	-5.3	-4.3	-0.6	3.4
Inflation (Consumer Price Index)	4.0	-1.0	3.5	3.0	3.0	3.0
Current Account Balance (% of GDP)	-4.7	-4.9	-7.9	-4.6	-5.3	-6.4
Fiscal Balance (% of GDP)	1.5	-0.6	1.0	-1.2	0.2	-0.8
Debt (% of GDP)	49.1	51.1	49.4	45.9	46.1	46.2
Primary Balance (% of GDP)	3.0	1.0	2.7	0.3	1.5	0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	40.2	40.1	41.7	42.2	42.9	42.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	68.0	68.0	69.3	69.8	70.1	70.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	87.4	87.4	88.2	88.4	88.6	88.6
GHG emissions growth (mtCO2e)	2.8	4.7	4.3	5.5	5.0	4.8
Energy related GHG emissions (% of total)	1.6	1.5	1.4	1.3	1.2	1.1

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

(a) Calculations based on 2011-ECOSIT-III.Actual data: 2011. Nowcast: 2012-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2011) with pass-through = 0.7 based on GDP per capita in constant LCU.

COMOROS

Table 1	2020
Population, million	0.9
GDP, current US$ billion	1.2
GDP per capita, current US$	1333.3
International poverty rate ($1.9)[a]	19.1
Lower middle-income poverty rate ($3.2)[a]	39.7
Upper middle-income poverty rate ($5.5)[a]	64.6
Gini index[a]	45.3
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	64.3
Total GHG Emissions (mtCO2e)	0.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2013), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

Comoros has been negatively affected by the COVID-19 pandemic as the economy marginally contracted in 2020. Subject to the containment of the virus at the national and international levels, and an adequate vaccine roll-out, real GDP growth could pick-up in 2022 and 2023. However, the economic expansion will be constrained by limited fiscal space to increase the aggregate demand, poor business environment and weak institutions. Poverty at the lower middle-income poverty line ($3.2) is projected to remain above 39 percent in 2021-2023.

Key conditions and challenges

Comoros pronounced institutional weaknesses and structural challenges explain the stagnant per capita GDP growth of 1 percent recorded over the past decade. Challenging geography, characterized by remoteness, a small and fragmented domestic market, and red tape, hinder private sector development. Most jobs are concentrated in informal and low-skilled sectors, as the private sector remains small. Limitations to public service delivery, particularly in healthcare and education, undermine the contribution of human capital to productivity growth. Overreliance on remittances has underpinned a consumption-driven growth trajectory and uneven progress towards shared prosperity. The monetary agreement with France (peg to the Euro) has contributed to relatively low inflation rates, with no signs of significant currency misalignment in recent years.

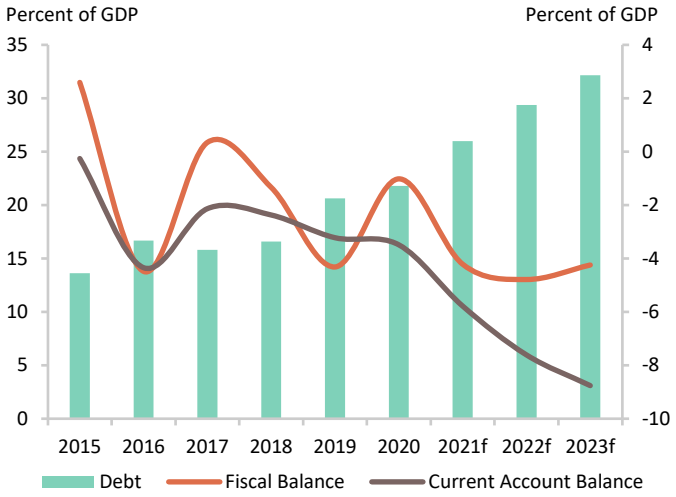
Effective state policies prevented the spread of the virus, but the consequences of the Covid-19 pandemic nonetheless increased pre-existing vulnerabilities in the financial and public sectors. Limited fiscal space and the deterioration of debt sustainability have left Comoros in a weak position to extensively use the fiscal policy to support the real economy and reduce poverty.

There are significant downside risks to these outlooks, including a third wave of Covid-19 linked to variants and existing vulnerabilities in the financial sector. Fiscal risks are high as the government is exposed to contingent liabilities from financially weak SOEs. Comoros remains highly exposed to climate shocks, which could further weigh on external and fiscal balances. Finally, GDP growth will remain below its potential due to challenging business environment and weak institutions.

Recent developments

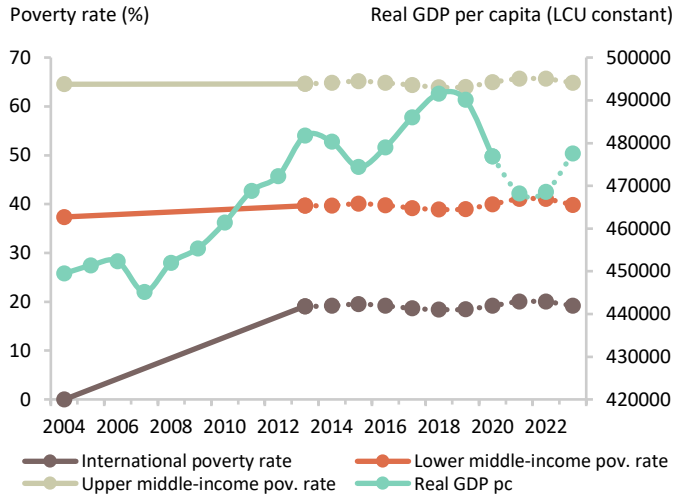
Mobility restrictions and the suspension of international travel slowed down the first wave of the pandemic, but affected economic activity, with GDP contracting by 0.1 percent in 2020. Throughout 2020, the government introduced a series of policy measures, including increased spending on health, subsidized pay for workers in key SOEs and cash transfers to the poor, which helped to mitigate the economic and social costs of the pandemic. The elevated financial needs were met by significant external budget support, including through savings from the debt service suspension. As a result, the current account deficit deteriorated to 3.5 percent of GDP in 2020 from 3.2 percent of GDP in 2019 and the fiscal deficit improved to 1.0 percent of GDP in 2020 from 4.3 percent of GDP in 2019. Supported by government measures to reduce imported prices, inflation remained contained in 2020. However, the risk of debt distress increased to high from medium following a new non-concessional loan to finance a government's project in the tourism sector.

FIGURE 1 Comoros / Selected macroeconomic indicators, 2015-2023



Sources: National authorities, and World Bank staff estimates and forecasts.

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



Source: World Bank. Notes: see Table 2.

The first semester of 2021 was characterized by the impact of a second Covid-19 wave which resulted in the reinstatement of controls on movement and activities. Despite data limitations, it is estimated that private consumption and investment, and the tertiary sector were significantly affected. Private credit growth decreased by 0.1 percent in 2021Q1 (year-on-year), and non-performing loans remained at 23 percent of total loans at end-Q1.

Amidst this challenging economic situation, consumer prices fell slightly in 2021Q1 (-5.4 percent, year-on-year) but rising inflationary pressures were observed in July 2021 (+3.1 percent, m-o-m, for food products) because of higher food and oil prices, supply chain and logistic issues. Based on the poverty line for middle-income countries (US$3.20), poverty has increased from 39.0 percent in 2019 to 40.0 percent in 2020. High frequency phone surveys, indicate that a significant share of household heads lost their jobs during the pandemic, faced food shortages and difficulty in accessing health services.

Outlook

Despite a resurgence of Covid-19 in early 2021, economic recovery is expected to be faster than projected earlier (1.3 percent compared to 0.2 percent in April 2021). Growth drivers are linked to the progressive pick-up of economic activity associated with deconfinement, and an increase in domestic demand.

As public capital expenditures and social transfers increase in 2021, the fiscal deficit is projected to widen to 4.2 percent of GDP in 2021. With imports representing about 38.9 percent of GDP and tourism arrivals being still subdued, rising domestic demand will widen the current account deficit to 5.8 percent of GDP in 2021. A deterioration of the twin deficits is envisaged within the ongoing IMF Staff Monitored Program (SMP). Inflation is projected to increase on the back of rising international prices.

Growth is expected to rebound during 2022-23 to an average of 3.1 percent if the spread of the Covid-19 is contained at the global and national levels, and Comoros accelerates the vaccine rollout. As of August, only 14 percent of Comorians were fully vaccinated. These projections assume a broad-based return to normality in the tertiary sector and stronger demand for agricultural products.

In the post-pandemic stage, it is expected that poverty will remain at a higher level in 2022 at 41.0 percent and decline slightly to 39.8 percent in 2023. This pandemic is likely to have long lasting consequences, exposing the most vulnerable. In the medium run there is an even stronger case to make growth more inclusive and broad-based, accompanied by job creation.

TABLE 2 Comoros / 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	1.8	-0.1	1.3	3.2	2.9
Private Consumption	2.4	3.6	0.4	3.5	3.2	3.3
Government Consumption	0.0	1.6	2.5	5.3	5.5	-6.2
Gross Fixed Capital Investment	19.2	-8.4	0.1	0.5	0.8	4.6
Exports, Goods and Services	19.2	9.0	-31.4	5.0	14.1	16.2
Imports, Goods and Services	12.1	5.5	-10.9	9.0	6.0	6.2
Real GDP growth, at constant factor prices	3.0	1.8	-0.3	1.3	3.2	2.9
Agriculture	5.5	0.9	0.3	4.0	3.0	1.3
Industry	2.6	4.0	-1.0	2.7	2.2	1.8
Services	2.0	1.8	-0.5	-0.2	3.5	4.0
Inflation (Consumer Price Index)	1.7	3.3	1.4	0.9	1.4	1.5
Current Account Balance (% of GDP)	-2.4	-3.2	-3.5	-5.8	-7.6	-8.8
Fiscal Balance (% of GDP)	-1.3	-4.3	-1.0	-4.2	-4.7	-4.0
Debt (% of GDP)	16.6	20.6	21.8	26.0	29.4	32.2
Primary Balance (% of GDP)	-1.2	-4.1	-0.8	-3.9	-4.3	-3.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	18.4	18.5	19.2	20.0	20.0	19.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	38.9	39.0	40.0	41.0	41.0	39.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	63.9	64.0	65.0	65.7	65.7	64.9
GHG emissions growth (mtCO2e)	2.5	0.6	0.5	1.9	2.7	2.4
Energy related GHG emissions (% of total)	45.4	46.0	45.6	45.6	46.1	46.7

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

(a) Calculations based on 2013-EESIC.Actual data: 2013. Nowcast: 2014-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2013) with pass-through = 0.87 based on GDP per capita in constant LCU.

DEMOCRATIC REP. OF CONGO

Table 1	2020
Population, million	89.5
GDP, current US$ billion	47.8
GDP per capita, current US$	534.1
International poverty rate ($1.9)[a]	77.2
Lower middle-income poverty rate ($3.2)[a]	91.4
Upper middle-income poverty rate ($5.5)[a]	97.9
Gini index[a]	42.1
School enrollment, primary (% gross)[b]	118.5
Life expectancy at birth, years[b]	60.7
Total GHG Emissions (mtCO2e)	682.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2012), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

Economic growth in the DRC is expected to rebound to 3.6 percent in 2021 despite pandemic-related uncertainties. With favorable global commodity prices and demand, the current account deficit shrank while consolidation efforts narrowed the fiscal deficit and helped maintain relatively stable exchange and inflation rates. Growth prospects for 2022 are favorable and poverty is expected to slightly decline, but uncertainty around the pandemic as well as political stability continue to weigh on medium-term prospects for economic growth and poverty reduction.

Key conditions and challenges

The DRC economy relies heavily on extractives as key drivers of economic growth, while the country's infrastructure remains weak. Copper and cobalt account for over 80 percent of exports, 40 percent of which are absorbed by China. This exposes the country to volatile global commodity prices and demand. With large untapped potential in agriculture, DRC is a net food importer with adverse effect on food security. Meanwhile, major structural constraints lead to under-developed service and manufacturing sectors. Improving the business environment and narrowing the infrastructure gap are needed to achieve economic diversification. Additionally, improving domestic revenue mobilization to sustainably widen fiscal space is crucial to unlock long-term growth constraints.

Political stability and good governance have also been long-standing challenges. Following a period of political stalemate, president Tshisekedi launched in late 2020 a new governing coalition. While raising the prospects for reforms, risks associated with fragile and nascent alliances, given broad coalitions of several parties and their diverging political considerations, might affect policymaking.

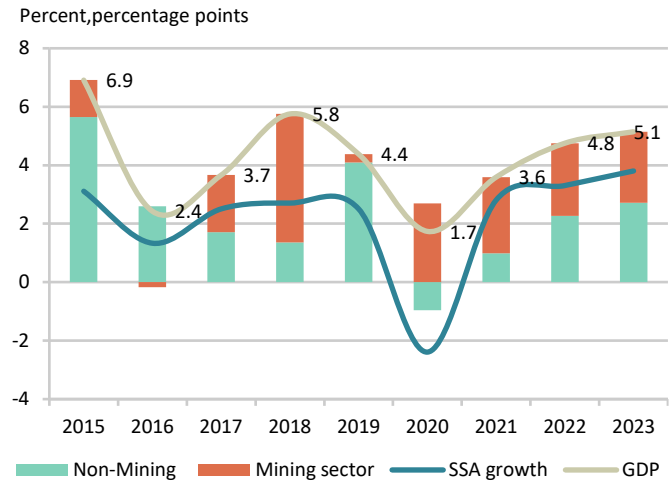
Strengthening the healthcare system remains a key challenge as the country continues to address both COVID-19 and Ebola outbreaks. A slow pace of vaccination, weak public health system and resurgent waves of the virus mean the pandemic will continue to loom over economic growth even without restrictions on most activities. With weak digital development, a prolonged pandemic could weigh negatively on private consumption and investment thus delaying economic recovery. This could also widen fiscal deficit as the Government raises spending on health to tackle COVID-19.

DRC is second only to Nigeria in Sub-Saharan Africa on the number of extreme poor (estimated at 77.2 percent in 2012, representing over 53 million people). Poverty remains widespread in the country, including in urban areas, although significant geographical disparities exist, with extreme poverty concentrated in central and northwestern provinces. Despite some improvement, social and human development indicators remain weak with the country ranking at the bottom end in terms of human capital level (HCI: 0.37).

Recent developments

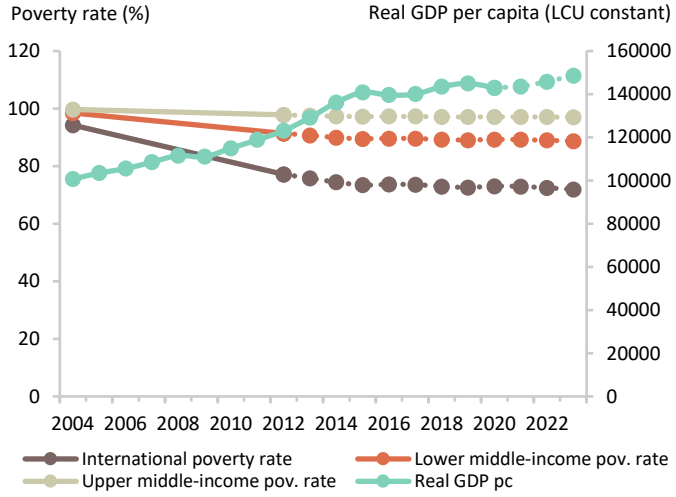
After a pandemic-induced slowdown to 1.7 percent in 2020, economic growth is expected to moderately rebound to 3.6 percent in 2021 driven by a robust growth in mining (8.7 percent), owing to rising commodity prices and production capacity expansion since May 2021 with the Kamoa-Kakula copper project commencing production. Non-mining sectors (particularly agriculture and services) are expected to gradually recover, growing at 1.4 percent

FIGURE 1 Democratic Republic of Congo / Real GDP growth and contributions to real GDP growth



Sources: Democratic Republic of Congo Statistical Authorities and World Bank.

FIGURE 2 Democratic Republic of Congo / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

in 2021 as the economy remains open despite some COVID-related restrictions.

The current account deficit (CAD) is projected to narrow to 2.0 percent of GDP in 2021 (from 2020: 2.3), reflecting a strong growth in mineral exports and global prices of copper and cobalt. FDI and international support (including the recent SDR issuance by the IMF) are likely to finance the CAD and raise international reserves to an estimated 3.4 weeks at end-2021 (from 2020: 1.9 weeks), putting downward pressures on local currency and inflation. As inflation moderated, the central bank also eased monetary policy to support economic recovery.

The fiscal deficit is projected to narrow to 1.7 percent of GDP in 2021, from 2.1 percent in 2020 . The deficit will be partially funded by the IMF ECF disbursements and project loans, which offset the repayment of T-bills. Domestic revenue collection is expected at 10.2 percent of GDP (up from 2020: 8.7), as economic recovery generates higher income taxes and VAT. This may allow the government to increase current expenditures to address high public sector wage bills, COVID-19-related spending and emergency expenditure related to the Goma volcano eruption of May 2021 while remaining on a path of fiscal consolidation.

Poverty is estimated at 73.1 percent in 2020, an increase of 0.5 percentage points compared to 2019, due to the pandemic. This increase may be underestimated since, according to COVID-19 High Frequency Phone surveys in Kinshasa, adverse socio-economic consequences of the pandemic include declines in labor and non-labor income (over 10 percent of households have seen members lose their jobs while remittances also dropped) and disruptions in both goods and services (mainly health and education) markets.

Outlook

In the medium term, the DRC economy is expected to recover gradually its pre-crisis path. Real GDP growth is projected at 4.8 percent in 2022, before reaching 5.1 percent in 2023. The mining sector remains among the key drivers of growth, thanks to favorable commodity prices, and following the second phase of production of the Kamoa-Kakula copper project expected in late 2022. Recovery in service sectors, mainly trade and telecommunications (digital development), would also positively contribute to growth.

The fiscal deficit should decline slightly given moderate economic recovery and efforts to improve domestic revenue mobilization. The CAD is also projected to narrow to 1.6 percent by 2023 as higher commodity prices improve terms of trade.

Given the lingering adverse effects of COVID-19 and with high population growth likely to partially offset economic growth, extreme poverty is projected to only slightly decline by 1.1 percentage points between 2020 and 2023.

Risks to the outlook are substantial. The Covid-19 crisis may re-emerge given potential new variants and delays in vaccination campaigns. Resurgence of Covid at a global level could dampen commodity prices and demand, while at the domestic level it may lead to renewed restrictions on mobility. Underperformance in the projected revenue mobilization coupled with substantial spending pressure associated with a prolonged pandemic, could worsen fiscal imbalances and generate further arrears. Finally, renewed political uncertainty might weaken investment.

Thus, the immediate challenge for DRC is to maintain political stability and mitigate macroeconomic imbalances to avoid tensions that may lead to major decline in economic activity. In addition, diversification is indispensable to overcome vulnerabilities associated with the high concentration of exports.

TABLE 2 Democratic Republic of Congo / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.8	4.4	1.7	3.6	4.8	5.1
Private Consumption	2.7	1.4	-1.0	1.6	1.5	1.0
Government Consumption	8.4	20.2	7.4	6.8	8.0	6.7
Gross Fixed Capital Investment	-29.5	14.4	-20.8	13.6	36.4	32.3
Exports, Goods and Services	25.7	-2.5	13.9	7.6	6.3	6.3
Imports, Goods and Services	5.9	-7.6	5.6	8.8	9.7	8.0
Real GDP growth, at constant factor prices	5.9	4.3	1.7	3.6	4.8	5.1
Agriculture	1.5	2.8	1.9	2.8	3.2	3.2
Industry	12.1	6.8	4.4	5.1	6.4	4.4
Services	1.3	2.1	-1.6	2.0	3.2	7.0
Inflation (Consumer Price Index)	29.3	4.7	11.2	10.5	7.0	5.0
Current Account Balance (% of GDP)	-3.6	-3.2	-2.3	-2.0	-1.8	-1.6
Fiscal Balance (% of GDP)	0.1	-2.0	-2.1	-1.7	-1.2	-1.1
Debt (% of GDP)	10.4	10.2	10.8	10.3	9.8	9.7
Primary Balance (% of GDP)	0.4	-1.6	-1.9	-1.5	-0.9	-0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	73.0	72.6	73.1	72.9	72.5	71.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	89.2	89.1	89.3	89.2	89.0	88.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	97.2	97.1	97.2	97.2	97.1	97.0
GHG emissions growth (mtCO2e)	-0.7	0.0	0.1	0.9	0.4	0.4
Energy related GHG emissions (% of total)	2.1	2.2	2.2	2.3	2.4	2.5

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

(a) Calculations based on 2012-E123.Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2012) with pass-through = 0.7 based on GDP per capita in constant LCU.

REPUBLIC OF CONGO

Table 1	2020
Population, million	5.5
GDP, current US$ billion	10.8
GDP per capita, current US$	1963.6
International poverty rate ($1.9)[a]	39.6
Lower middle-income poverty rate ($3.2)[a]	64.1
Upper middle-income poverty rate ($5.5)[a]	83.9
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	106.6
Life expectancy at birth, years[b]	64.6
Total GHG Emissions (mtCO2e)	20.0

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2011), 2011 PPPs.
(b) WDI for School enrollment (2012); Life expectancy (2019).

In 2020, the Republic of Congo's economy contracted for the sixth consecutive year, with GDP growth estimated at -7.9 percent. It continues to be impacted by the pandemic and is expected to further contract by 1.2 percent in 2021, while the poverty rate is projected to increase from 48.5 percent in 2019 to 53.3 percent in 2021. Although the country is in debt distress because of outstanding arrears, recent debt restructuring agreements, higher oil prices, and improved debt management are moving the country back to debt sustainability.

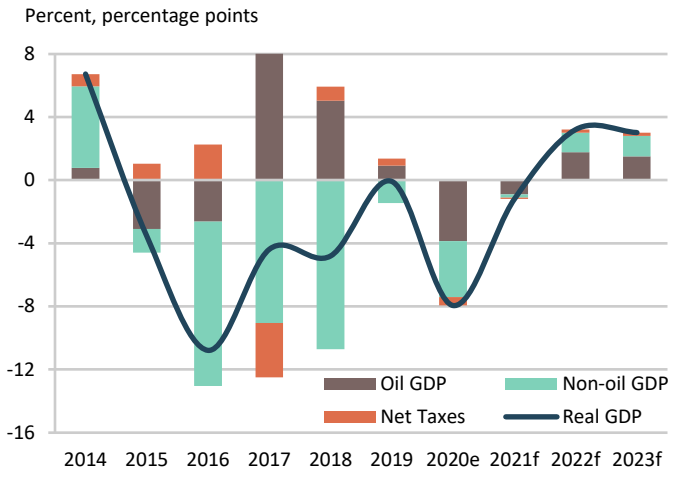
Key conditions and challenges

The Republic of Congo's (ROC) economy has been contracting since 2015, with GDP growth averaging -5.3 percent in 2015–20, primarily due to the country's high dependency on oil. The exposure to swings in oil prices and weak governance, reflected in high levels of non-concessional borrowing, have resulted in debt distress, with the debt-to-GDP ratio increasing from 42.3 percent in 2014 to 81.9 percent in 2019. While debt restructuring agreements, higher oil prices, and improved debt management, including restricting new external financing to concessional terms, are moving the country back to debt sustainability, the ROC is still running arrears with some external and domestic creditors. Natural resource revenues have not translated into higher growth and human capital development, owing to the undiversified economy and weak governance in key sectors. The proportion of the population living below the international extreme poverty line of US$1.90 PPP per day increased from 39.1 percent in 2015 to 48.5 percent in 2019. While employment is gradually returning to pre-pandemic levels, recent households surveys show that 56 percent of surveyed households still experienced income losses related to the pandemic in April 2021. As a result, one-third of households are unable to pay their rent and health fees and meet their food needs. The pandemic continues to be a risk to the ROC's economic stability, and the slow pace of vaccination threatens the recovery. The country began its vaccination campaign in March 2021, but only about 2.7 percent of the population has been fully vaccinated, as of September 7, 2021.

Recent developments

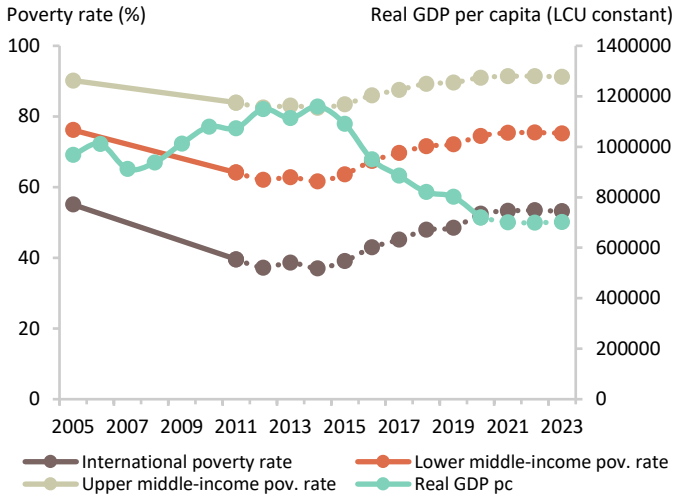
In 2020, the ROC's economy was hit hard by lower global and domestic demand as well as COVID-19 containment measures that disrupted oil operations and delayed investments, resulting in a GDP contraction of 7.9 percent (Figure 1). The pandemic continues to impact the country, and while oil prices have recovered from the COVID-19 slump, oil production in the ROC declined further in 2021H1, partly due to postponed investments, technical challenges, and maturing oil fields. With the decline in oil production, government finances remain under significant pressure. Although revenues were up 6.6 percent, year-on-year, in 2021H1, they were lower than expected, and the budget registered a deficit in 2021H1. This prompted the government to revise its 2021 budget law in August. As a result of the pandemic, public debt reached 102.6 percent of GDP at end-2020. The ROC's participation in the G20 Debt Service Suspension Initiative resulted in the suspension in debt service payments of US$146 million between May and December 2020 and of US$116 million between January and June 2021, freeing up fiscal space for

FIGURE 1 Republic of Congo / Real GDP growth and contributions to real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

the country to fight the pandemic. Despite lower oil production in 2021H1, recent higher oil prices have increased the value of exports, and the external position is set to improve compared to 2020.

The crisis has also worsened existing social challenges. GDP per capita fell by 10.3 percent in 2020, raising the poverty rate to 52.5 percent in 2020, an increase of 4 percentage points in one year (Figure 2). Headline inflation stood at 1.4 percent in 2020 and remained moderate in 2021H1, averaging 1.6 percent. However, with COVID-19 restrictions, transport inflation rose above 4 percent in 2020 and 2021H1, disproportionally affecting low-income households.

Outlook

The economy is set to contract by 1.2 percent in 2021, driven primarily by a contraction of the hydrocarbon sector by 1.8 percent. The non-oil sector also remains fragile, with the sector expected to contract by 0.5 percent in 2021 due to the slow pace of the COVID-19 vaccine rollout and the remaining domestic arrears. The overall GDP contraction is estimated to be deeper than the Spring World Bank forecast of -0.1 percent, owing to lower-than-expected oil production in 2021.

Economic activity is expected to pick up in 2022 as both the oil and non-oil sectors recover, with growth averaging 3.1 percent in 2022-23. The new allocation of Special Drawing Rights from the International Monetary Fund equivalent to US$221 million will provide policy space that could be used to enhance the recovery. The poverty rate is expected to rise to 53.3 percent in 2021–23, consistent with GDP per capita growth. Assuming the economy grows by an annual average of 5 percent starting in 2024, GDP per capita will only return to pre-COVID-19 levels by 2028, and it will remain below the 2014 level. Meanwhile, the poverty rate is projected to return to pre-pandemic levels by 2026. Lower growth will further delay the recovery of income per capita. This highlights the importance of reforms to protect and develop human capital and infrastructure, as well as to improve the business environment for faster, sustained, and inclusive economic growth.

Consistent with the 2021 revised budget law, fiscal consolidation is expected to resume in 2021, owing to high oil prices and contained public expenditure. Meanwhile public debt is projected to fall sharply to 86.6 percent of GDP in 2021, driven by high external debt amortization payments tied to oil prices, and higher nominal GDP. The government is also taking steps to improve domestic resource mobilization, including the ongoing digitalization of tax declaration and tax payments, the ongoing implementation of the new Forest Code and a one-stop-shop for tax payments, and the increase in excise taxes on tobacco and old vehicles in 2021. Downside risks include highly volatile oil prices, uncertainties related to the pandemic and oil production, and low vaccination rates.

TABLE 2 Republic of Congo / 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	-4.8	-0.1	-7.9	-1.2	3.2	3.0
Private Consumption	4.6	1.6	-4.2	-1.3	2.2	2.0
Government Consumption	-4.7	-18.7	-1.4	-1.7	-1.3	-1.8
Gross Fixed Capital Investment	-25.2	-2.3	-15.4	-0.1	4.3	8.4
Exports, Goods and Services	11.4	7.4	-9.2	-1.3	4.6	4.5
Imports, Goods and Services	5.1	3.2	-10.4	-1.0	4.5	6.5
Real GDP growth, at constant factor prices	-6.0	-0.6	-7.9	-1.2	3.2	3.0
Agriculture	-1.1	0.2	-6.0	2.7	2.3	2.3
Industry	-7.9	0.2	-7.7	-1.8	3.5	3.0
Services	-4.2	-1.8	-8.7	-1.2	3.0	3.2
Inflation (Consumer Price Index)	1.2	2.2	1.4	2.0	2.2	2.5
Current Account Balance (% of GDP)	8.9	-0.8	-1.0	8.5	6.4	4.2
Net Foreign Direct Investment (% of GDP)	3.0	3.2	2.0	2.5	3.0	3.4
Fiscal Balance (% of GDP)	5.4	3.4	-1.3	2.7	2.5	2.2
Debt (% of GDP)	77.0	81.9	102.6	86.6	78.3	73.4
Primary Balance (% of GDP)	7.6	8.0	0.5	4.6	4.3	4.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	47.9	48.5	52.5	53.3	53.4	53.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.6	72.1	74.5	75.3	75.4	75.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	89.3	89.6	91.0	91.3	91.4	91.2
GHG emissions growth (mtCO2e)	2.1	0.3	-1.5	-0.3	0.9	0.8
Energy related GHG emissions (% of total)	20.1	20.0	18.7	18.5	18.8	19.1

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

(a) Calculations based on 2011-ECOM .Actual data: 2011. Nowcast: 2012-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2011) with pass-through = 0.7 based on GDP per capita in constant LCU.

CÔTE D'IVOIRE

Table 1	2020
Population, million	26.4
GDP, current US$ billion	60.3
GDP per capita, current US$	2284.1
International poverty rate ($ 1.9)[a]	29.8
Lower middle-income poverty rate ($ 3.2)[a]	59.1
Upper middle-income poverty rate ($ 5.5)[a]	83.2
Gini index[a]	41.5
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	57.8
Total GHG Emissions (mtCO2e)	49.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2019).

The Ivorian economy proved relatively resilient throughout the pandemic, growing by 2 percent in 2020. However, poverty rose as per capita growth declined by 0.6 percent. A strong rebound in private investment and exports underpins the recovery in 2021, despite temporary electricity supplies disruptions. Headwinds prevail, including from further waves of COVID, a slower global recovery and security vulnerabilities. In the medium-term, the new National Development Plan (NDP) should bolster private investment, growth, and poverty reduction.

Key conditions and challenges

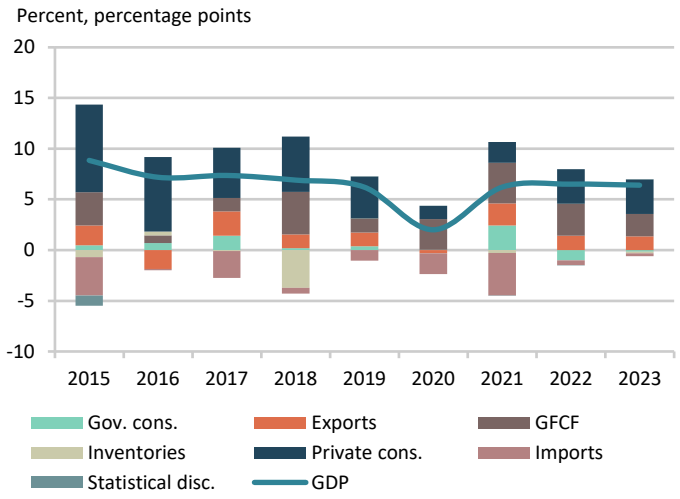
Over the last decade, Côte d'Ivoire has been one of the fastest-growing economies in sub-Saharan Africa. Real GDP growth averaged 8.2 percent annually (5.7 percent in per capita terms) over 2012–2019 reflecting post-conflict recovery, strong public investment, reforms induced-credit expansion, and sound macroeconomic policies. The sources of growth have diversified somewhat, with a greater contribution from services and manufacturing, favoring total factor productivity gains. Employment has gradually shifted away from agriculture, accounting for less than half today as compared of two-thirds in 2008. The country, through the new NDP, aspires to foster structural transformation and inclusiveness by leveraging private investment. The key reform areas focus on increasing productivity through capital deepening and improving human capital, addressing climate change risks, and strengthening governance.

Downside risks remain significant and stem mostly from the pandemic. Domestic cases have recently increased alongside with the number of fatalities, especially among the unvaccinated. Further waves could trigger trade shocks, global and domestic downturns, depress market sentiment, and exacerbate debt vulnerabilities while slowing the recovery of FDI. Subsequent restrictive measures could severely impact employment and household welfare. A sharp rise in global risk premia could thwart access to international markets. The security situation in the north of the country could deteriorate. Continued weak domestic revenue mobilization may strain the rollout of the NDP.

Recent developments

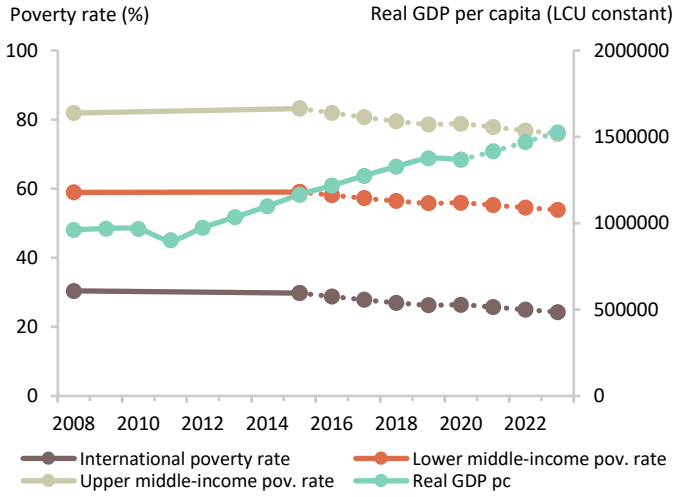
The economy appeared relatively resilient throughout the pandemic, posting a real GDP growth of 2 percent in 2020 (-0.6 percent in per capita) thanks to strong pre-COVID fundamentals, low dependency on remittances and tourism, and a swift government's reaction. However, in Q2, the informal sector cut 20 percent of salaried and 33 percent of non-salaried jobs while the formal sector cut positions by 22 percent. Higher public investment, fueled by the government's response package (1.4 percent of GDP), coupled with sustained private consumption and investment more than offset the COVID-related decline in exports and mitigated job losses. Higher cocoa production and a rebound in manufacturing and services supported a recovery during the second semester. Inflation rose from 0.8 percent in 2019 to 2.4 percent in 2020 driven by food prices due to supply disruptions and higher global prices. The current account deficit widened to 3.8 percent of GDP in 2020 from 2.7 percent, mainly reflecting lower global demand. High-frequency data show a marked rebound in the first half of 2021 compared to 2020, but with rising inflation. Exports, industry, and business climate index increased by 15.5,

FIGURE 1 Côte d'Ivoire / Real GDP growth and contributions to real GDP growth



Source: World Bank.

FIGURE 2 Côte d'Ivoire / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

5.7 and 12.6 percent respectively. Private consumption increased despite temporary electricity shortages, supported by higher employment (+6.8 percent). The substantial increase in imports of capital goods (+43.4 percent) suggests that private investment increased significantly. Cash crop production including cocoa (+20.9 percent) and cashew (+42.6 percent) featured a stronger-than-expected increase. Inflation increased to 3.4 percent in H1, fueled by higher local food prices (+5.3 percent). The COVID response caused the fiscal deficit to widen from 2.3 percent of GDP in 2019 to 5.6 percent in 2020, driven by higher government spending as revenues remained stable at 15 percent of GDP. The expansion of social programs (cash transfers, universal health care, education, water, and electricity) drove the additional spending. Financing needs were met with significant concessional support and a successful EUR 1 billion Eurobond issuance, resulting in 9.3 percentage points increase in public debt to 49.8 percent of GDP in 2020.

Côte d'Ivoire's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a peg between the CFA Franc and the Euro. Its reserves have remained stable since 2019 and reached 5.8 months of imports in 2020 thanks to significant donor support and Eurobond issuance by Côte d'Ivoire. To support the regional economy and COVID-related extra spending, the BCEAO implemented a set of monetary and macroprudential measures beginning in March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID bonds. These measures were extended into 2021. The incidence of extreme poverty measured with the US$1.9 a day (2011 PPP) international poverty line declined from 29.8 percent in 2015 to 26.3 percent in 2019, which lifted around 159,000 people out of extreme poverty. The pandemic stalled this progress in 2020, keeping the projected poverty rate almost at the same level as in 2019, although population growth likely induced an increase in the number of people in extreme poverty (+200,000).

Outlook

Real GDP growth is projected at 6.2 percent in 2021 and average 6.4 percent over 2021–23. In 2021, the recovery should be underpinned by public and private investment, and consumption, partly supported by the Covid recovery package. Continued structural and business climate reforms alongside positive developments in the national reconciliation process following the peaceful parliamentary elections in March should bolster private investment.

Inflation should gradually decelerate to 2.9 percent in H2 of 2021, close to the WAEMU target and 2.5 percent over 2022-23. The current account deficit should narrow to 3.6 percent of GDP by 2023 supported by improved trade balance. The fiscal deficit would remain stable at 5.6 percent in 2021 and gradually consolidate towards the WAEMU criterion of 3 percent by 2024, financed through regional borrowing, Central Bank's COVID bonds, and with the support of the recent IMF's SDR allocation. Increased digitalization in revenue administration, tax policy reforms, gradual withdrawal of COVID spending and control over current spending should enhance fiscal space. The incidence of extreme poverty is expected to resume a downward trend in 2021 driven by the government's crisis mitigation measures and the economic recovery. It is projected to decrease to 25.8 percent by 2021 and to 24.3 percent by 2023.

TABLE 2 Côte d'Ivoire / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.9	6.2	2.0	6.2	6.5	6.4
Private Consumption	8.0	6.0	1.9	3.0	5.1	5.2
Government Consumption	1.9	4.1	0.3	27.6	-9.6	-1.7
Gross Fixed Capital Investment	18.7	5.5	12.2	14.7	10.7	7.2
Exports, Goods and Services	5.6	5.7	-1.3	9.5	6.0	5.7
Imports, Goods and Services	2.2	4.4	8.8	17.0	1.7	1.1
Real GDP growth, at constant factor prices	6.8	6.3	2.0	6.2	6.5	6.4
Agriculture	5.3	5.3	2.7	-1.5	1.6	1.7
Industry	4.3	11.5	1.6	6.0	11.1	7.0
Services	8.2	4.7	1.9	8.4	6.0	7.3
Inflation (Consumer Price Index)	0.6	0.8	2.4	2.9	2.5	2.5
Current Account Balance (% of GDP)	-3.5	-2.7	-3.8	-4.4	-4.3	-3.6
Net Foreign Direct Investment (% of GDP)	1.2	1.0	0.2	1.3	1.6	1.6
Fiscal Balance (% of GDP)	-2.9	-2.3	-5.6	-5.6	-4.8	-3.8
Debt (% of GDP)	40.1	41.2	51.3	49.4	50.6	50.7
Primary Balance (% of GDP)	-1.6	-0.8	-3.7	-4.0	-2.0	-1.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	27.0	26.3	26.4	25.8	25.0	24.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	56.5	55.8	56.0	55.3	54.6	53.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	79.6	78.7	78.8	77.9	76.9	75.9
GHG emissions growth (mtCO2e)	-0.4	0.8	0.0	4.8	2.3	3.1
Energy related GHG emissions (% of total)	21.8	21.6	21.5	18.3	18.1	18.0

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

(a) Calculations based on 2008-ENV and 2015-ENV.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 1based on GDP per capita in constant LCU.

EQUATORIAL GUINEA

Table 1	2020
Population, million	1.4
GDP, current US$ billion	9.6
GDP per capita, current US$	6857.1
School enrollment, primary (% gross)[a]	61.8
Life expectancy at birth, years[a]	58.7
Total GHG Emissions (mtCO2e)	22.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) WDI for School enrollment (2015); Life expectancy (2019).

After a six-year recession and despite the COVID-19 crisis, growth is expected to rebound in 2021 and 2022 owing to stronger hydrocarbon production. In the medium term, however, the economy is projected to fall back into recession, as existing oil wells speedily reach maturity. A protracted COVID-19 pandemic is a key downside risk to this outlook, and there is currently no reliable data to track poverty.

Key conditions and challenges

Weak governance, a poor business environment, and a slow build-up of human capital have delayed Equatorial Guinea's economic diversification from a dominant hydrocarbon sector. While it is classified as an upper-middle-income country, Equatorial Guinea ranks consistently among the worst performers globally on control of corruption (percentile rank of 0.5 in 2019) and on business climate, and it has a low life expectancy at birth of only 58.7 years.

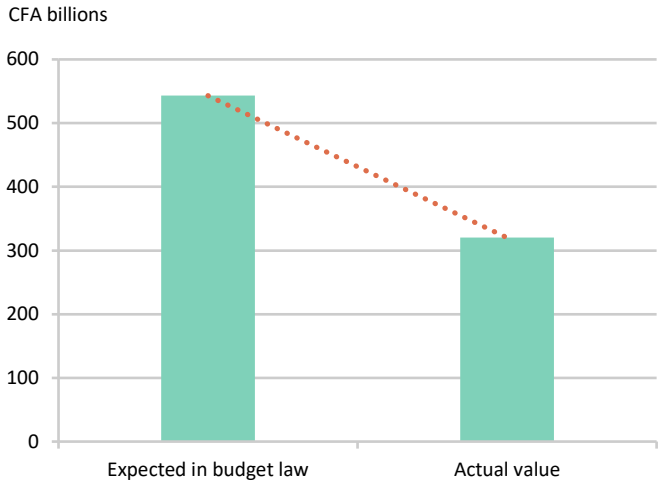
In recent years, the economy has contracted, and fiscal and external imbalances have increased due to both lower hydrocarbon prices and a declining oil sector, resulting in inadequate resources to address social inequalities and widespread poverty. The impact of the COVID-19 pandemic highlighted the need to diversify the economy and undertake deep structural and governance-related reforms to secure social cohesion and put the country on a fiscally sustainable development path. In a context of data paucity to track poverty, the Living Standard Measurement Survey (LSMS), planned for 2021Q4, will be key to benchmark poverty incidence. The LSMS will be used as a basis for a poverty assessment, with the aim to understand challenges faced by low-income households and inform policies aimed at reorienting the current National Economic and Social Development Plan (2021-2035).

Recent developments

After a six-year recession and despite the COVID-19 crisis and related containment measures, economic growth is expected to rebound and reach 3.8 percent in 2021 (up from a contraction of 4.9 percent in 2020), mainly due to stronger hydrocarbon production, especially of liquefied natural gas, which benefited from a backfilling project related to the Alen production field. However, workers in the service sector have been particularly affected by income losses during the pandemic, and the share of the population living below the poverty line is expected to have increased because of the country's limited social safety nets. Credit growth remains affected by the continuous decline in public infrastructure projects, with banks' balance sheets suffering from the government's domestic arrears with construction companies.

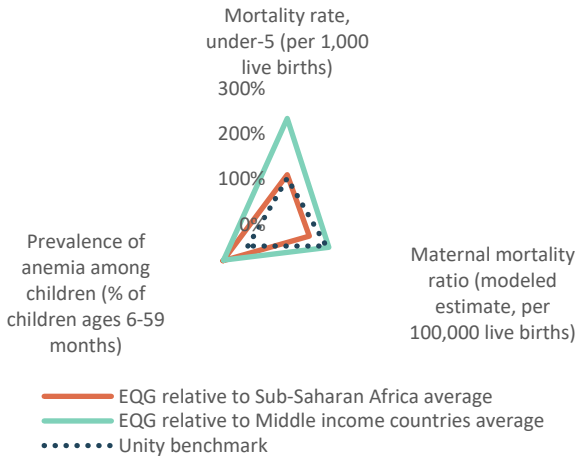
Stronger hydrocarbon revenues from higher production and prices, coupled with government expenditure moderation, are expected to narrow the country's fiscal deficit from 3.3 percent of GDP in 2020 to 0.7 percent of GDP in 2021. As of end-June, the expenditure execution rate remained very low (59 percent) compared to what was planned in the 2021 budget (Figure 1). It is, however, expected to improve in the second half of the year, as a delay in expenditure recording has been observed in previous budget cycles. The narrowing of the fiscal deficit underlines the government's limited financial support

FIGURE 1 Equatorial Guinea / Expected versus actual government expenditures (as of end-June 2021, CFA billions)



Source: National authorities.

FIGURE 2 Equatorial Guinea / Non-income poverty indicators



Source: World Development Indicators (WDI).

to households and the private sector throughout the COVID-19 crisis.

Higher hydrocarbon export receipts and the exceptional allocation of additional Special Drawing Rights (estimated to be about two thirds of the country's total international reserves) are expected to improve Equatorial Guinea's external position in the short term. The current account balance is, however, projected to remain negative in 2021 (-4.7 percent of GDP), although it is expected to improve compared to 2020 (-10.9 percent of GDP).

Outlook

After a short-lived rebound in 2021 and 2022, the economy is projected to fall back into recession in 2023, as existing oil wells will reach maturity and reduce production. Also, major projects, such as the Fortuna gas project, would remain in the pipeline. Under this baseline, GDP per capita will fall to 13 percent below the pre-pandemic level in 2019 at the end of the forecast horizon. In the absence of meaningful efforts to diversify the economy away from hydrocarbons, GDP per capita would take close to two decades to return to its pre-pandemic level. With growth expected to slow down in the medium term, unemployment and poverty are likely to increase. The forthcoming LSMS should help to overcome the limited information on social indicators and design an effective social policy going forward.

This outlook is subject to downside risks related to the management of the pandemic at the national and global level, and to a further degradation of banks' balance sheets due to the accumulation of the government's domestic arrears. Increased spending pressures linked to a prolonged COVID-19 crisis and government difficulties in securing external financing could further negatively affect the fiscal and current account balances. In particular, slow implementation of critical structural and governance reforms could not only delay budget support disbursements under the current International Monetary Fund program but could also affect total factor productivity. On another hand, a stronger-than-projected performance of the hydrocarbon sector (due to higher-than-expected capacity and prices) represents a major upside risk to the outlook.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	-6.2	-6.0	-4.9	3.8	1.5	-0.9
Private Consumption	3.4	3.4	3.4	2.9	2.0	1.5
Government Consumption	1.6	-4.5	-5.3	0.8	-1.3	0.0
Gross Fixed Capital Investment	-10.1	-55.8	-42.1	-16.0	-12.0	-14.0
Exports, Goods and Services	-5.7	-6.2	-9.0	3.5	1.8	-1.8
Imports, Goods and Services	6.2	-9.0	-7.8	-0.8	0.5	0.3
Real GDP growth, at constant factor prices	-6.2	-6.0	-5.0	3.8	1.5	-0.9
Agriculture	-2.4	-5.8	0.4	2.8	1.4	1.4
Industry	-11.7	-8.7	-6.8	5.1	1.1	-2.0
Services	5.8	-1.2	-2.1	1.8	2.2	0.8
Inflation (Consumer Price Index)	1.3	1.2	5.8	3.5	3.4	3.3
Current Account Balance (% of GDP)	-2.8	-1.6	-10.9	-4.7	-5.2	-4.8
Net Foreign Direct Investment (% of GDP)	3.0	5.3	3.9	5.5	5.1	5.1
Fiscal Balance (% of GDP)	0.1	2.0	-3.3	-0.7	-1.9	-2.1
Debt (% of GDP)	42.1	45.9	52.3	44.8	44.7	45.9
Primary Balance (% of GDP)	0.8	2.7	-2.0	0.8	-0.4	-0.6
GHG emissions growth (mtCO2e)	2.5	-3.5	1.7	1.6	1.1	0.5
Energy related GHG emissions (% of total)	26.0	25.6	24.8	26.6	28.0	29.0

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

ERITREA

Table 1	2020
Population, million	3.5
GDP, current US$ billion	2.1
GDP per capita, current US$	600.0
School enrollment, primary (% gross)[a]	68.4
Life expectancy at birth, years[a]	66.3
Total GHG Emissions (mtCO2e)	8.0

Source: WDI, Macro Poverty Outlook, and official data.
(a) WDI for School enrollment (2018); Life expectancy (2019).

Real GDP growth is expected to rebound to 2.9 percent in 2021 after plummeting to -0.6 percent in 2020, supported by external demand uptake and the resumption of domestic activity. A significant boost to growth is expected in 2022 supported by new mining developments, although heightened risks still cloud the medium-term outlook due to the country's isolation and lack of access to external financing. Poverty data, like national accounts information, have not been produced over the last decade.

Key conditions and challenges

The lifting of UN sanctions in November 2018 marked Eritrea's emergence from a decade of international isolation. Efforts to shift from a centrally planned to a market-led economy have been slow and sporadic, and large SOEs dominate economic activity. Monetary policy is characterized by administrative measures, fiscal dominance, and a fixed exchange rate regime pegged to the US dollar, enabled by severe import restrictions in a context of low foreign exchange reserves. The banking system is largely lending to the government and lacks international correspondent banks, while payment and settlement systems are absent. The country is among the most vulnerable and least adapted to climate change in Sub-Saharan Africa, and frequent weather shocks pose a heavy burden for the economy and rural livelihoods. The mining sector, which started operating in 2011, accounts for over 90 percent of total exports, yet contributions to budget revenues are limited.

The Covid-19 crisis hit Eritrea amid a hiatus in its reengagement with development partners, leaving it without needed external funding. In addition, informal cross-border trade was affected by the conflict in northern Ethiopia. Yet, Eritrea's isolation moderated the magnitude of the initial external shock.

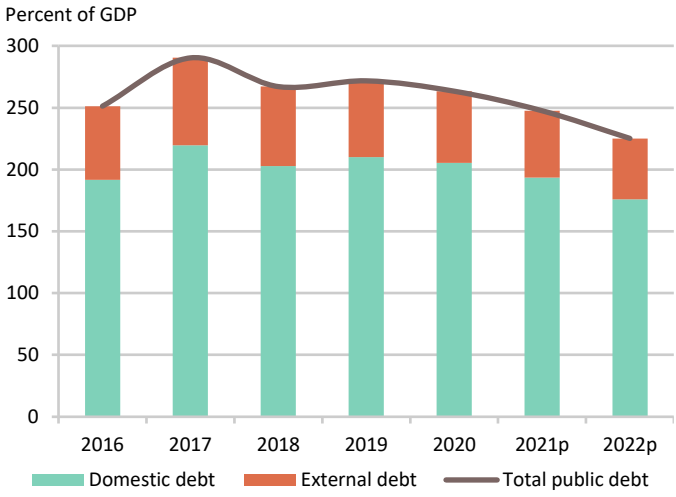
The emergency conditions prevailing in the country over the past decade have led to data production capacity constraints. National accounts data are limited to unofficial GDP estimates by the Ministry of Finance, inflation estimates cover only the capital, Asmara, and full balance of payments accounts are missing. The last population census in Eritrea took place more than 25 years ago. Therefore, little is known about poverty. Data from 1996/97, covering only urban areas, suggests that poverty was widespread with around 70 percent of the population living in Poverty.

Recent developments

Real Real GDP growth is expected to rebound to 2.9 percent in 2021 after plummeting to -0.6 percent in 2020 amid the Covid-19 crisis. Recovery comes on the back of external demand uptake and the resumption of economic activity following the phasing out of restrictions imposed at the onset of the Covid-19 pandemic. Inflationary pressures that build up following the closure of the border with Ethiopia after its temporary opening for two months in 2019 are expected to ease in 2021, and inflation to hover at 4.3 percent.

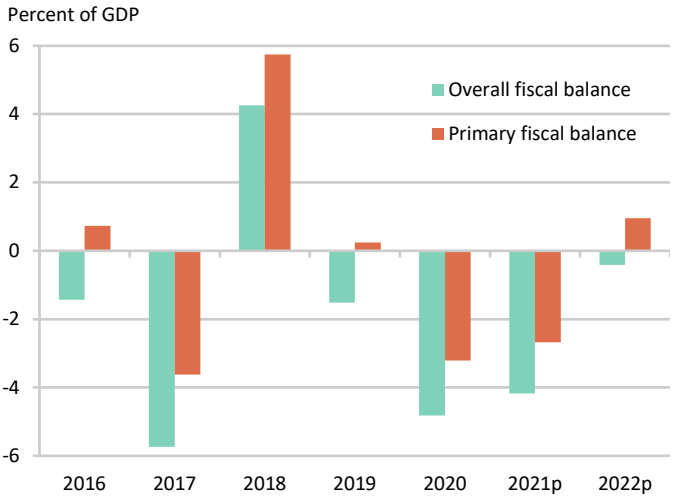
The external current account surplus is set to increase to 12.4 percent of GDP in 2021 from 11 percent the year before as the growth in commodity exports exceeds the recovery in imports, allowing for foreign exchange reserves to rise to around three months of imports from two months in 2020. Results disclosed in June 2021 after extensive testing over a period of six

FIGURE 1 **Eritrea** / Evolution of total public debt



Source: Ministry of Finance, Planning and Economic Development.

FIGURE 2 **Eritrea** / Primary and overall fiscal balances



Source: Ministry of Finance, Planning and Economic Development.

months by the Colluli Mining Share Company confirmed that the project's sulphate of potash production rates align with a previous front-end engineering and design study. Furthermore, results indicated that production can be carried out using filtered seawater, thus improving the project's environmental footprint and lowering its opex, capex and maintenance costs. Following restrictions on potash trade with Belarus introduced by the EU in June 2021, the US, UK and Canada imposed sanctions on August 9 on the large Belarusian SOE Belaruskali, one of the largest world producers of potash fertilizers accounting for 21% global supply in 2019. UK and Canada sanctions are effective immediately, while US sanctions will go into effect on December 8, prospectively reducing global availability of the crop nutrient and pushing up its prices.

As economic activity bounces back, the rise in government revenues is expected to shrink the fiscal deficit to 4.2 percent in 2021 from 4.8 in 2020. Public spending is expected to remain roughly unchanged, with the construction work associated to the Colluli and Asmara mines driving the continued capital expenditures. Public debt is expected to hover at 247.5 in 2021, of which 80 percent is owed to domestic banks. Nevertheless, fiscal and domestic debt outcomes remain uncertain given frequent data revisions due to reporting lags driven by widespread manual processes.

Outlook

Real GDP is expected to grow at 4.8 percent in 2022 as the Colluli mine starts exporting at full capacity. Over the medium term, growth of real output could continue at about 4 percent, supported by sustained mineral exports and positive spillover effects from the new potash mine to fertilizer production, enhancing agricultural productivity and improving livelihoods and food security. With sanctions restricting Belarusian exports of potash, exports of other producers could see a boost in volume and value that could potentially benefit Eritrea.

However, downside risks are significant. The emergence of new vaccine-resistant Covid-19 variants could hamper global economic recovery, negatively impacting exports. Additionally, Eritrea is currently the only African country that has not yet started vaccinating its citizens against Covid-19 within the scope of a national campaign, which heightens health risks and could set back economic recovery if a new outbreak forces the return of restrictions. Finally, severe climate vulnerabilities continue to burden Eritrea and could worsen in coming years. The fragile macroeconomic situation and severe credit constraints leave the country with little space to boost preparedness facing these risks, and to control damages should they materialize.

Against this backdrop, the reengagement with the international community could result in a pathway to significantly reduce external arrears and provide much-needed financing to build essential infrastructure over the medium term, to help abate the risks associated with climate change and jump-start the private and financial sectors.

TABLE 2 Eritrea / 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	13.0	3.8	-0.6	2.9	4.8	3.8
Private Consumption	13.2	5.5	-1.9	3.4	7.5	5.9
Government Consumption	0.8	39.3	16.4	9.1	7.4	5.0
Gross Fixed Capital Investment	-62.8	67.5	152.2	17.8	-9.7	0.7
Exports, Goods and Services	8.9	-5.0	-5.4	46.4	11.1	3.9
Imports, Goods and Services	18.7	1.4	-3.5	41.4	9.2	4.7
Real GDP growth, at constant factor prices	12.8	3.7	-0.7	2.9	4.8	3.8
Agriculture	24.0	27.0	-0.5	4.5	3.1	2.5
Industry	11.1	13.0	-0.7	1.4	10.2	7.6
Services	4.9	-26.0	-1.0	1.9	1.1	0.9
Inflation (Consumer Price Index)	-14.4	-16.4	4.8	4.3	4.2	2.5
Current Account Balance (% of GDP)	15.4	12.1	11.0	12.4	12.7	11.6
Net Foreign Direct Investment (% of GDP)	2.9	3.9	3.8	3.6	3.4	3.3
Fiscal Balance (% of GDP)	4.3	-1.5	-4.8	-4.2	-0.4	-0.2
Debt (% of GDP)	267.1	271.8	263.4	247.5	225.1	211.1
Primary Balance (% of GDP)	5.7	0.2	-3.2	-2.7	0.9	1.0
GHG emissions growth (mtCO2e)	1.9	4.3	-2.8	3.1	4.9	3.8
Energy related GHG emissions (% of total)	26.6	26.1	26.3	26.6	27.6	27.8

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

ESWATINI

Table 1	2020
Population, million	1.2
GDP, current US$ billion	4.0
GDP per capita, current US$	3333.3
International poverty rate ($1.9)[a]	29.2
Lower middle-income poverty rate ($3.2)[a]	52.1
Upper middle-income poverty rate ($5.5)[a]	72.0
Gini index[a]	54.6
School enrollment, primary (% gross)[b]	114.7
Life expectancy at birth, years[b]	60.2
Total GHG Emissions (mtCO2e)	2.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

Preliminary estimates for the first quarter of 2021 suggest that growth was on the rebound, but this has been reversed due to the political unrest that happened in June 2021, and the second-round effects of the COVID-19 pandemic. The fiscal deficit is narrowing in 2021 as domestic revenues are recovering while an increase in capital expenditure is partly offset by declining recurrent expenditure. Despite signs of economic recovery in the face of COVID-19, poverty levels have stagnated.

Key conditions and challenges

Eswatini is trapped in a low investment and growth path since the end of apartheid in South Africa. Private investment has been low, constrained by unfavorable investment climate. As a result, Eswatini, a small state, remains over reliant on the public sector and the sugar monoculture.

The public sector largely depends on volatile Southern African Customs Union (SACU) revenues, which translate into significant fluctuations in public spending and pose a challenge to the management of fiscal resources. SACU revenues have been declining mainly due to the instability in the global economy, trade liberalization, the associated tariff reductions, and low growth of the South Africa economy. Domestic revenue mobilization is improving but slowly.

Poverty levels have historically been high, compounded by high inequality, unemployment as well as high prevalence of HIV. Progress toward reducing poverty has been slow, with close to a third of the population living below the US$1.90/day (2011 PPP) international poverty line. This, together with high inequality levels – with a consumption per capita Gini index of 54.6 in 2017 – increases vulnerability to economic shocks. Unemployment was high even before COVID-19, affecting 23 percent of the labor force in 2016. At about 27 percent, Eswatini has the world's highest HIV prevalence rate among adults aged 15 to 49. Vulnerability to drought in the context of heavy reliance on smallholder agriculture, is associated with high incidence of food insecurity.

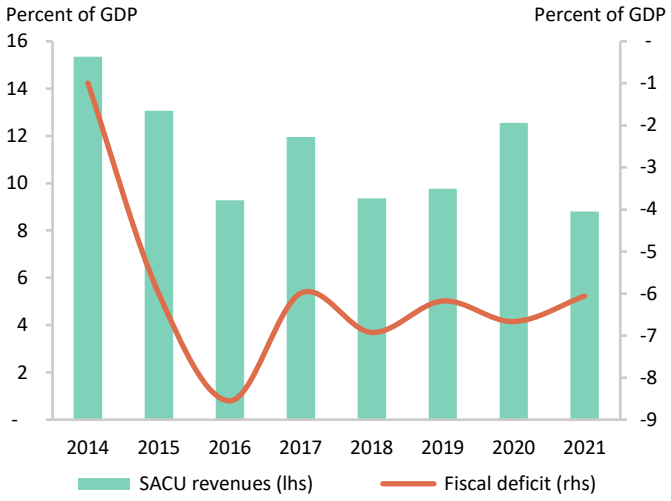
COVID-19 exposed Eswatini's structural weakness further. Overall, economic recovery remains uncertain and hinges on the evolution of the pandemic, rollout of the vaccines and the pace of recovery of the global and regional economies, particularly that of South Africa. The political unrest that happened in June 2021 further exposed the governance challenges and without a comprehensive solution to the underlying causes of the unrest, the risk of future unrest will continue to linger and create uncertainty for medium term private investment.

Recent developments

Real GDP increased by 9.0 percent (year-on-year) in 2021Q1 driven, by a strong industry performance. Manufacturing recovered due to a peak in export demand following the easing of lockdown measures in key destination markets in the region, and construction has also improved. However, political unrest interrupted economic recovery, with an estimated loss of 3 billion Emalangeni ($210 million) of business assets (through arson and pillaging), and about 5,000 people losing their livelihoods. Sectors that were largely affected by the unrest include retail and wholesale, manufacturing, and transport.

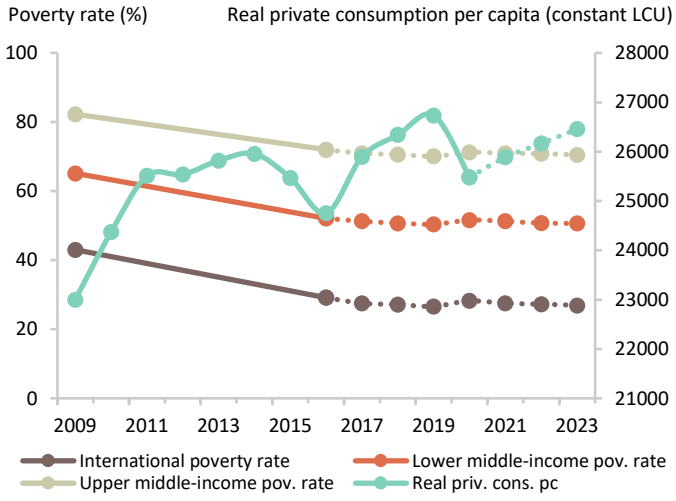
Total government revenue fell (due to declining SACU revenues) by 8 percent

FIGURE 1 Eswatini / Fiscal deficit and SACU revenue



Source: Ministry of Finance, Eswatini.

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



Source: World Bank. Notes: see Table 2.

during the first seven months of 2021, compared to the same period in 2020, although domestic revenue collection recovered. Government expenditures increased over the period compared to the same period in 2020, driven by capital spending, while recurrent spending was contained, mainly due to COVID-19 measures that limited expenditure on goods and services. However, the political unrest has led to unbudgeted spending on public order expenditures to contain the protests, and a US$35 million in funds have been released to compensate businesses that were destroyed during the unrest.

The central bank has maintained an accommodative monetary policy stance since the start of the COVID-19 pandemic. The discount rate has been kept at 3.75 percent since July 24, 2020. Meanwhile inflationary pressures remain low, averaging 3.9 percent (year-on-year) for the first seven months of 2021.Cumulative January -July 2021 trade balance was in deficit as imports grew more than exports.

Despite signs of economic recovery in the face of COVID-19, poverty reduction is estimated to have slowed down. This is one of the main causes of political unrest that led to loss of livelihoods and thus reversed the gains the country had made as part of recovery from the pandemic. Food insecurity remains a challenge, linked to vulnerability to economic shocks as well as variable and generally low performance of the agriculture sector.

Outlook

The economy is projected to recover modestly in 2021 and inch further in 2022, as the economy recovers from the shocks induced by the COVID-19 pandemic and the political unrest. Inflation is expected to increase in 2021, partly due to rising oil and domestic administered prices, but would remain within the 3-6 percent target band in 2022. Economic recovery is expected to support a modest reduction in poverty levels, with the US$1.90/person/day international poverty rate projected to reach 28.4 percent in 2022 and 28.3 percent in 2023.

Though the second-round effects of the pandemic are anticipated to manifest through a further reduction in SACU revenues in 2022, the fiscal deficit is projected to fall in the medium term, as domestic revenues recover, and authorities start to implement three-year Fiscal Adjustment Plan. However, uncertainty on further political unrest and COVID-19 may continue to keep government expenditure high. The expected disbursement by the World Bank and AfDB will help to cushion the financing gap and keep domestic expenditure arrears low in 2021 and 2022. Debt levels will remain high in the medium term, as the country continues to borrow, responding to domestic challenges.

The current account surplus is projected to decline in 2022, partly reflecting declining SACU revenues. However, exports are projected to increase following the rollout of vaccines in key export markets while implementation of fiscal adjustments will contain the growth of imports. Gross international reserves are projected to remain above the 3-month international benchmark in 2022, boosted by IMF SDRs and access to external loans from World Bank and African Development Bank.

TABLE 2 Eswatini / 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	-1.9	1.5	1.8	1.7
Private Consumption	1.3	-1.5	0.5	1.4	1.8	2.1
Government Consumption	-4.3	-2.0	6.7	7.2	0.7	0.6
Gross Fixed Capital Investment	35.7	1.0	-5.9	2.8	3.8	3.1
Exports, Goods and Services	-3.6	16.3	-2.4	3.0	3.2	3.5
Imports, Goods and Services	4.7	1.5	-0.7	5.5	3.1	3.6
Real GDP growth, at constant factor prices	2.0	2.7	-1.7	1.5	1.8	1.7
Agriculture	5.9	0.9	-5.4	3.7	4.1	3.5
Industry	-0.3	5.5	-9.7	3.3	3.4	1.9
Services	2.9	1.1	4.5	0.1	0.4	1.3
Inflation (Consumer Price Index)	4.8	2.6	3.9	4.0	4.2	4.3
Current Account Balance (% of GDP)	1.6	4.7	6.5	5.2	4.8	5.1
Net Foreign Direct Investment (% of GDP)	-1.0	-2.4	-0.2	-0.7	-0.8	-0.8
Fiscal Balance (% of GDP)	-7.0	-6.2	-6.7	-6.1	-5.3	-1.8
Debt (% of GDP)	34.3	40.0	41.7	46.1	50.5	51.7
Primary Balance (% of GDP)	-5.7	-4.9	-4.5	-4.3	-2.4	0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	27.5	28.5	28.6	28.6	28.4	28.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	51.3	51.9	52.0	51.9	51.8	51.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	71.0	71.6	71.7	71.6	71.4	71.1
GHG emissions growth (mtCO2e)	2.5	0.7	-2.5	1.2	1.5	1.3
Energy related GHG emissions (% of total)	45.7	46.4	46.1	45.7	45.2	44.8

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

(a) Calculations based on 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on private consumption per capita in constant LCU.

ETHIOPIA

Table 1	2020
Population, million	115.0
GDP, current US$ billion	110.2
GDP per capita, current US$	958.3
International poverty rate ($1.9)[a]	30.8
Lower middle-income poverty rate ($3.2)[a]	68.9
Upper middle-income poverty rate ($5.5)[a]	90.2
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	101.0
Life expectancy at birth, years[b]	66.6
Total GHG Emissions (mtCO2e)	211.1

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

While data confirms the recovery of exports and foreign direct investment, a significant reduction in agriculture production growth and stagnant electricity and cement production suggest growth was sluggish in FY21. According to phone surveys, poverty had increased by December 2020. Inflation surged in June and July 2021, and the authorities have responded by halting money creation and freezing bank loan disbursements. Prospects for economic rebound in FY22 and beyond may be jeopardized by escalation in the ongoing armed conflict.

Key conditions and challenges

Ethiopia has been among the fastest growing countries in the world, with GDP expanding at an average rate of 10 percent during 2004-2020. Growth has been driven by large-scale public investment in infrastructure. While poverty declined by about 10 percentage points during 2004-2016, gains are modest when compared to other countries that saw fast growth, and inequality has increased in recent years.

The limitations of the state-led development model in Ethiopia have become apparent. Structural transformation remains incipient, and the role of the private sector is constrained by SOE dominance and an uneven playing field. The financing of the large capital investments coupled with a loss in competitiveness, caused by an overvalued exchange rate, have put the country at high risk of debt distress. Acknowledging these shortcomings, the authorities launched a Homegrown Economic Reform Agenda in September 2019, aiming to foster efficiency and introduce competition in key growth-enabling sectors (energy, logistics, telecom), improve the business climate, and address macroeconomic imbalances. Among other measures, authorities are expected to adopt a market-determined exchange rate and introduce a modern monetary policy framework by end-2022.

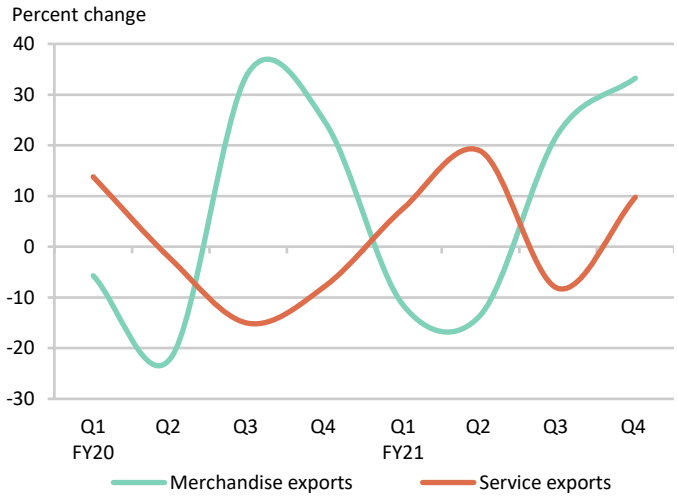
Downside risks loom large over the outlook presented below. The armed confrontation that started in November 2020, initially confined to Tigray, has spread to other regions, and there are risks that further escalation would affect agriculture production, food security, and growth. There are also risks that macroeconomic stability is harmed and economic reforms are delayed or reversed.

Recent developments

Agriculture is estimated to have slowed down, with crop production growth easing to below 2 percent during the main harvest season (fall 2020), compared to 6.2 percent in the same period of the previous year. Electricity generation and cement production stagnated in FY21.

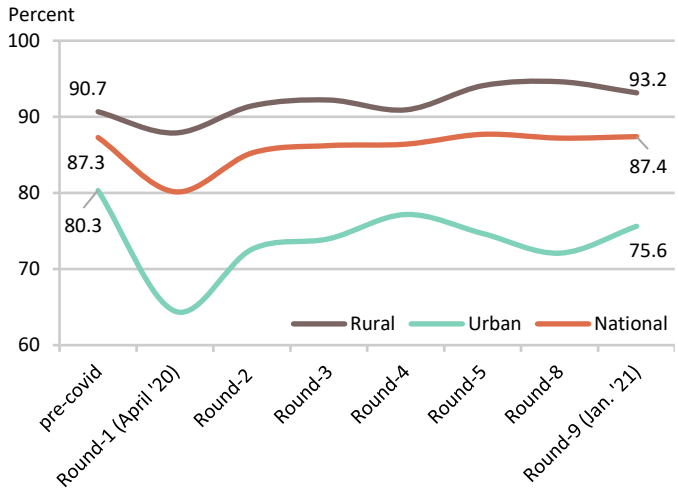
After being harshly hit by the pandemic, most external sector variables rebounded in FY21. Merchandise exports grew at 21.1 percent, boosted by a surge in gold trade. Growth in coffee exports reached 6.3 percent, supported by international prices, and cut flower exports recovered. However, garment and leather exports contracted. Exports of services grew by 3.1 percent despite transport growth, which includes Ethiopian Airlines activities, was negative (-4.4 percent). Net private transfers, including remittances, recovered strongly (22.3 percent). Robust export and remittances performance coupled with contained imports growth resulted in the current account deficit narrowing further in FY21. Net foreign direct investment inflows reached nearly US$ 4 billion in FY21, a 64 percent increase, lifted by the

FIGURE 1 Ethiopia / Export recovery, quarter-on quarter growth



Source: National Bank of Ethiopia.

FIGURE 2 Ethiopia / Share of respondents who worked in the preceding seven days



Sources: WB household surveys on Covid-19 impacts.

award of a new commercial license in the telecom sector to a consortium led by Kenya's Safaricom.

Despite recovery domestic direct and indirect revenue in FY21, revenue collection remained at about 10.5 percent of GDP (similar to FY20), as there was a significant drop in foreign trade tax revenue. On the expenditure side, increases in recurrent expenses are expected to be compensated by some decline in capital spending, with the overall balance estimated to reach 3 percent of GDP in FY21.

Inflation keeps increasing, and reached 30.4 percent in August, driven by rising food prices. Authorities pressed the breaks on base money growth in June, bringing it to just 7.2 percent in FY21, following double-digit-growth for most of the year. Broad money growth is estimated to have remained strong, reaching nearly 30 percent in FY21, but the recent central bank order to freeze bank loan disbursements is expected to cool that trend off. The parallel market premium surged to over 50 percent in early august, driven by uncertainty, prior to declining back to below 30 percent.

While jobs have been recovering after a drop at the onset of the pandemic, the urban employment rate in January 2021 remained lower relative to pre-COVID-19 time. This, coupled with the slow agricultural growth, is expected to have led to a rise in poverty. Indeed, estimates based on the high-frequency phone survey suggest that by December 2020 poverty had increased compared to 2019, particularly in urban areas.

Outlook

While strong lending trends are likely to have supported some growth in industry and services, the slowdown in agriculture and the poor performance of electricity generation and cement production suggest economic activity slowed down overall in FY21; the projected growth rate for the year remains like that of the spring release of the Macro-Poverty Outlook. Meanwhile, the expected recovery in growth in FY22 and FY23 has been revised downwards, as the spread of the armed conflict since June is likely to affect economic activity in several areas and could disrupt key trade corridors. This outlook assumes that the planned macroeconomic and structural reforms are implemented, supporting a recovery in foreign direct investment, exports, and economic growth, as well as a decline in inflation in FY23 and beyond. As stated above, however, there are considerable downside risks.

While employment and income levels have been recovering since the huge drop at the biggening of the pandemic, vulnerability is expected to increase significantly for the following reasons. First, the impact on employment and income was worse on households who were less advantaged to begin with; second, despite the increase in employment since early times of the pandemic, recovery in wage employment has been slow and as a result more people become dependent on informal jobs such as self-employment, casual employment and family work; and third, the ongoing armed conflict which started in Tigray and recently expanded to other parts of the country is already disrupting the livelihoods of many and there is also a risk of famine.

TABLE 2 Ethiopia / 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	7.7	9.0	6.1	2.4	4.3	6.5
Private Consumption	5.3	5.1	5.0	2.5	3.8	5.1
Government Consumption	3.6	7.2	0.6	8.1	13.9	9.9
Gross Fixed Capital Investment	6.8	15.1	5.6	-0.1	2.0	6.8
Exports, Goods and Services	5.0	3.0	3.4	5.5	6.2	8.4
Imports, Goods and Services	0.2	5.4	-1.9	2.0	4.8	5.9
Real GDP growth, at constant factor prices	7.7	9.0	6.1	2.4	4.3	6.5
Agriculture	3.5	3.8	4.3	1.8	2.5	4.0
Industry	12.2	11.5	9.6	2.7	6.5	11.0
Services	8.7	12.0	5.2	2.7	4.2	5.3
Inflation (Consumer Price Index)	14.5	12.5	19.9	20.2	21.9	10.8
Current Account Balance (% of GDP)	-6.0	-5.1	-4.1	-2.5	-3.3	-3.8
Fiscal Balance (% of GDP)	-2.8	-2.5	-2.8	-3.0	-2.6	-2.0
Debt (% of GDP)	60.8	57.3	56.5	57.6	55.0	51.2
Primary Balance (% of GDP)	-2.3	-2.0	-2.4	-2.3	-2.0	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	27.6	26.5	25.9	25.9	25.6	25.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.6	64.4	63.7	63.8	63.4	62.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	85.8	84.2	83.4	83.4	83.0	82.0
GHG emissions growth (mtCO2e)	0.6	1.7	1.5	0.9	1.2	3.4
Energy related GHG emissions (% of total)	24.9	24.9	24.0	22.7	21.5	22.0

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

(a) Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.

GABON

Table 1	2020
Population, million	2.2
GDP, current US$ billion	15.0
GDP per capita, current US$	6818.2
International poverty rate ($1.9)[a]	3.4
Lower middle-income poverty rate ($3.2)[a]	11.2
Upper middle-income poverty rate ($5.5)[a]	32.2
Gini index[a]	38.0
School enrollment, primary (% gross)[b]	139.9
Life expectancy at birth, years[b]	66.5
Total GHG Emissions (mtCO2e)	13.8

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

Gabon's economy contracted by 1.8 percent in 2020 as the COVID-19 crisis induced a downturn in global demand and a fall in oil prices. There were, however, signs of recovery in 2021Q1, driven by the booming mining and wood sectors. The pandemic has led to a significant reduction in revenues, leading to record high debt at end-2020. The medium-term outlook suggests a gradual economic recovery but limited poverty reduction before 2023.

Key conditions and challenges

As in other countries in the Central African Economic and Monetary Community, the COVID-19 pandemic and the sharp fall in oil prices had an adverse impact on Gabon's economy in 2020 and highlighted the vulnerabilities associated with oil dependence. While there were signs of recovery in 2021Q1 and oil prices surged in the first half of 2021, inadequate governance and a poor business climate remain major challenges for Gabon to direct its resource wealth to sustainable development and ensure broad-based improvements in living conditions.

Despite the challenging economic context linked to the pandemic, Gabon needs to diversify the economy and reduce its vulnerability to terms of trade shocks. In addition to creating a credible medium-term fiscal framework that favors enhanced domestic revenue mobilization and more targeted fiscal spending in support of vulnerable groups, it needs to enhance transparency in natural resource management to reduce fiscal vulnerabilities.

Continuing the vaccination campaign will help contain COVID-19 and support the economic recovery. Gabon's abundant natural resources, strategic location, high urbanization, and small population are major assets to accelerate poverty reduction, achieve shared prosperity, and embrace green growth policies and reduce its dependence on hydrocarbons. Given its youthful workforce and fast-growing population, Gabon also needs to prioritize human capital development.

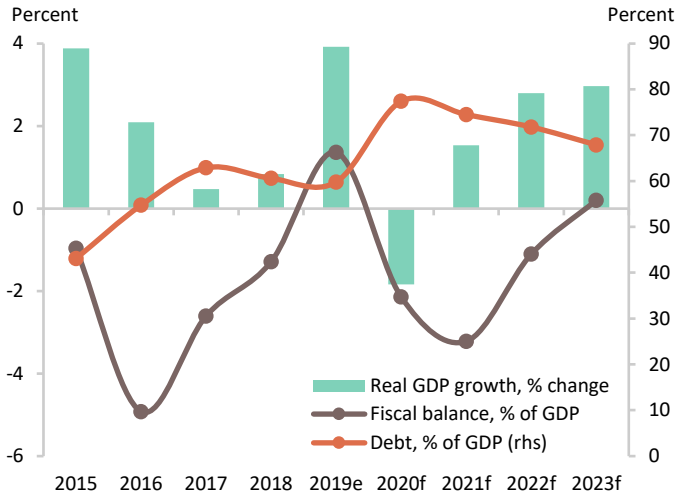
More than a year into the pandemic, living conditions have not returned to their pre-crisis level, suggesting a long-lasting effect of the pandemic on vulnerable groups. Employment continues to suffer from the restrictive measures imposed by the government to prevent new waves of infection, resulting in falling household income, especially for self-employed and informal workers.

Recent developments

GDP contracted by 1.8 percent in 2020, owing to lower oil production and a decline in the service sector. There were signs of recovery in 2021Q1, driven by the booming mining and wood sectors. As of August 20th, almost 76,000 people have received their first vaccine dose (about 3.3 percent of the population) and 55,000 people the second dose (about 2.4 percent).

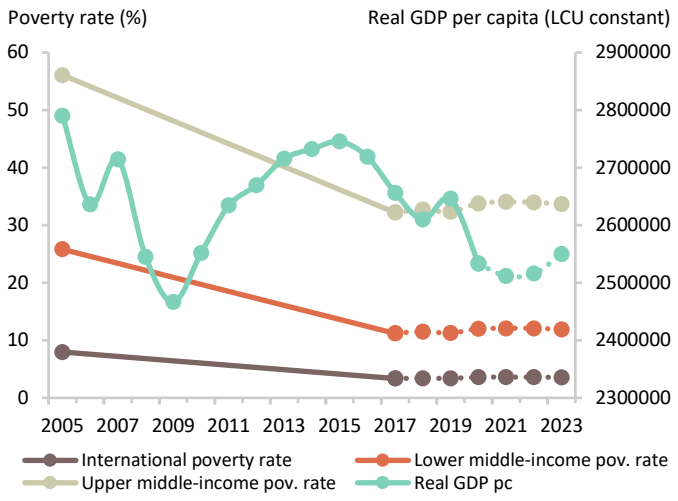
A fiscal deficit of 2.1 percent of GDP was recorded in 2020, reflecting lower oil prices and additional financing needs related to the pandemic. Gabon revised its 2021 budget law to consider measures to protect lives and livelihoods, including the cost of vaccines. Preliminary data for the first two months of 2021 indicate a decline in total revenues and a slight contraction in current spending while investment expenditure rose sharply compared to the same period in 2020.

FIGURE 1 Gabon / Real GDP growth, fiscal balance and government debt



Sources: Official data and World Bank calculations.

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



Source: World Bank. Notes: see Table 2.

The stock of government debt rose to a record high of 77.4 percent of GDP at end -2020, up from 59.8 percent of GDP a year earlier, and Gabon continues to have outstanding external arrears.

The current account deficit widened to 6.0 percent of GDP, year-on-year, in 2020, driven by a smaller trade surplus due to a drop in oil and non-mining exports. Year-on-year exports fell in 2021Q1 due to a drop in oil exports that was not compensated by strong manganese exports. Meanwhile, imports declined, mostly driven by lower imports of manufactured and capital goods.

Despite the government's response to the crisis, the pandemic has had a significant impact on vulnerable groups, and the poverty rate is expected to reach 34.0 percent in 2021. Household survey data suggest that job losses increased from 16.9 percent (of those who were working before the pandemic) in November 2020 to 21.5 percent in April 2021, with workers in retail being the most affected. While wages remain the main income source for 35 percent of households, 20 percent depended on remittances in April 2021. Almost two-thirds of households have experienced income losses since April 2021, and access to essential goods has been deteriorating since November 2020.

Outlook

Gabon's economy is projected to grow by 2.8 percent in 2022 and 3.0 percent in 2023. Assuming the economy grows by 3.5 percent on average per year starting in 2024, GDP per capita will only return to its pre-COVID-19 level by 2027. Medium-term growth depends on the government's commitment to fiscal consolidation, structural reforms, and economic diversification as part of the 2021–2023 Transformation Acceleration Plan. Gabon has received a new allocation of Special Drawing Rights from the International Monetary Fund equivalent to 1.7 percent of GDP, providing additional liquidity and enhancing prospects for recovery.

In 2021, the fiscal deficit is projected to widen to 3.2 percent of GDP. Measures to rationalize tax expenditure will contribute to an increase in revenue, while the rationalization of non-priority expenditure would allow Gabon to increase investment expenditure. The authorities are expected to accelerate fiscal consolidation once the fallout from the pandemic subsides. As a result, the fiscal deficit is expected to narrow gradually over the medium term, and public debt is projected to decline, driven by fiscal consolidation and the economic recovery.

The current account deficit is projected to gradually narrow in the medium term, supported by higher oil prices and a resumption of investments in wood and agri-businesses in the context of a global economic recovery. For the outer years of the forecast horizon, Gabon should be able to benefit from the recent OPEC+ agreement to gradually ease their output cuts.

Projections remain subject to downside risks such as new COVID-19 infection waves and a slow vaccine rollout impacting the recovery. Uncertainty surrounding the pandemic, institutional capacity weaknesses, and the 2023 presidential election could also slow the implementation of structural reforms. Upside risks include a faster global recovery from the pandemic and higher international oil prices.

Due to current economic constraints and the impact of the pandemic on employment and income, the share of Gabonese households living on less than US$5.5 per day is expected to be 1.3 percentage point higher in 2023 than the pre-pandemic poverty rate, reaching 33.7 percent. Assuming the economy grows by 3.5 percent in 2024, the poverty rate could return to its pre-crisis level by 2024.

TABLE 2 Gabon / 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	0.8	3.9	-1.8	1.5	2.8	3.0
Private Consumption	-0.4	0.9	-2.0	-0.3	1.1	2.7
Government Consumption	-21.5	6.1	5.5	2.8	-4.2	1.7
Gross Fixed Capital Investment	81.7	21.5	-16.7	7.7	0.6	2.9
Exports, Goods and Services	1.4	14.0	10.1	6.8	3.9	3.3
Imports, Goods and Services	51.2	25.5	-6.0	9.5	-0.7	2.7
Real GDP growth, at constant factor prices	0.7	4.2	-1.9	1.5	2.8	3.0
Agriculture	9.5	7.9	5.9	3.0	5.0	4.0
Industry	-0.8	6.8	-2.2	4.3	6.3	4.0
Services	0.5	2.3	-2.8	-0.4	0.3	2.2
Inflation (Consumer Price Index)	6.3	1.0	1.6	2.0	2.0	2.0
Current Account Balance (% of GDP)	-2.1	-0.9	-6.0	-4.8	-3.2	-2.4
Fiscal Balance (% of GDP)	-1.3	1.4	-2.1	-3.2	-1.1	0.3
Debt (% of GDP)	60.6	59.8	77.4	74.5	71.8	67.9
Primary Balance (% of GDP)	1.1	3.6	1.0	-0.2	1.6	3.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.4	3.4	3.6	3.6	3.6	3.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	11.5	11.3	12.0	12.1	12.1	11.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	32.7	32.3	33.8	34.0	34.0	33.7
GHG emissions growth (mtCO2e)	-0.5	-0.5	-0.5	1.9	0.9	0.8
Energy related GHG emissions (% of total)	19.1	19.3	19.6	20.1	19.3	18.7

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

(a) Calculations based on 2017-EGEP .Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

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

THE GAMBIA

Table 1	2020
Population, million	2.4
GDP, current US$ billion	1.9
GDP per capita, current US$	791.7
International poverty rate ($1.9)[a]	10.3
Lower middle-income poverty rate ($3.2)[a]	38.4
Upper middle-income poverty rate ($5.5)[a]	72.7
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	101.7
Life expectancy at birth, years[b]	62.0
Total GHG Emissions (mtCO2e)	3.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2019).

2020 witnessed a slight recession, driven by the pandemic-induced fall in tourism and private consumption. Despite the crisis, external and fiscal deficits were kept in check due to increased donor support. Remittances continue to break records, but new COVID-19 variants dampen the tourism outlook. Growth and poverty reduction are expected to gradually recover over the medium term. The outlook is subject to downside risks stemming from the speed of global recovery, the vaccine roll-out, and the pace of reforms.

Key conditions and challenges

Since the democratic transition of 2017, the Government has taken important steps to improve the rule of law, restore macroeconomic stability, and reignite growth, which averaged 6 percent between 2017-2019. Following strong economic performance and debt restructuring, The Gambia exited debt distress in early 2020, paving the way for an IMF Enhanced Credit Facility.

Despite progress with COVID-19 vaccination both within The Gambia and in key tourist markets, recovery will be gradual. The December presidential elections may increase security risks and discourage the 2021/22 tourism season starting in October. Prospects of a tourism rebound are hampered by new variants and stringent entry requirements in key markets, which also poses a challenge to poverty reduction. Additionally, recent windstorm and heavy downpours exposes vulnerable households to the risk of being pushed back or sliding deeper into poverty.

As the risk of debt distress remains high, The Gambia has limited fiscal policy buffers to kickstart the economy. The outlook is subject to downside risks stemming from the depth and duration of the pandemic, vaccine-resistant virus mutations, the deployment of vaccines, the reform pace ahead of the elections and climatic shocks.

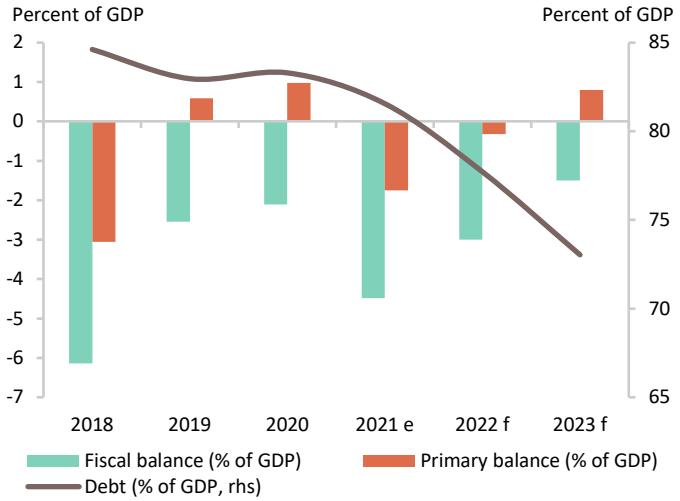
Recent developments

GDP growth fell to -0.2 percent in 2020 (-3.1 percent in per capita terms). The services sector was affected most, as containment measures suppressed private consumption and tourism declined. Nevertheless, flight arrivals are increasing in 2021 but are still 70.7 percent lower in H12021 than during the same period in pre-pandemic 2019. Agricultural productivity and growth look positive thanks to good rains, although early season proved dry. Strong private foreign inflows, especially remittances, continue to support construction and commerce. Private credit is starting to rebound, reflected in a strong growth of 34.7 percent at end-July 2021 in loans to construction sector.

The current account deficit narrowed to 3.6 percent of GDP in 2020 (from 2019), as the tourism drop was offset by remittances and official transfers. FDI financed the deficit, while exchange rate remained stable. Remittances continue to break records, with 59 percent increase in H12021 compared to previous year, and 144 percent higher than in H12019. This has bolstered reserves that reached 4.7 months of next year's imports in end-June 2021.

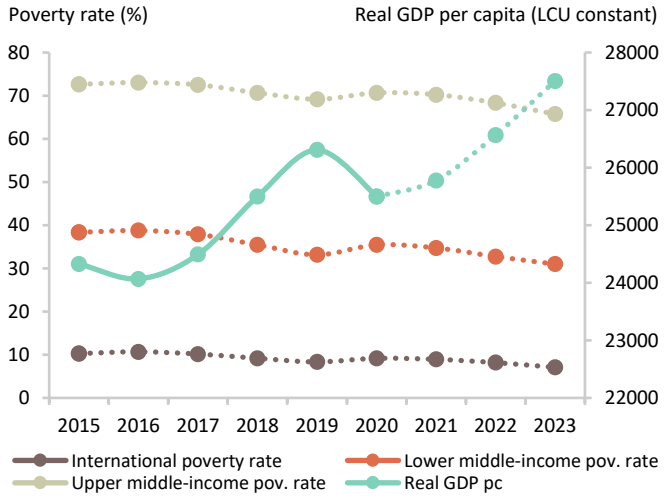
The Government registered a primary surplus in 2020, reducing the fiscal deficit to 2.1 percent of GDP, as donor grants supported most pandemic-related spending. Tax collections reached 99 percent of the pre-COVID-19 target, supported by the revision of reference prices combined with the adoption of transactional-value-based

FIGURE 1 The Gambia / Actual and projected fiscal and primary balance



Sources: The Gambian authorities and World Bank estimates.

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



Source: World Bank Notes: see Table 2.

customs and excise levies. Although expenditure remained stable, recurrent spending increased to accommodate COVID-19 needs, while reallocating funds from lower-priority areas. However, capital expenditure declined due to pandemic-related implementation challenges. Public debt-to-GDP increased from 83 percent in 2019 to 83.3 percent in 2020. Due to previous debt restructuring, relief under the Debt Service Suspension Initiative (DSSI) was modest (0.2 percent of GDP).

Headline inflation increased to 8.2 percent y/y in July 2021, driven by food price increases. This continues the period of high food inflation in 2021, averaging 9.9 percent till July 2021, compared to 6.5 percent in the same period last year. Rising food prices are undermining food security calling for continued government support. The central bank continued with cautious monetary easing, lowering the policy rate from 12.5 percent in end-2019 to 10 percent by May 2020 and maintaining thereafter, while reducing the statutory reserve requirement ratio by 200 basis points to 13 percent in May 2020. Broad money continues to grow, by 23.3 percent at end-July 2021, supported by the build-up of net foreign assets in the banking system.

The pandemic reversed gains in poverty reduction. The international poverty rate increased from 8.4 percent in 2019 to 9.2 percent in 2020, pushing over 25,000 people into poverty. High-frequency phone surveys indicate that job losses (especially in services) peaked with the pandemic, at 26 percent in October 2020 and averaged 21 percent till June 2021, pushing vulnerable households into poverty.

Outlook

The economy is expected to gradually recover in 2021, as private consumption is less constrained by lockdowns and large public infrastructure projects are implemented. Over the medium-term, growth would be spurred by services/tourism, industrial and agricultural activity, and the pandemic-induced adoption of digital technologies. This assumes renewed focus on structural reforms, political stability, and normal weather. Real GDP is projected to grow by 4 percent in 2021 (1.1 percent in per capita terms) and 6 percent in 2022, still below the pre-pandemic rate. Inflation will temporarily increase before dropping to the central bank's 5 percent target by 2025. The current account deficit is expected to widen, driven by the high import content of public investments, as the recovery begins in 2021, and by declining grants and private inflows over time. Exports would grow, supported by revitalized re-exports. The deficit will be financed by FDI and capital transfers. Foreign exchange reserves would hover above 5 months of imports.

The fiscal deficit is projected to widen in 2021, due to lower grants, continued spending on infrastructure, and election-related spending. As the economy recovers, tax revenues should increase, supported by improved tax expenditure monitoring and administrative measures. Expenditures should decrease over the medium-term, as COVID-related spending is withdrawn. Transfers to SOEs are expected to fall, as the Government strengthens corporate governance and balance sheets. The fiscal deficit would gradually start decreasing after 2021, anchored in the Medium-Term Fiscal Framework 2021-25. Savings under DSSI would extend to 0.1 percent of GDP in 2021. Public debt-to-GDP should remain on a downward path.

The international poverty rate is expected to decline to 9 percent in 2021, and 7.1 percent by 2023, driven by the expected recovery in tourism, construction and commerce sectors. Additionally, the cash transfer project in rural Gambia will reduce poverty. Despite an expected favorable cropping season, poor households and those close to the poverty line remain vulnerable, due to adverse weather events.

TABLE 2 The Gambia / 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	7.2	6.2	-0.2	4.0	6.0	6.5
Private Consumption	9.7	4.0	-2.4	4.0	8.4	5.8
Government Consumption	3.7	14.6	10.8	7.8	-3.3	6.0
Gross Fixed Capital Investment	2.0	28.3	41.1	27.5	-1.3	6.4
Exports, Goods and Services	44.2	-10.6	-51.3	18.0	59.5	13.7
Imports, Goods and Services	17.6	-1.7	16.2	27.7	12.2	7.1
Real GDP growth, at constant factor prices	7.2	6.2	-0.2	4.0	6.0	6.5
Agriculture	3.7	-0.5	12.0	3.0	3.3	3.7
Industry	2.0	14.8	9.9	4.9	5.2	7.3
Services	10.1	6.1	-7.3	4.1	7.4	7.2
Inflation (Consumer Price Index)	6.5	7.1	5.9	7.0	6.3	5.8
Current Account Balance (% of GDP)	-9.5	-6.2	-3.6	-12.7	-13.3	-11.2
Fiscal Balance (% of GDP)	-6.1	-2.5	-2.1	-4.5	-3.0	-1.6
Debt (% of GDP)	84.6	83.0	83.3	81.6	77.7	73.0
Primary Balance (% of GDP)	-3.0	0.6	1.0	-1.8	-0.3	0.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	9.2	8.4	9.2	9.0	8.2	7.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	35.5	33.2	35.5	34.8	32.8	31.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	70.7	69.2	70.7	70.3	68.4	65.8
GHG emissions growth (mtCO2e)	2.6	1.5	0.2	8.6	3.6	4.0
Energy related GHG emissions (% of total)	30.2	31.6	31.5	33.5	34.6	36.0

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

(a) Calculations based on 2015-IHS.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.

GHANA

Table 1	2020
Population, million	31.1
GDP, current US$ billion	67.5
GDP per capita, current US$	2170.4
International poverty rate ($1.9)[a]	12.7
Lower middle-income poverty rate ($3.2)[a]	29.3
Upper middle-income poverty rate ($5.5)[a]	55.1
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	104.8
Life expectancy at birth, years[b]	64.1
Total GHG Emissions (mtCO2e)	61.4

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

Ghana was severely affected by the COVID-19 pandemic: growth decelerated sharply and public finances came under major strain in 2020. While the economy is showing signs of a fragile recovery, the authorities need to balance the need to support the recovery with fiscal prudence. Given the elevated public debt, Ghana needs to maintain continued access to capital markets. The main risk facing Ghana is debt vulnerability heightened by energy sector contingent liabilities.

Key conditions and challenges

The COVID-19 pandemic has halted Ghana's rapid growth spell, and the economy is yet to fully recover. The economy grew at an average of 7 percent in 2017–19, before it experienced a sharp contraction in Q2 and Q3 of 2020, due to a lockdown in the spring and a sharp decline in commodity exports. There was a modest rebound in economic growth 2020Q4, resulting in 0.4 percent growth for 2020.

The economic slowdown had a considerable impact on households. At the height of the pandemic, nearly 3 out of 4 households reported a decrease in their incomes. Data from August/September 2020 show that, as businesses struggled with sales, they reduced wages and worker hours but seldom resorted to layoffs. To cope with the shock, many households reduced their consumption, while many had to rely on savings, borrowing, and the sale of assets to make up for the loss of income. The poverty rate ($3.2) is estimated to have slightly increased in 2020 from 25 percent in 2019 to 25.5 percent in 2020.

The pandemic also had a severe impact on Ghana's fiscal position and halted the government's fiscal consolidation program. As a result, the overall fiscal deficit (including energy and financial sector costs) doubled from 7.6 percent of GDP in 2019 to 15.2 percent in 2020. Meanwhile, public debt increased by almost 16 percentage points to 78.9 percent of GDP in 2020, which means that the risk of debt distress is significant.

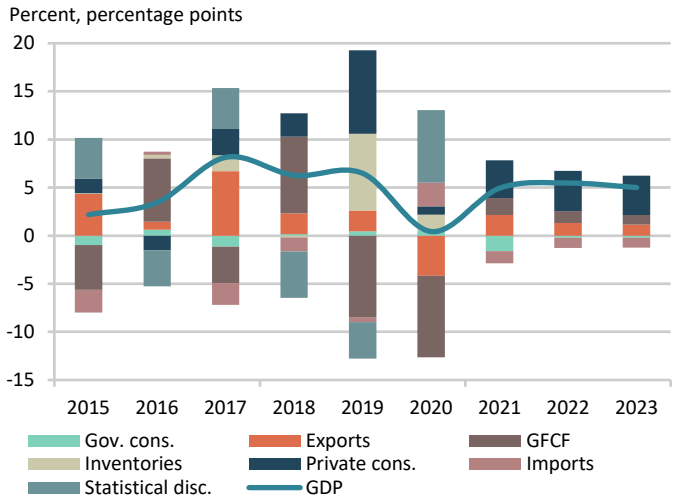
The energy sector continues to pose significant fiscal risks for the country. Sector costs far exceed revenues, costing the budget about 1-2 percent of GDP annually in recent years. The authorities adopted the Energy Sector Recovery Program (ESRP) in 2019 to restore financial and commercial viability, curtail arrears accumulation, and pay outstanding arrears. Implementation of the ESRP is expected to reduce the sector revenue shortfall which will continue to weigh on the fiscal balances.

Low vaccination rates, coupled with the impact of the Delta variant, cloud the outlook. Ghana entered a third wave of the pandemic in July, with new restrictions that dampened economic activity. As of early September, just over 1 million vaccine doses had been administered, only enough to fully vaccinate 2 percent of the population.

Recent developments

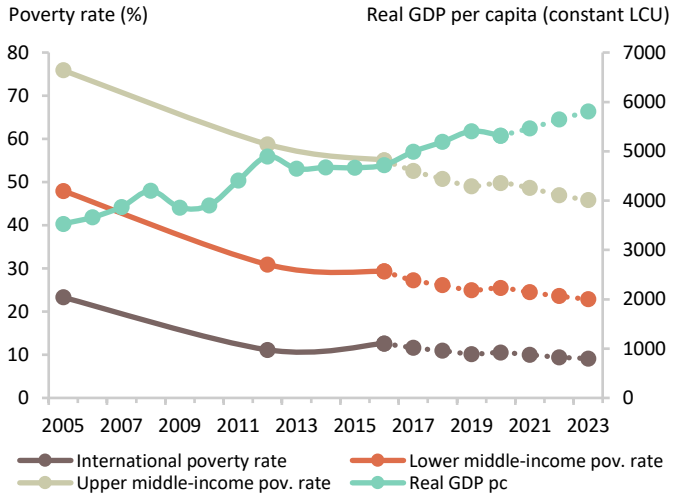
Growth firmed up further in 2021Q1, driven by the strong performance of services (particularly information and communication technologies) and agriculture. Positive growth was recorded despite a sharp contraction in mining and the concurrent second wave of the pandemic. 2021Q2 saw mixed developments: there was some positive demand and trade dynamics, but private sector credit growth slowed. The pandemic has so far only had a moderate impact on the banking sector.

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



Sources: Ghana statistical Service and World Bank.

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



Source: World Bank. Notes: see table 2.

Headline inflation remained relatively low at 7.8 percent in June 2021 as the pandemic-induced food price shock eased and the exchange rate remained stable. With inflation below its 8 percent target, the Bank of Ghana reduced the policy rate by 100 basis points to 13.5 percent in May to support the recovery.

Fueled by the domestic recovery, imports expanded faster than exports in early 2021 while external demand for commodities remained subdued. As a result, the current account deficit widened from 0.8 percent of GDP in 2020Q2 to 1.3 percent of GDP in 2021Q2. However, the deficit was financed by large portfolio inflows and foreign direct investment, which drove the capital and financial account balance to a high of US$3.3billion in 2021Q2. With the proceeds of the March 2021 Eurobonds emission, gross international reserves reached US$11 billion in 2021Q2—equivalent to 5 months' worth of imports of goods and services, up from 4.0 months at end-December 2020.

Provisional fiscal data for 2021H1 suggest that the authorities had to cut spending to make up for revenue shortfalls. The overall fiscal deficit as of end-June 2021 was 5.1 percent of GDP, close to the target of 5.2 percent. Revenue and grants were below target as the pandemic continued to affect business operations and profits, depressing tax revenues. Public expenditure was also below target, notably with lower-than-planned COVID-19-related expenditure (partly because of delays in the vaccination rollout).

Outlook

The economy is projected to recover gradually over the medium term, thanks to commodity price growth and strong domestic demand. Ghana received the equivalent of US$1 billion in the recent IMF SDRs allocation, part of which will go to support economic recovery via the CARES program. Growth is expected to average 5.1 percent per year in 2021–23. After declining by 1.7 percent in 2020, real per capita GDP is projected to return to its pre-COVID-19 level in 2021. Conditional on the recovery benefitting those at the bottom of the distribution, the poverty rate is expected to continue to fall for the foreseeable future. GHG emissions did not fall during the pandemic, and are expected to continue to rise until 2023 as growth resumes. The main risks to the growth outlook are new waves of COVID-19 infections in the region or globally.

The fiscal deficit, including financial and energy sector costs, is expected to remain elevated as the government implements its program to support the economy. The deficit is projected to narrow to approximately 14 percent of GDP in 2021 and to 9.5 percent of GDP by 2023—still well above Ghana's fiscal rule ceiling of 5 percent. Moreover, the public debt stock is expected to rise to 87.4 percent of GDP by 2024, before coming down gradually in the medium term. These projections are dependent on the government meeting its ambitious domestic revenue mobilization targets (starting in 2021), implementing planned spending cuts (starting in 2022), and implementing the ESRP. Finally, continued access to domestic and external financing is critical for Ghana's debt sustainability.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	6.5	0.4	4.9	5.5	5.0
Private Consumption	3.8	13.9	1.3	5.8	6.2	6.0
Government Consumption	1.8	5.4	6.4	-18.6	-2.9	-3.5
Gross Fixed Capital Investment	32.7	-27.9	-41.1	14.7	9.2	7.2
Exports, Goods and Services	6.6	6.7	-12.8	7.6	4.5	4.0
Imports, Goods and Services	5.0	1.7	-8.8	4.9	4.2	4.1
Real GDP growth, at constant factor prices	6.2	6.5	0.4	4.9	5.5	5.0
Agriculture	4.8	4.6	7.4	7.9	7.3	3.6
Industry	10.6	6.4	-3.6	4.2	4.9	4.5
Services	2.7	7.6	0.9	4.1	5.0	6.3
Inflation (Consumer Price Index)	9.8	7.9	10.4	9.8	9.6	6.8
Current Account Balance (% of GDP)	-3.1	-2.7	-3.2	-2.4	-4.2	-5.1
Fiscal Balance (% of GDP)	-6.9	-7.6	-15.2	-13.9	-10.5	-9.5
Debt (% of GDP)	58.7	63.3	78.9	83.5	84.9	86.4
Primary Balance (% of GDP)	-1.4	-1.9	-8.8	-5.8	-1.6	-0.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	11.0	10.2	10.5	10.0	9.4	9.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	26.2	25.0	25.5	24.5	23.6	22.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	50.8	49.1	49.8	48.7	47.0	45.9
GHG emissions growth (mtCO2e)	2.8	4.5	2.4	5.5	5.0	5.2
Energy related GHG emissions (% of total)	38.7	39.6	40.3	42.1	43.5	45.2

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

(a) Calculations based on 2016-GLSS-VII.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

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

GUINEA

Table 1	2020
Population, million	13.1
GDP, current US$ billion	15.2
GDP per capita, current US$	1160.3
International poverty rate ($1.9)[a]	36.1
Lower middle-income poverty rate ($3.2)[a]	70.9
Upper middle-income poverty rate ($5.5)[a]	92.5
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	91.5
Life expectancy at birth, years[b]	61.6
Total GHG Emissions (mtCO2e)	43.7

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2012), 2011 PPPs.
(b) WDI for School enrollment (2016); Life expectancy (2019).

Growth was resilient to the pandemic, accelerating to 7.1 percent in 2020, driven by booming mining production. Capital investment was reduced to contain the increase in the fiscal deficit following COVID-19 measures. Higher donor financing and improved terms of trade supported the fiscal and external deficits. Growth is expected to remain strong, lowering poverty, with down-side risks including prolonged political and social instability triggered by the 2021 coup, persisting COVID-19 impacts, and the deferral of fiscal and structural reforms.

Key conditions and challenges

The Guinean economy has sustained robust growth since 2016, but the economy remains undiversified. It is dependent on mining (17 percent of GDP and 85 percent of exports) while agriculture productivity remains low (which represents 23 percent of GDP). Dependence on bauxite and gold exposes the country to fluctuations in commodity prices. Governance challenges were brought to the forefront by the coup of September 5, 2021. Other constraints to inclusive growth include an underdeveloped financial sector, low investment levels, large infrastructure gaps, and a population with low levels of human capital. Although income inequality is relatively low, gender gaps are widespread in education, earnings, agricultural productivity, and political representation.

Solid macroeconomic and fiscal management have underpinned growth. The nominal exchange rate has stabilized, reducing the gap between the official and parallel exchange rates, although inflation remains high. Fiscal discipline has been achieved by cuts to capital spending to compensate for declining tax revenue since its peak in 2016 (14.2 percent of GDP). The below potential tax revenues can be attributed to ineffective tax administration, and tax exemptions for the mining sector, which contribute to low tax compliance.

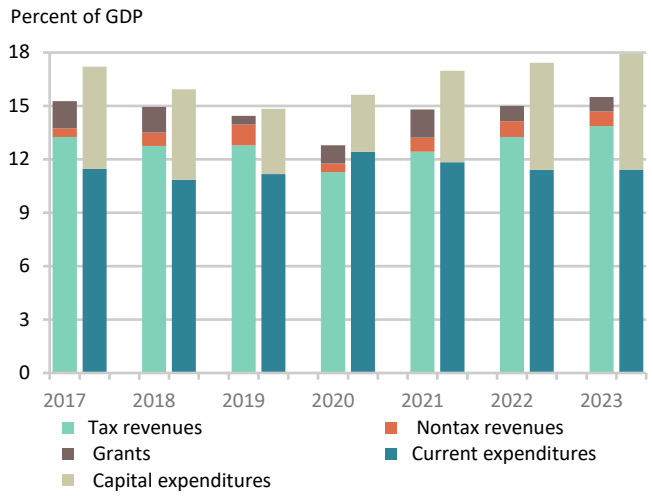
COVID-19 has affected the non-mining sector and exacerbated existing development challenges. Enacting structural reforms to diversify the economy and promote inclusive growth are more urgent now. Guinea is at moderate risk of external debt distress with limited space to absorb shocks. This assessment hinges on commitments to maintain a prudent borrowing plan that maximizes concessional borrowing. Risks to the economic outlook remain skewed to the downside, particularly due to the coup's impact on mining activities, FDI, and delays with the distribution of COVID-19 vaccines.

Recent developments

Economic growth accelerated to 7.1 percent in 2020, 4.1 percent in per capita terms, despite COVID-19. While mining production boomed, the service sector is expected to have contracted by 1 percent due to COVID containment measures. Mining investments boosted bauxite production while higher gold prices bolstered artisanal gold exports. Inflation accelerated from 9.5 percent in 2019, to 11.6 percent in 2020, and 12.4 percent in the first half of 2021, with higher food prices partly due to supply disruptions and an increase in central bank financing to meet the larger fiscal deficit in 2020.

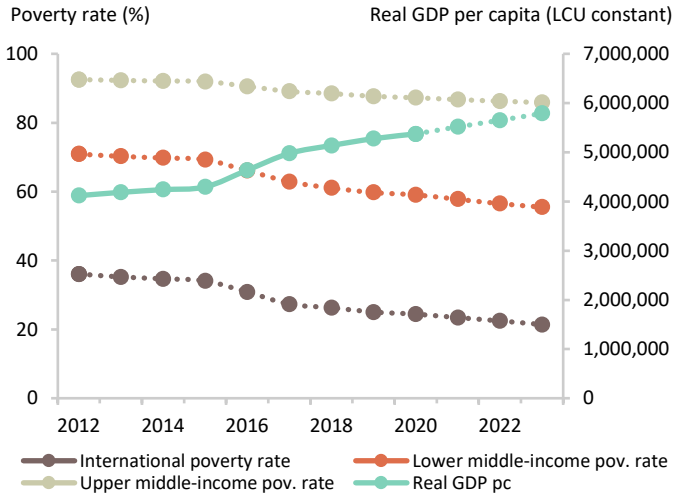
The overall fiscal deficit (including grants) widened to 2.9 percent of GDP in 2020. Tax revenues amounted to 11.3 percent of GDP in 2020, their lowest level since 2011, because of weak tax administration, mining tax exemptions and measures under the

FIGURE 1 **Guinea** / Government revenue and expenditures



Sources: Guinean authorities; and World Bank staff projections.

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



Source: World Bank. Notes: See Table 2.

COVID-19 response plan (e.g., tax exemptions for key products and tax deferrals). Subsidies to the public electricity utility, which had more than doubled in 2019, further increased in 2020 because of subsidies offered under the COVID-19 response plan, and reliance on expensive thermal technology. Under-executed capital expenditures partially offset higher current transfers and social spending to protect vulnerable households. The debt-to GDP ratio increased from 33.8 percent of GDP in 2019, to 43.3 percent in 2021.

The current account deficit widened to 13.7 percent of GDP in 2020, with higher mining exports not totally compensating for higher imports of medicines, sugar, and intermediate and capital goods. Mining-related FDI continued to be the main source of external financing and increased from 9.9 percent of GDP in 2019 to 10.6 percent in 2020. Estimated international reserves increased slightly from 2.1 months of imports in 2019 to 2.2 months in 2020.

Projections based on growth in GDP per capita suggest that the extreme poverty rate, the percentage of the population living below the international poverty line (US$1.90 per capita per day, 2011 PPP), declined from 25 percent in 2019, to 23.6 percent in 2020. This corresponds to over 3.1 million Guineans still living in extreme poverty in 2020. Non-monetary poverty such as deprivations in education, health, and access to basic infrastructure, captured using the Multidimensional Poverty Index, was estimated at nearly 32 percent in 2018, representing a decrease of 4 percentage points from 2012. However, the pandemic will likely reverse gains in human capital. According to survey results, about 5 out of 10 households reported that their children did not engage in any learning activities during school closures, which is likely to lead to high drop-out rates and, consequently, increase poverty among the future generation.

Outlook

Over the medium-term, mining-related investment will continue to drive growth. Growth is likely to decelerate to 5.2 percent in 2021, before accelerating to 6 percent in 2022-2023 as the service sector recovers. Public and private investment in energy and transport will support growth in the construction sector. Better provisioning of agriculture inputs could also improve agricultural productivity. The implementation of structural reforms to strengthen governance and the business climate, as well as more reliable electricity provision, following completion of the Souapiti hydropower project in 2020, should attract private investments and development. Inflation is expected to remain high, but to decline gradually to 7.8 percent by 2023.

The external current account deficit is projected to contract to 9.2 percent of GDP in 2021, reflecting lower imports for infrastructure spending (i.e., completion of the Souapiti dam) and other capital goods. The deficit is projected to increase thereafter, with exports projected to grow slower than imports due to renewed infrastructure spending for road and railways. FDI inflows will meet over 70 percent of financing requirements between 2021 and 2022, with long-term loans meeting the rest.

Extreme poverty is projected to fall steadily to 20.4 percent by 2023. Prospects for poverty reduction are tilted downwards because of the pandemic and any deferral of social reforms and political instability following the coup, which could jeopardize social gains and inclusive development.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.2	5.6	7.1	5.2	6.1	5.9
Private Consumption	3.8	5.4	3.5	3.2	3.1	3.1
Government Consumption	-7.2	-6.3	42.9	5.1	7.9	10.1
Gross Fixed Capital Investment	8.7	-8.4	4.9	20.7	31.8	24.5
Exports, Goods and Services	7.2	-0.6	33.5	5.4	4.8	4.0
Imports, Goods and Services	3.7	-9.5	39.4	7.2	10.2	10.1
Real GDP growth, at constant factor prices	6.7	6.5	7.1	5.2	6.1	5.9
Agriculture	5.4	7.6	6.2	6.9	5.8	6.0
Industry	6.9	7.2	18.5	6.7	7.0	6.7
Services	6.9	5.5	-1.0	3.2	5.4	5.0
Inflation (Consumer Price Index)	9.8	9.5	11.6	9.9	8.0	7.8
Current Account Balance (% of GDP)	-19.5	-10.8	-13.7	-9.2	-11.2	-12.1
Net Foreign Direct Investment (% of GDP)	15.9	9.0	9.9	10.6	12.9	12.9
Fiscal Balance (% of GDP)	-1.1	-0.5	-2.9	-2.2	-2.4	-2.4
Debt (% of GDP)	38.4	33.8	39.1	43.3	42.4	41.7
Primary Balance (% of GDP)	-0.3	0.0	-2.2	-1.3	-1.4	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	26.3	25.0	23.6	22.7	21.4	20.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	61.1	59.8	57.9	56.8	55.4	54.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	88.5	87.7	86.8	86.4	85.8	85.0
GHG emissions growth (mtCO2e)	0.1	3.3	2.7	8.4	4.5	4.6
Energy related GHG emissions (% of total)	14.7	14.8	15.1	15.0	15.1	15.2

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

(a) Calculations based on 2012-ELEP.Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2012) with pass-through = 0.7 based on GDP per capita in constant LCU.

GUINEA-BISSAU

Table 1	2020
Population, million	2.0
GDP, current US$ billion	1.4
GDP per capita, current US$	700.0
International poverty rate ($1.9)[a]	68.4
Lower middle-income poverty rate ($3.2)[a]	85.4
Upper middle-income poverty rate ($5.5)[a]	93.8
Gini index[a]	50.7
School enrollment, primary (% gross)[b]	118.7
Life expectancy at birth, years[b]	58.3
Total GHG Emissions (mtCO2e)	4.5

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2010), 2011 PPPs.
(b) WDI for School enrollment (2010); Life expectancy (2019).

Real GDP contracted by 1.4 percent in 2020, driven by COVID-19 containment measures, adverse weather, and weak external demand for cashew nuts. The fiscal deficit widened considerably which led to an increased debt-to-GDP ratio. Growth is projected to recover in 2021, as the cashew market recovers. The medium-term will require fiscal consolidation to maintain debt sustainability. The 2020 floods highlight the country's vulnerability to climatic shocks. Poverty has increased and is projected to remain high in the medium-term.

Key conditions and challenges

Exports of raw cashew nuts, which account for 90 percent of merchandise exports, determine economic performance in Guinea-Bissau. Cashew production is dispersed among many smallholder farmers, whose income supports overall economic activity. Annual GDP grew 5.4 percent on average between 2015 and 2017 (3.2 percent in per capita terms) as cashew prices reached record highs, but Guinea-Bissau is structurally vulnerable to terms-of-trade shocks and climatic risks. Raw cashew prices have been on a downward trajectory since 2018, adversely affecting economic growth, poverty, and government finances. Around 15 percent of tax revenue is directly related to cashew exports.

Limited diversification and low productivity in the primary sector keep the country highly dependent on food and capital imports. As COVID-19 has accentuated the need for transformation, the government launched a new development plan aiming to i) modernize public institutions, ii) accelerate job creation iii) boost the productive sector and infrastructure iv) improve human capital and living conditions v) promote regional integration and vi) preserve biodiversity. However, progress has been slow given the country's limited fiscal space and high debt levels.

The pandemic and high primary deficits and externally financed infrastructure projects led to considerable debt accumulation and high debt servicing costs. However, political stability is expected to enable reforms in public expenditure management and increase revenue mobilization to gradually reduce the fiscal deficit while supporting growth.

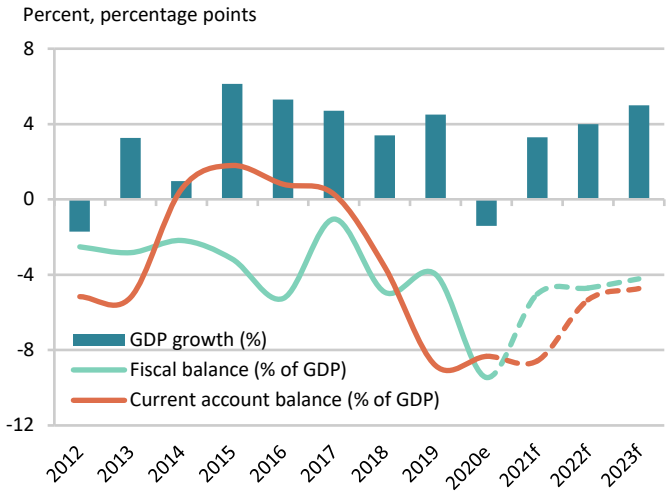
Recent developments

The economy contracted 1.4 percent in 2020 (3.5 percent in per capita terms), down from 4.5 percent in 2019. This was driven by a collapse in agriculture, which contributed 5.8 percent to GDP growth in 2019, but negative 0.8 percent in 2020. Private consumption fell from 1.4 percent in 2019 to a contraction of 3.8 percent in 2020 and government consumption fell from 16.6 percent to 9 percent. Severe flooding in September also had a negative impact. High frequency indicators show growth in the first quarter of 2021 of 2.7 percent.

The trade deficit widened to 16.3 percent in 2020, driven by reduced cashew exports and prices, which fell 21 and 9.8 percent respectively between 2019 and 2020. The current account deficit (CAD) stood at 8.8 percent in 2020. The pandemic related trade disruptions caused capital inflows and FDI to reduce to 0.9 percent and 0.8 percent of GDP in 2020, respectively. The CAD in 2020 was financed mostly by grants and concessional loans.

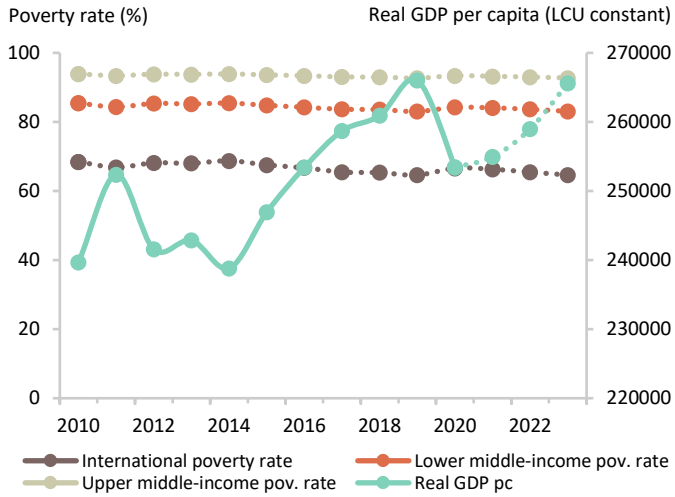
The fiscal deficit increased from 3.9 percent of GDP in 2019, to 9.5 percent in 2020, owing to pandemic affected tax revenues falling to 8.2 percent of GDP and

FIGURE 1 Guinea-Bissau / Evolution of main economic indicators



Sources: Ministry of Finance and World Bank.

FIGURE 2 Guinea-Bissau / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes see Table 2.

COVID-related expenditure in health and social protection, and sectoral support for the cashew campaign, in the form of on-lending to the banks, reaching 5.4 percent of GDP, including 2.6 percent on capital expenditure for equipment, infrastructure and vaccines. The primary deficit grew from 2.8 percent in 2019, to 7.8 percent in 2020, and was filled by international donors and treasury issuances with WAEMU commercial banks. The country is at high-risk of overall debt distress and participates in the G-20 Debt Service Suspension Initiative. Inflation increased from 0.3 percent in 2019, to 1.5 percent in 2020 due to COVID-related supply disruptions. Guinea-Bissau's monetary policy is managed by the Central Bank of West African States (BCEAO), which maintains a peg between the CFA franc and the euro. Reserves have remained stable since 2019, and reached an estimated 5.8 months of imports in 2020, due to donor support and Eurobond issuance in Cote d'Ivoire. To support the regional economy and COVID-19 related extra spending, the BCEAO implemented a set of monetary and macroprudential measures beginning in March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds. These measures were extended into 2021.

The contraction of the economy resulted in an increase in the incidence of poverty from 64.6 to 66.6 percent (US$1.9 per day in PPP 2011) between 2019 and 2020, corresponding to 69,000 additional poor people. High frequency phone surveys for March 2021 indicate that more than 80 percent of households feel food insecure, and 75 percent are unable to cover transport and energy expenses.

Outlook

Real GDP growth is projected to reach 3.3 percent in 2021, as successful vaccine rollout in other countries supports recovery by increasing demand for cashew. Growth should reach 5 percent in the medium term, driven by agriculture production, with per capita growth surpassing 2019 levels in 2023.

The CAD is expected to reach 8.6 percent in 2021, declining to 4.7 percent by 2023, as exports of cashew increase, and imports reduce to pre-COVID levels. Potential investment in rice production, the main staple food, may further reduce imports. In August 2021, the BCEAO received 1.4 percent of aggregate GDP in additional SDR allocations from the IMF that may be on-lent to member countries.

Fiscal consolidation is a medium-term objective of the government. Authorities aim to contain the wage bill and number of civil servants, while weekly Treasury Committee meetings and the implementation of a Treasury Single Account will help control expenditure. These reforms, coupled with efforts to broaden the tax base and improve tax administration, should support fiscal consolidation with the deficit declining from 5 percent in 2021, to meet the regional convergence criteria of 3 percent by 2025. Public debt is projected to decline gradually over the medium term, and to 75.7 percent by 2023. Inflation is expected to rise to 1.9 percent in 2021, and remain steady over the medium-term.

Poverty is projected to remain high in 2021, with 66.3 percent living below the poverty line. Poverty is expected to decline by 0.8 percentage points in 2022, and to reach the pre-pandemic level of 64.6 percent in 2023. The high dependance of rural households on cashew crops may limit opportunities for further poverty reduction in a context of lower prices and climatic shocks.

TABLE 2 Guinea-Bissau / 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	4.5	-1.4	3.3	4.0	5.0
Private Consumption	-0.5	1.4	-3.8	2.1	2.3	3.5
Government Consumption	5.1	16.6	9.0	4.6	1.7	4.1
Gross Fixed Capital Investment	7.6	33.8	9.6	10.1	8.7	6.8
Exports, Goods and Services	14.4	8.7	-10.2	4.7	10.4	10.2
Imports, Goods and Services	-8.5	14.1	-3.0	5.0	5.1	5.3
Real GDP growth, at constant factor prices	3.4	4.5	-1.4	3.3	4.0	5.0
Agriculture	3.4	5.8	-0.8	4.1	4.3	5.1
Industry	5.7	4.2	-0.7	2.9	4.8	6.1
Services	2.7	3.5	-2.1	2.7	3.5	4.6
Inflation (Consumer Price Index)	0.4	0.3	1.5	1.9	2.0	2.0
Current Account Balance (% of GDP)	-3.6	-8.8	-8.3	-8.6	-5.3	-4.7
Fiscal Balance (% of GDP)	-4.9	-4.0	-9.5	-5.0	-4.7	-4.2
Debt (% of GDP)	59.2	65.9	79.3	78.4	77.5	75.7
Primary Balance (% of GDP)	-4.3	-2.8	-7.8	-3.4	-2.7	-2.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	65.3	64.6	66.6	66.3	65.4	64.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	83.6	83.0	84.2	84.0	83.6	83.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.9	92.6	93.3	93.1	93.0	92.7
GHG emissions growth (mtCO2e)	1.3	1.9	0.4	2.5	2.6	3.2
Energy related GHG emissions (% of total)	12.6	12.9	13.1	13.5	13.7	13.9

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

(a) Calculations based on 2010-ILAP-II.Actual data: 2010. Nowcast: 2011-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2010) with pass-through = 0,87 based on GDP per capita in constant LCU.

KENYA

Table 1	2020
Population, million	53.8
GDP, current US$ billion	1010
GDP per capita, current US$	1877.3
International poverty rate ($1.9)[a]	37.1
Lower middle-income poverty rate ($3.2)[a]	66.5
Upper middle-income poverty rate ($5.5)[a]	86.6
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	66.7
Total GHG Emissions (mtCO2e)	97.1

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for School enrollment (2016); Life expectancy (2019).

Kenya's economy has staged a significant recovery from the COVID-19 shock, helped by supportive policies, although some sectors remain severely affected. After the increase in poverty in 2020, the pre-COVID downward trend is expected to resume as households adapt to changing economic conditions. Near-term growth prospects hinge on the pace of vaccination. Resuming fiscal consolidation in the medium term is essential to reduce debt sustainability risks and support a strong private sector-led recovery.

Key conditions and challenges

Kenya achieved strong GDP growth in the decade prior to the pandemic, averaging 5.0 percent per year, supported by increased public spending reflecting an ambitious development agenda that included plugging the large infrastructure gap and implementing devolution. While this robust growth produced a substantial reduction in inequality and poverty, the debt-financed public spending-led expansion has reached its limit as revenue growth has not kept pace, fiscal space has narrowed, and debt vulnerabilities have mounted. The fiscal deficit increased from 3.1 percent of GDP in 2010/11 to 8.3 percent in 2020/21 and public debt rose from 38.3 percent of GDP in 2010/11 to 68.3 percent in 2020/21. The pandemic caused real GDP to contract by 0.3 percent in 2020, forcing a pause in fiscal consolidation and increasing Kenya's risk of external debt distress to high. The country now faces an urgent challenge to implement fiscal consolidation, strengthen debt management capacity, and reorient the economy towards sustainable, private-sector-led growth.

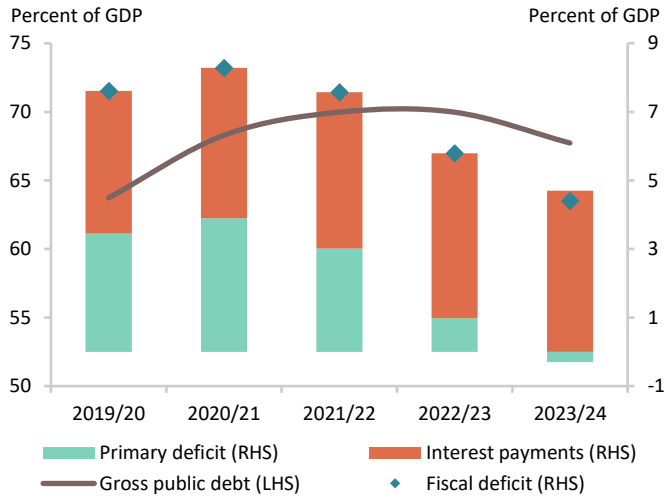
Continued policy and institutional reform progress can support productivity growth, job creation and laying the foundation for green, resilient and inclusive development. Priorities include reforms to address barriers and distortions in key factor and product markets, address the role and performance of state-owned enterprises, improve access to financing (including by reducing public financing needs to open more space for credit to flow to the private sector), and invest efficiently in both human capital and physical infrastructure.

While Kenya plans to inoculate all 30 million people aged 18 and above against COVD-19 by end-2022, the vaccination program still has a long way to go and, like many countries, Kenya has faced considerable challenges in procuring vaccines. As of September 15, only about 8 percent of the target population had received their first free dose. COVID-19 vaccine hesitancy is low, however, with about 82 percent of Kenyans willing to take a free jab, with no difference between poor and non-poor households.

Recent developments

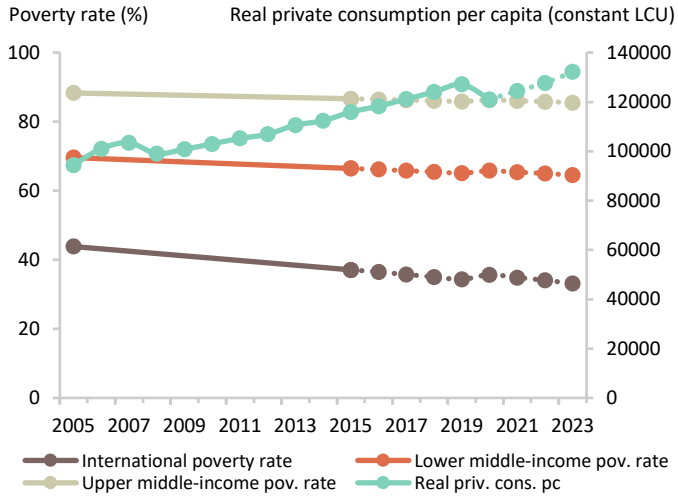
The economy has staged a significant rebound in 2021 so far. The Purchasing Managers' Index shows generally steady expansion in business activity, supported by adequate agricultural harvests, the recovery in global demand, a partial resumption of international travel, and a broad-based recovery in manufacturing. A recent Central Bank of Kenya (CBK) survey shows that most hotels are now open and average bed occupancy has tripled from its low in mid-2020 (although it remains well below pre-COVID-19 levels). GDP growth is projected at 5.0 percent in 2021.

FIGURE 1 **Kenya** / Fiscal deficit and public debt



Sources: The National Treasury and Kenya National Bureau of Statistics.

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



Source: World Bank. Notes: see Table 2.

While monetary and fiscal policies continue to support the economic recovery, many tax and regulatory relief measures have been normalized on the back of improved economic conditions. Since January 2021, pre-pandemic income tax and VAT rates were restored, measures to encourage mobile money use have been withdrawn, and relief on the extension and restructuring of loans has expired. Nevertheless, the government has remained focused on supporting the healthcare system to cope with the pandemic, and also maintained income tax relief for the lowest-earning taxpayers. Monetary policy has remained accommodative, with the CBK retaining the 125 basis point (bp) reduction in the policy rate and 100bp reduction in the cash reserve ratio made at the start of the pandemic.

The international poverty rate is expected to decline by nearly a percentage point from 35.7 percent in 2020 to 34.9 percent in 2021. Kenyan households, particularly those in urban areas, are recovering from a sharp poverty increase during 2020 as also evidenced by rapid response phone surveys. The 2020 poverty uptick resulted in a new group of poor who are younger and more educated than the pre-COVID-19 poor, and typically working in the services sector. Food insecurity increased following the renewed containment measures in April 2021, with lack of food being a major problem for 42 percent of households.

Outlook

The economy is expected to continue to recover in the near term, although uncertainty remains elevated. GDP growth is projected to be 4.8 percent on average in 2022–23, supported by the ongoing vaccination drive, a pickup in wages and household incomes, resilient remittances that will support private consumption, and rising external demand for Kenya's merchandise exports. Strengthening external demand is expected to support agriculture, while the reopening of the economy will help recovery in industry and services, though services are expected to recover more gradually. The baseline assumes that fiscal consolidation efforts resume, reducing debt vulnerabilities and supporting investor confidence and private sector credit growth. The fiscal deficit is expected to narrow to 4.4 percent of GDP in FY2023/24 (Figure 1). General elections are scheduled to be held in August 2022, likely creating headwinds for investment next year, in line with the historical precedent which suggests that some investment activity is paused ahead of elections. A renewed intensification of the pandemic (including due to significant delays in the vaccination rollout), more disruptive election cycle, adverse weather conditions (including if the severe drought currently affecting some areas were to worsen and spread), or a weaker than expected global economic backdrop, are the key risks to Kenya's projected recovery. Realization of these downside risks could result in lower GDP growth of below 4 percent in 2022. Corresponding to the projected economic recovery, poverty is expected to resume its downward trend with a decline of 0.8 percentage points annually in 2022 and just under a percentage point reduction in 2023. However, this will require support for the worst affected households as well providing universal access to the COVID-19 vaccine. Furthermore, investments in inclusive policies that can promote private sector job creation, and the enhancing of safety net programs, are needed to sustainably reduce poverty and inequality in the future.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.6	5.0	-0.3	5.0	4.5	5.0
Private Consumption	4.7	4.9	-2.7	5.2	4.9	5.8
Government Consumption	7.0	7.0	4.3	3.5	3.0	2.5
Gross Fixed Capital Investment	-0.4	3.8	3.4	4.0	3.6	4.9
Exports, Goods and Services	6.8	-3.2	-8.2	8.0	5.0	6.5
Imports, Goods and Services	1.4	1.8	-8.5	5.0	4.0	7.0
Real GDP growth, at constant factor prices	5.5	5.2	0.3	5.0	4.5	5.0
Agriculture	5.7	2.6	4.8	3.1	2.5	2.8
Industry	3.8	3.4	4.0	4.8	2.6	3.3
Services	6.0	6.7	-2.2	5.7	5.8	6.2
Inflation (Consumer Price Index)	4.7	5.2	5.3	6.0	5.0	5.0
Current Account Balance (% of GDP)	-5.4	-5.3	-4.6	-5.3	-5.4	-5.5
Net Foreign Direct Investment (% of GDP)	1.6	0.9	0.5	0.5	0.7	1.4
Fiscal Balance (% of GDP)	-7.1	-7.4	-7.9	-7.9	-6.7	-5.1
Debt (% of GDP)	57.9	59.5	65.8	69.2	70.1	69.0
Primary Balance (% of GDP)	-2.7	-3.2	-3.7	-3.8	-2.3	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	35.1	34.4	35.7	34.9	34.1	33.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.5	65.1	65.8	65.4	65.0	64.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	86.1	85.9	86.2	86.0	85.8	85.5
GHG emissions growth (mtCO2e)	1.7	2.7	2.6	3.3	3.6	3.8
Energy related GHG emissions (% of total)	53.6	52.9	50.8	49.6	49.2	49.2

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

(a) Calculations based on 2005-IHBS and 2015-IHBS.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using annualized elasticity (2005-2015) with pass-through = 1based on private consumption per capita in constant LCU.

LESOTHO

Table 1	2020
Population, million	2.1
GDP, current US$ billion	2.2
GDP per capita, current US$	1047.6
International poverty rate ($1.9)[a]	27.2
Lower middle-income poverty rate ($3.2)[a]	49.9
Upper middle-income poverty rate ($5.5)[a]	73.2
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	120.9
Life expectancy at birth, years[b]	54.3
Total GHG Emissions (mtCO2e)	5.8

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

Economic growth is expected to recover in 2021, even though output would remain below pre-COVID-19 levels. The economy is expected to rebound and grow by 3.2 percent in 2021 mainly due to the recovery in mining, manufacturing, and construction. Estimates indicate this will be accompanied by a decrease in poverty from 32.1 percent in 2020 to 30.3 percent in 2021, using the international poverty line.

Key conditions and challenges

Since 2017, Lesotho has been experiencing economic contractions, which have been exacerbated overtime by natural disasters, political instability, and the negative impact of COVID-19. In recent years the country has been led by unstable coalition governments characterized by frequent change of cabinet, which has delayed reform progress. More splits in the current ruling coalition are expected ahead of the national elections, scheduled for September 2022.

Unsolved structural impediments to growth in South Africa led recently to attacks on businesses and looting that were predominant in the Kwazulu-Natal and Gauteng provinces. This, together with the impacts of COVID-19 in the neighboring country, are expected to affect remittances to Lesotho. With just 0.6 percent of the population inoculated as of end August, the low pace of vaccination in the country is likely to hinder growth in the short run. Progress in reducing debt levels has been reversed largely due to increased external borrowing associated with the policy responses to mitigate the negative impact of COVID-19.

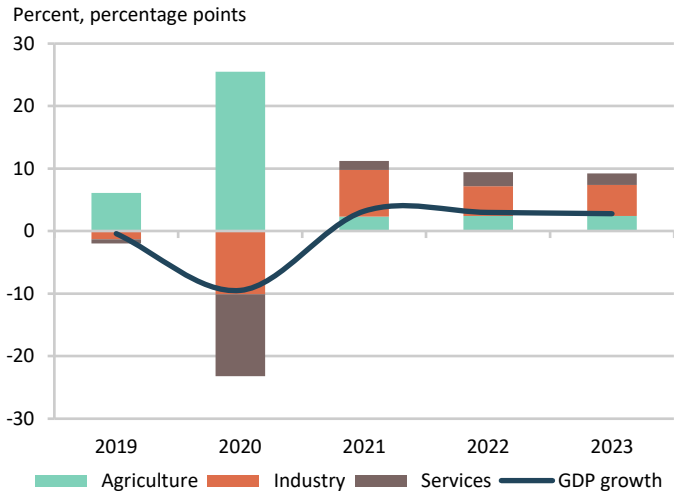
The pandemic is unfolding in a context of high poverty, inequality, and unemployment. About a third of the population still lives on less than US$1.90/person/day (in 2011 PPP terms). Poverty is concentrated in rural regions, which tend to have poorer access to basic infrastructure and services. Rural communities are more vulnerable to climatic shocks, which contributes to erratic and generally low productivity in agriculture, a sector that is a source of livelihoods for most of the rural population. The pandemic has worsened economic vulnerability and food insecurity in the country. The World Food Programme (WFP) projections suggest that about 312,000 people from rural areas and 158,000 people from urban areas will be food insecure between October 2021 to March 2022.

Recent developments

Following a 9.5 percent decline in 2020, GDP growth contracted by 13.8 percent (year-on-year) during the first quarter of 2021, largely due to the COVID-19-related restrictions and lockdowns. The largest declines were recorded in the transport and storage sector (62.2 percent), followed by hotels and restaurants (which contracted by 54 percent). The information and communication sector, and the wholesale and retail trade sector were also significantly affected. The international poverty rate is estimated to have increased from 25.7 percent in 2019 to 32.1 percent in 2020 (at US$1.90/person/day, in 2011 PPP terms).

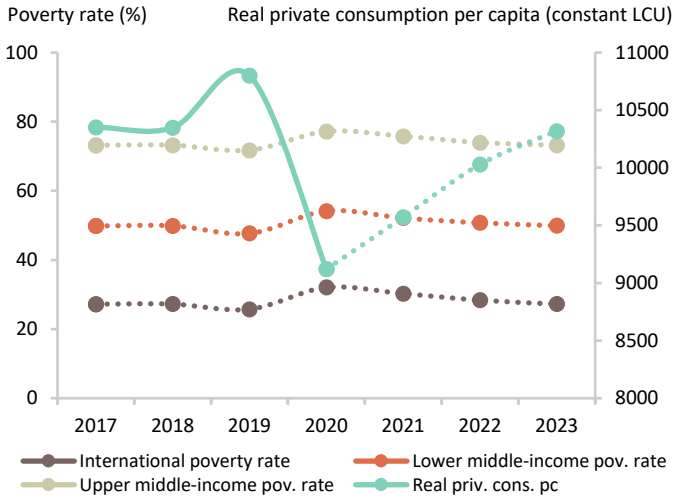
Inflation, at 5.5 percent in July 2021, has remained stable since January, and is largely driven by food and energy prices, amidst supply-demand challenges imposed by closure of borders and domestic lockdown measures during 2020. The

FIGURE 1 Lesotho / Growth of real GDP at factor cost and contributions to real GDP growth



Sources: WDI and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

Central Bank of Lesotho (CBL) has maintained the policy rate unchanged at 3.5 percent per annum since July 2020 to facilitate the recovery from the COVID-19 shock and to ensure that the domestic cost of funds remain aligned with the rest of the region.

On the external side, the current account deficit narrowed from a revised 3.4 percent of GDP in 2019 to a revised 2.1 percent in 2020, reflecting a decline in trade flows and low demand, as well as higher Southern African Customs Union (SACU) revenue inflows. Meanwhile, the fiscal deficit has increased, driven by higher public expenditure largely due to temporary COVID-19 response measures and a growing public wage bill.

Outlook

Economic growth is forecasted to rebound to 3.2 percent in 2021, and average 2.9 percent in the medium-term. Agricultural subsidies on fertilizers, seeds and other inputs, are expected to contribute to crop production. Medicinal cannabis farming as well as horticulture farming projects are also expected to contribute to the sector's grow. In addition to agriculture, projected recovery in the medium-term is set to be led by a rebound in the mining, manufacturing (including textiles) and construction activities on the back of supportive external demand conditions and improved business and consumer confidence. The advanced stages of construction activities associated with the commencement of the transfer tunnel and the dam under the second phase of Lesotho Highlands Water Project (LHWP-II) are expected to have a positive impact on growth in the medium term. Services are also expected to recover to near pre-pandemic levels in the medium-term as less restrictions are imposed and more travel is permitted, adding impetus to the growth momentum.

Inflation is expected to follow developments in the regional food and energy prices and could be affected by further restrictions of movement and the closure of borders. Key inflationary pressures are expected to emanate from food prices and administered prices which are likely to be revised upwards in the medium-term. Monetary policy stance is to remain accommodative in the mid run.

The precarious fiscal situation and policy uncertainly are also weighing down the economic outlook. Tax revenues and SACU receipts have been adversely hit, leading to a widening fiscal gap in 2021 and 2022. It remains unclear as how this gap will be financed given the limited government buffers and limited domestic borrowing capacity. Public debt stock is projected to increase steadily from an estimated 51.7 percent of GDP in 2020 to 55.9 percent in 2021, prior to moderating again as growth resumes. The government is in discussion with the IMF for a new program.

With the recovery from COVID-19, poverty is expected to trend downwards but will remain higher than in 2019. The US$1.90/person/day (in 2011 PPP terms) poverty rate is project to fall slightly to 30.3 percent in 2021 and to 28.4 percent in 2022. The poverty levels are projected to remain higher than pre-COVID-19 levels, a reflection of slow labor market recovery from COVID-19-related lockdown measures which led to job and income losses. Accelerating poverty reduction will require support for the worst affected households and providing universal access to the vaccine.

TABLE 2 Lesotho / 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	-1.2	-0.4	-9.5	3.2	3.0	2.8
Private Consumption	0.8	5.2	-14.9	7.8	3.6	3.6
Government Consumption	-1.9	7.8	19.7	-7.1	-0.5	-3.7
Gross Fixed Capital Investment	-49.7	78.1	-9.2	129.8	24.0	37.0
Exports, Goods and Services	6.5	-7.2	-7.7	-0.2	1.6	2.2
Imports, Goods and Services	-4.7	-1.2	-2.1	15.6	6.8	10.3
Real GDP growth, at constant factor prices	-1.2	-0.4	-9.5	3.2	3.0	2.8
Agriculture	-13.2	6.1	25.5	2.3	2.4	2.4
Industry	3.6	-1.3	-10.1	7.5	4.8	5.0
Services	-1.8	-0.7	-13.1	1.4	2.2	1.8
Inflation (Consumer Price Index)	4.0	5.2	5.0	5.4	5.3	5.3
Current Account Balance (% of GDP)	-1.7	-3.4	-2.1	-7.9	-12.6	-11.2
Net Foreign Direct Investment (% of GDP)	1.6	1.5	1.7	1.4	1.4	1.5
Fiscal Balance (% of GDP)	-4.6	-5.6	-1.0	-6.6	-11.8	-8.0
Debt (% of GDP)	45.1	42.9	51.7	55.9	53.8	56.3
Primary Balance (% of GDP)	-3.8	-4.6	-0.1	-6.3	-11.6	-7.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	27.2	25.7	32.1	30.3	28.4	27.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	49.9	47.7	54.2	52.1	50.8	49.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	73.2	71.7	77.2	75.8	74.0	73.2
GHG emissions growth (mtCO2e)	1.2	0.8	-1.5	-0.2	2.2	2.3
Energy related GHG emissions (% of total)	70.1	71.4	71.6	71.7	71.8	71.7

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

(a) Calculations based on 2017-CMSHBS.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.

LIBERIA

Table 1	2020
Population, million	5.1
GDP, current US$ billion	3.2
GDP per capita, current US$	627.5
International poverty rate ($ 1.9)[a]	44.4
Gini index[a]	35.3
School enrollment, primary (% gross)[b]	85.1
Life expectancy at birth, years[b]	64.1
Total GHG Emissions (mtCO2e)	22.4

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2019).

Liberia's economy is rebounding after contracting for two consecutive years. Real GDP growth is projected at 3.6 percent in 2021 and an average of 4.9 percent in 2022-23, allowing per capita GDP to increase for the first time since 2016. Nevertheless, poverty is expected to slightly increase as per capita consumption continues to contract, with growth being driven by export of commodities.

Key conditions and challenges

The COVID-19 pandemic unfolded at a time when Liberia's economy was already weak. In 2020, the economy contracted for the second year in a row, and extreme poverty is estimated to have increased. Moreover, Liberia experienced a third wave of COVID-19 infections in June 2021, and data from the latest High-Frequency Survey, conducted in July 2021, suggest that pandemic-related challenges persist.

In the context of large pre-existing imbalances, the authorities have sought to restore macroeconomic stability while responding to the pandemic. Notably, the Central Bank of Liberia (CBL) has maintained a tight monetary policy stance to help contain inflation, and the government has continued fiscal consolidation, with strong revenue efforts that paid off even at the height of the pandemic.

Recent developments

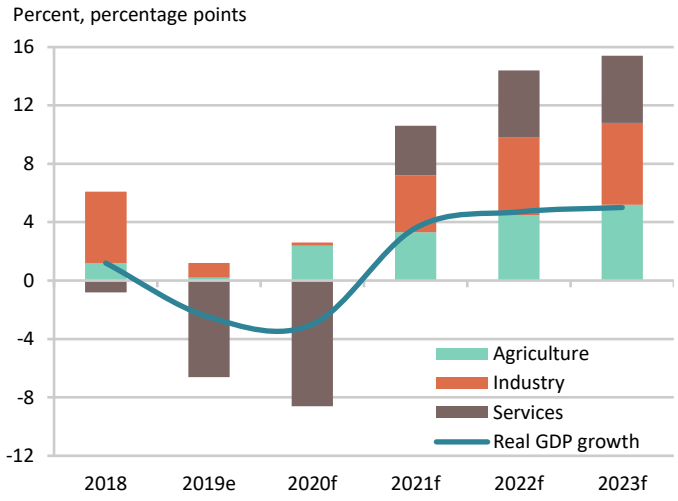
Liberia's economy is recovering, with output expanding in key sectors over the first five months of 2021. In agriculture, rubber and crude palm oil production increased by 29.3 percent and 3.3 percent, year-on-year, respectively, due to a recovery in international prices. In industry, the production of gold, cement, and beverages increased, reflecting favorable international prices as well as an uptick in export, construction, and consumption. While iron ore production increased by 14.6 percent compared to the first five months after the lockdown (from April to August 2020), it fell by 8.3 percent, year-on-year, as production remained below pre-COVID-19 levels.

Notwithstanding the rebound in economic activity, inflationary pressures have moderated. The rate of inflation slowed steadily to 7.1 percent by July 2021 due to a decline in food prices and the CBL's cautious monetary stance. Modest inflationary pressures allowed the CBL to cut its policy rate by 500 basis point to 20 percent in August 2021 to improve liquidity conditions and support growth.

Despite the recovery, poverty is expected to increase to 52.1 percent, as growth in private consumption remains modest because of the COVID-19 pandemic. The last COVID-19 High-Frequency Survey shows the that about 35 percent of the businesses reported a decline in revenue and more than 80 percent of the households were worried about not having enough food to eat.

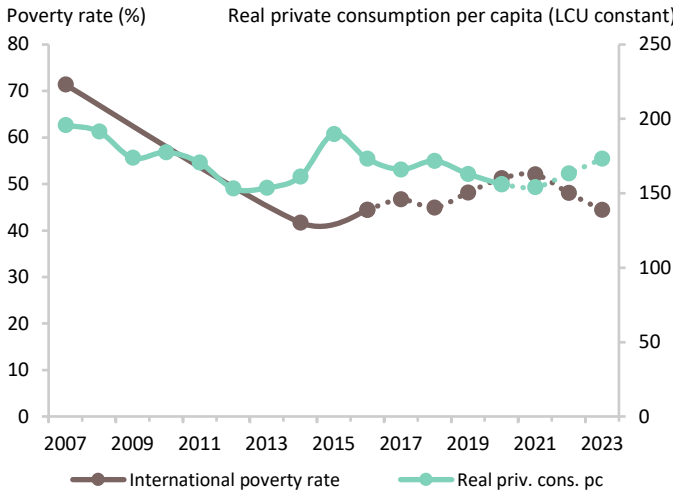
Liberia's fiscal position improved in the first five months of 2021 due to increased revenues and spending consolidation. Total revenues and grants increased to US$249.3 million, while total expenditure reached US$286.4 million, yielding a fiscal deficit of US$37.1 million (1.1 percent of GDP). With the amended PFM act requiring Liberia to align its fiscal year to the calendar year by 2022, the legislature has approved a special budget to fund fiscal operations from July 1 to December 31, 2021. Total revenues and

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



Source: World Bank staff calculations based on IMF and CBL data.

FIGURE 2 Liberia / Actual and projected poverty rate and real private consumption per capita



Source: World Bank. Notes: see Table 2.

grants are projected at US$429 million (12.7 percent of GDP) during the period (from July 1 to December 31, 2021), with domestic revenue representing an expected 70 percent of public resources as the government increases the Goods and Service Tax rate to 11 percent and imposes an airport departure tax at US$25 per passenger. Total expenditure is projected at US$458.2 million (13.6 percent of GDP, including donor-financed projects), with current expenditure representing 60 percent of the special budget. The fiscal deficit of the special budget is projected at 0.9 percent of GDP and is expected to be fully financed by external loans.

The recovery in the price of Libera's main export commodities, on the back of renewed international demand, has boosted the value of exports and improved the trade balance. Between January and May 2021, iron ore, gold, and rubber exports increased considerably, resulting in an increase in the value of exports by 71.2 percent, higher than the 40.0 increase in the value of imports.

Outlook

Liberia's economy is projected to expand by 3.6 percent in 2021 and an average of 4.9 percent in 2022-23. Growth will be driven mainly by the mining sector and external demand. Structural reforms are expected to increase activity in mining, agriculture, and construction. Per capita GDP is expected to return to pre-COVID-19 levels by 2023.

Headline inflation is projected to average 9.8 percent in 2021 and remain in single digits in 2022-23. With continued tight monetary policy and sustained fiscal consolidation, it is expected to fall further to 8.5 percent by 2023. The poverty rate is projected to decline to 48.1 percent in 2022, the first time in five years.

Liberia's fiscal and external balances are expected to improve due to continued fiscal consolidation, a strong global economy, and favorable price dynamics for Liberia's main exports. The overall fiscal deficit is projected to fall from 2.9 percent in 2021 to an average of 2.4 percent of GDP in 2022-23, while the current account deficit is projected to narrow from an estimated 16.4 percent of GDP in 2020 to an average of 15.3 percent of GDP in 2021-23.

The outlook is, however, subject to high levels of uncertainty and significant downside risks. External risks include: (i) a resurgence of COVID-19 infections, given low vaccination rates; and (ii) adverse commodity price dynamics. Internal risks are linked to the government's commitment to reform, which needs to be maintained for growth and poverty reduction to materialize.

TABLE 2 Liberia / 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	1.2	-2.5	-3.0	3.6	4.7	5.0
Private Consumption	6.0	-2.8	-1.9	1.1	8.6	8.6
Government Consumption	-4.3	4.0	-11.6	2.6	-9.8	-17.1
Gross Fixed Capital Investment	-13.6	-4.3	0.2	-0.3	3.4	6.2
Exports, Goods and Services	-0.3	1.6	-10.2	15.4	2.0	2.0
Imports, Goods and Services	-13.8	0.4	-7.4	1.3	3.1	3.1
Real GDP growth, at constant factor prices	0.8	-2.9	-2.9	3.4	4.7	5.0
Agriculture	1.2	0.2	2.4	3.3	4.5	5.2
Industry	4.9	1.0	0.2	3.9	5.3	5.6
Services	-0.8	-6.6	-8.6	3.4	4.6	4.6
Inflation (Consumer Price Index)	20.4	27.0	17.4	9.8	11.0	8.5
Current Account Balance (% of GDP)	-22.3	-20.5	-19.4	-16.5	-15.5	-15.1
Fiscal Balance (% of GDP)	-4.6	-5.6	-3.4	-2.9	-2.5	-1.7
Debt (% of GDP)	38.2	48.5	52.2	56.0	55.2	53.6
Primary Balance (% of GDP)	-4.0	-5.0	-2.2	-1.9	-0.6	0.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	44.9	48.2	51.2	52.1	48.1	44.4
GHG emissions growth (mtCO2e)	0.6	-0.3	-0.7	3.0	3.4	3.5
Energy related GHG emissions (% of total)	36.1	35.9	35.4	35.5	35.7	35.9

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

(a) Calculations based on 2016-HIES.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 1 based on private consumption per capita in constant LCU.

MADAGASCAR

Table 1	2020
Population, million	27.7
GDP, current US$ billion	13.4
GDP per capita, current US$	483.8
International poverty rate ($1.9)[a]	78.8
Lower middle-income poverty rate ($3.2)[a]	91.5
Upper middle-income poverty rate ($5.5)[a]	97.5
Gini index[a]	42.6
School enrollment, primary (% gross)[b]	134.1
Life expectancy at birth, years[b]	67.0
Total GHG Emissions (mtCO2e)	42.5

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

The COVID-induced recession in 2020 was more severe than anticipated and the second wave of the pandemic hitting Madagascar in 2021 has further delayed prospects of recovery. Historic droughts in the South have led to widespread food insecurity for already vulnerable populations. Following these converging crises, extreme poverty is expected to increase by 5 percentage points between 2019 and 2021 and remain 2 percentage points above pre-COVID levels in 2023. Without a robust policy response, potential growth could be persistently scarred by recent shocks.

Key conditions and challenges

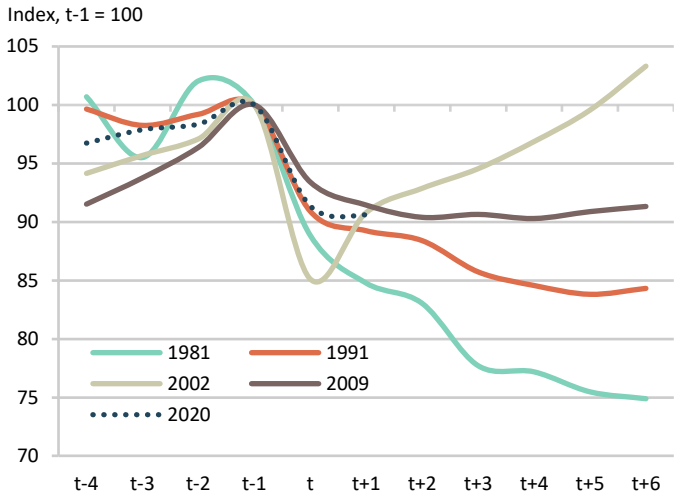
Prior to the COVID-19 crisis, Madagascar was on a modest upward growth trajectory, supported by renewed political stability, which contributed to restore investor confidence, reopen access to key export markets, reinstate flows of concessional financing, and encourage structural reforms. Despite positive momentum, growth peaked at a still modest 4.4 percent in 2019 and averaged only 3.5 percent over the period 2013-19, which barely surpassed population growth and was insufficient to ensure rapid poverty reduction. Despite unique natural resources, a relatively high degree of trade integration and strong comparative advantages, Madagascar has been unable to accumulate productive assets, reflecting an unpredictable business environment, inadequate investments in infrastructure and human capital, weak governance and exposure to frequent climate shocks.

The COVID-19 crisis has plunged the country into its deepest recession in two decades and led to a significant uptick in extreme poverty. The longer lasting effects of the crisis are uncertain but previous recessions contributed to depress potential output through the persistent loss of formal employment and private capital. While emergency measures continue to be critical, including efforts to ramp up vaccination, safely reopen the country, and mitigate the impact of the pandemic on companies and households, a pre-condition to deliver a sustainable recovery is for the government to re-commit to reforms aimed at improving the business climate, basic public services and infrastructure, and public sector governance.

Recent developments

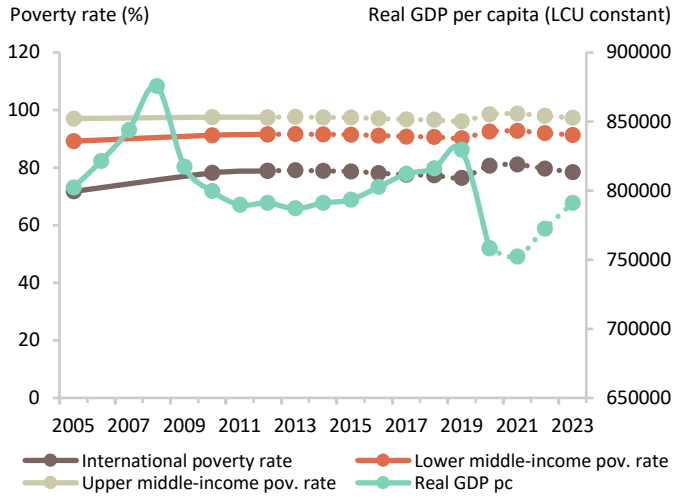
The initial impact of the COVID-19 crisis in has been more severe than previously anticipated, with the collapse of export revenues and private investment resulting in a GDP contraction of 6.2 percent in 2020 (2 percentage points lower than estimated in April 2021). Following a short-lived rebound at the end of 2020, volumes of sales, order books, profits, investment, and employment were again trending down in the first half of 2021, as a second wave of the pandemic hit the country in March and April of 2021 and international borders remained closed. The drought-driven food crisis in the South led nearly 1 in 2 people (more than 1.3 million) living in the region's 10 hardest-hit districts in a situation of acute food insecurity, while nearly 30,000 are expected to experience famine by the end of the year. Against this backdrop, the poverty rate is estimated to have risen from 76.5 percent in 2019 to 80.7 percent in 2020, and further to 81.1 percent in 2021, sending another 2.4 million people under the international poverty line of $1.90/capita/day (in 2011 PPP) over this two-year period. The sudden loss of fiscal revenues contributed to widen budget deficits to 4.2 percent of GDP in 2020 and led to the accumulation of domestic arrears. In this context, public

FIGURE 1 **Madagascar** / GDP per capita around crisis episodes



Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

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



Source: World Bank. Notes: see Table 2.

debt reached 45 percent of GDP in 2020, a 7.5 percentage point uptick from 2019. The current account deficit increased in 2020 to reach 5.2 percent of GDP, driven by a 26 percent drop in export revenues. Rising energy and capital goods imports in the first half of 2021 further widened the external deficit. Unexpected fiscal and external financing needs were mostly covered by emergency support operations from multilateral donors, which has helped limit currency pressures and maintain foreign reserves at comfortable levels.

Outlook

Reflecting continued headwinds during the first half of the year, growth is now predicted to reach 1.8 percent in 2021, 0.2 percentage points below April 2021 projections. Overall, income per capita dropped by a cumulative 9.4 percent in 2020 and 2021, representing the largest shock since the political crises of 1991 and 2002. Barring a third wave of the pandemic, further escalation of food insecurity in the South or other natural disasters, a gradual lifting of COVID-related restrictions is expected to result in growth picking up to 5.4 percent in 2022 and 5.1 percent in 2023. This should allow a return to positive GDP per capita gains, but at a slower-than-previously-expected pace. Against this backdrop, the poverty rate is expected to decrease moderately over the next two years but to remain two percentage points higher than the pre-COVID level, at 78.5 percent, in 2023.

The budget deficit is predicted to increase further to 6.2 percent of GDP in 2021, as public investments are scaled up and domestic arrears accumulated in 2020 are being repaid, before stabilizing in 2022-23 around 4 percent. External debt distress risks are assessed to be moderate, assuming ambitious efforts to boost revenue mobilization and prudent management of public debt and contingent liabilities. Food supply disruptions and a rebound in energy prices are expected to bring inflation up to 6.1 percent in 2021, from 4.3 percent in 2020, but this remains consistent with Central Bank's objectives and will allow it to maintain a broadly accommodative policy stance.

TABLE 2 Madagascar / 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	4.4	-6.2	1.8	5.4	5.1
Private Consumption	1.6	1.2	-3.0	1.4	3.5	3.7
Government Consumption	-7.9	1.9	2.2	7.5	2.0	4.2
Gross Fixed Capital Investment	11.0	12.9	-6.3	2.6	9.7	8.7
Exports, Goods and Services	2.4	10.9	-24.5	3.9	8.8	7.1
Imports, Goods and Services	11.1	4.6	-14.8	4.4	6.5	6.3
Real GDP growth, at constant factor prices	2.3	4.3	-6.2	1.8	5.4	5.1
Agriculture	0.4	5.5	2.2	2.2	3.0	3.0
Industry	2.0	6.6	-19.5	1.4	6.7	6.3
Services	3.3	3.1	-5.9	1.7	6.2	5.8
Inflation (Consumer Price Index)	7.3	5.6	4.2	6.1	6.3	6.1
Current Account Balance (% of GDP)	0.7	-2.3	-5.2	-5.9	-5.4	-5.3
Fiscal Balance (% of GDP)	-1.3	-1.4	-4.2	-6.2	-5.2	-4.1
Debt (% of GDP)	39.5	37.4	45.0	49.8	51.8	52.7
Primary Balance (% of GDP)	-0.5	-0.7	-3.5	-5.3	-4.2	-3.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	77.3	76.5	80.7	81.1	79.7	78.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	90.7	90.3	92.5	92.7	92.0	91.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	96.6	96.1	98.5	98.8	98.0	97.3
GHG emissions growth (mtCO2e)	1.8	4.0	-1.1	0.7	1.5	1.8
Energy related GHG emissions (% of total)	14.4	14.3	14.1	14.6	15.1	15.6

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

(a) Calculations based on 2005-EPM and 2012-ENSOMD. Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.

MALAWI

Table 1	2020
Population, million	19.3
GDP, current US$ billion	11.7
GDP per capita, current US$	606.2
International poverty rate ($ 1.9)[a]	69.2
Gini index[a]	44.7
School enrollment, primary (% gross)[b]	144.8
Life expectancy at birth, years[b]	64.3
Total GHG Emissions (mtCO2e)	28.9

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

Malawi's economy continues to be heavily affected by the COVID-19 pandemic, with severe second and third waves striking in 2021. Economic growth is expected at 2.4 percent in 2021, with only a weak rebound in the services and industry sectors. Malawi is benefitting from a onetime boost to maize production in 2021 due to favorable weather and extensive input subsidies. However, it will need to address high levels of debt while investing in diversification in order to sustainably increase growth and reduce persistently high poverty levels.

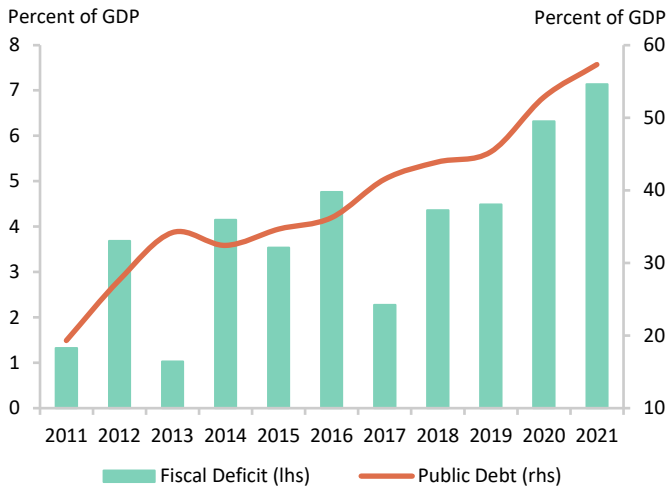
Key conditions and challenges

The COVID-19 pandemic has continued to heavily impact the economy in 2021, with second and third waves continuing to weigh on activity, particularly in the services and industry sectors. Despite vaccination efforts, only 2.2 percent of the population has been fully vaccinated as of August 2021. The pandemic is reducing revenues and increasing expenditure for COVID-response, which together with expansionary policies by the new administration, further weaken an already strained fiscal position. Malawi's economy continues to rely on subsistence, rainfed agriculture, which limits its growth potential, increases its susceptibility to weather shocks, and creates food insecurity. In addition, the main export of tobacco is projected to decline in the medium term. This has been compounded by trade policies and a business environment which impede investment and commercialization, as well as erratic electricity supply that limits value addition and slows economic diversification. Public investment has been low, offset by large and increasing subsidies to maize production. Weak fiscal management and economic policies have contributed to recurring and increasing fiscal deficits, which have been largely funded by high-cost domestic borrowing. Rising domestic debt has already pushed Malawi into high overall risk of debt distress and it is budgeted to continue rising sharply. This is being compounded by recent external non-concessional borrowing. This increasingly reduces fiscal space for development spending and also risks crowding out private sector investment. After several years of 'super-stability,' while the depreciating exchange rate should gradually help to reduce a significant trade imbalance, it will also increase imported inflation and external borrowing levels. These factors have contributed to persistently high poverty levels and limited structural transformation. The share of the population below the international poverty line of $1.90 per day has decreased only marginally in the last decade, reducing from 72 percent in 2010 to 67 percent in 2019. However, this increased to 68 percent in 2020 due to the COVID-19 pandemic.

Recent developments

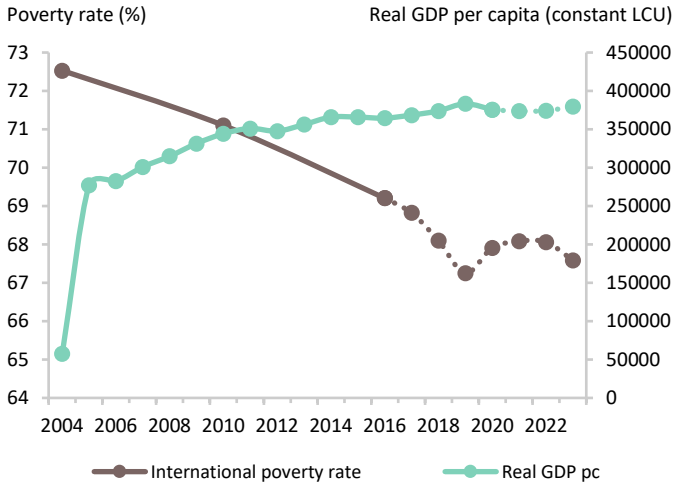
Economic activity has continued to be strongly affected by the COVID-19 pandemic in 2021, although its impact on the services and industry sectors was partially offset by a strong agricultural harvest. Favorable weather and agricultural input subsidies have contributed to a one-time jump in the maize harvest, and tobacco production also increased. This has contributed to stronger employment in rural areas, while urban employment has only shown a slower recovery from the pandemic. Moderate and severe food insecurity has also reduced by June 2021, although poorest households continue to be

FIGURE 1 Malawi / Fiscal deficit and public debt



Sources: Ministry of Finance, Economic Planning and Development, World Bank.

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



Source: World Bank. Notes: See Table 2.

the most insecure. Malawi's severe second wave of the COVID-19 pandemic largely subsided by March 2021, but a third wave led to a jump in case numbers from June to August. As a result, the Government increased social distancing policies which impacted the services and industry sectors, although these policies were then lifted in August as conditions improved.

Headline inflation picked up to 8.7 percent in July 2021. Robust food supplies following the strong agriculture season led food inflation to decelerate to 10.3 percent. However, non-food inflation has increased to 7.2 percent partially due to depreciation of the kwacha. The Malawi Kwacha has gradually depreciated by about 10 percent against the US dollar since July 2020. After gradually declining over the past year, Reserve Bank of Malawi (RBM) gross reserves increased to 2.4 months import cover in August 2021, due to the IMF's Special Drawing Rights (SDR) allocation.

Fiscal pressures from the pandemic and government expansionary policies, including the introduction of Affordable Input Program (AIP), contributed to the fiscal deficit widening to 7.1 percent of GDP in FY2021. Expenditure reached the highest levels in recent years due to high levels of expenditure on wages, interest payments, and fertilizer subsidies. Development spending has also been strong, driven by COVID-19 response programs, and irrigation and water projects.

Outlook

The economy is projected to grow by 2.4 percent in 2021, largely due to strong agriculture production. Economic activity is expected to pick up slightly in the services and industry sectors over the last months of 2021 as case numbers from the third wave continue to decline and social distancing policies have been lifted. However, sluggish vaccine availability, vaccine hesitancy, and slow uptake will continue to perpetuate risks of new waves of infection and associated social distancing policies. With GDP per capita growth remaining low, the share of the population below the international $1.90 poverty line is projected to continue to stagnate around 68 percent between 2021 and 2023.

The FY2022 fiscal deficit is expected to widen to 9.1 percent of GDP and there are risks that it could go even higher. Tax revenues are optimistically budgeted to pickup significantly, which, if unrealized, could lead to a larger deficit or the further accumulation of arrears. Expenditure, already at high levels, is increasing further, driven by a surge in domestically-financed development spending and a modest increase in an already high level of recurrent expenditure. The second year of the universal inputs subsidy program, the AIP, will weigh heavily on the budget. The Government continues to finance fiscal deficits through domestic borrowing, thereby increasing domestic debt levels. The external debt-to-GDP ratio may also increase due to financing needs for COVID-19 response, as well as depreciation of the exchange rate. Additional off-budget domestic borrowing of 13 percent of GDP for development projects is planned for the medium term. However, this will call for rigorous cost-benefit analysis of projects to assess if they justify high borrowing costs. In addition, the Government is expected to clear arrears amounting to 3 percent of GDP.

The current account deficit is projected to remain elevated in the medium term. A modest uptick in tobacco production and a projected increase in global tea prices should support exports in 2021 but increasing international oil and fertilizer prices may increase the import bill. Exchange rate depreciation should help improve the trade balance in the medium term, but export growth may be weak due to limited diversification beyond rainfed subsistence agriculture and declining global demand for tobacco.

TABLE 2 Malawi / 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	4.4	5.4	0.8	2.4	3.0	4.4
Real GDP growth, at constant factor prices	4.0	6.0	0.8	2.4	3.0	4.4
Agriculture	0.3	5.9	3.4	4.9	1.8	3.2
Industry	7.2	7.7	1.2	1.6	2.4	4.3
Services	4.5	5.5	-0.5	1.7	3.7	5.0
Inflation (Consumer Price Index)	9.2	9.4	8.6	8.8	8.1	7.9
Current Account Balance (% of GDP)	-17.0	-13.8	-11.7	-11.5	-10.7	-9.7
Net Foreign Direct Investment (% of GDP)	1.8	0.7	0.5	0.8	1.2	1.4
Fiscal Balance (% of GDP)	-4.4	-4.5	-6.3	-7.1	-9.1	-8.6
Debt (% of GDP)	43.9	45.3	52.8	57.3	61.9	64.2
Primary Balance (% of GDP)	-1.6	-1.6	-3.3	-3.5	-5.3	-4.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	68.1	67.3	67.9	68.1	68.1	67.6
GHG emissions growth (mtCO2e)	5.6	4.5	3.0	-0.5	2.2	2.8
Energy related GHG emissions (% of total)	34.0	33.4	32.8	33.8	33.8	33.7

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

(a) Calculations based on 2016-IHS-IV.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

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

MALI

Table 1	2020
Population, million	20.3
GDP, current US$ billion	17.5
GDP per capita, current US$	862.1
International poverty rate ($1.9)[a]	50.3
Lower middle-income poverty rate ($3.2)[a]	79.8
Upper middle-income poverty rate ($5.5)[a]	95.0
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	75.6
Life expectancy at birth, years[b]	59.3
Total GHG Emissions (mtCO2e)	45.1

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2009), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

The COVID-19 and political crises led to a recession in 2020 and erased the progress in poverty reduction since 2015. A modest recovery is projected in 2021, stabilizing the fiscal balance, while debt pressures will keep building as external imbalances widen. Growth is expected to recover over the medium term, although the outlook is tilted to the downside with risks from the political transition, rising insecurity, the emergence of new COVID-19 variants, and climatic hazards.

Key conditions and challenges

Structural change is limited and the economy remains vulnerable to external shocks. Agriculture is dominated by subsistence crops and livestock with low productivity. Manufacturing concentrates in textiles and agrifoods, while cotton and gold dominate export. Agricultural technologies and infrastructure are vital conditions for structural transformation. There have been mixed results in nonmonetary poverty indicators. Children's schooling improved as the share of households with a child not attending school fell from 62 to 41 percent. However, the percentage of households with sick members unable to consult with a health specialist has increased from 22 to 37 percent.

The recent coups (August 2020 and May 2021) compounded longstanding governance challenges and may further delay the recovery. Newly created regions are not adequately staffed for effective service delivery, hampering implementation of the 2015 Algiers peace agreement. In addition to restoring the presence of the state and strengthening the rule of law, fiscal consolidation and improving public financial management constitute the most pressing tasks. Downside risks also include the emergence of new variants and the slow vaccination rollout.

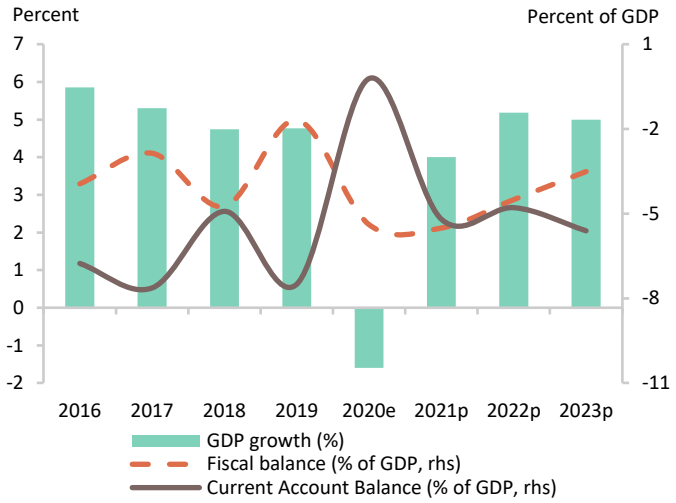
Recent developments

Real GDP contracted by 1.6 percent in 2020 (4.5 percent in per capita terms), due to the pandemic, the coup, and dampened agricultural production (resulting from lower cotton farmgate prices, localized floods and insecurity). On the demand side, private consumption and investment were main factors behind the contraction. The first quarter of 2021 showed signs of recovery in agriculture and services. Industrial activity slowed down particularly in textile and agrifood. Headline inflation (y/y) turned positive in mid-2020, and continued to increase in 2021, reaching 4 percent y/y in June 2021, driven by surging food prices (5.3 percent y/y), which is likely to add to social tensions.

The current account deficit (CAD) narrowed to 0.2 percent of GDP in 2020, with stronger terms of trade and lower domestic demand. External financial inflows dropped in 2020, due to the pandemic and delays in donor support. In 2021Q1, goods exports continued to increase supported by non-gold exports, while goods imports also rose despite declining energy imports.

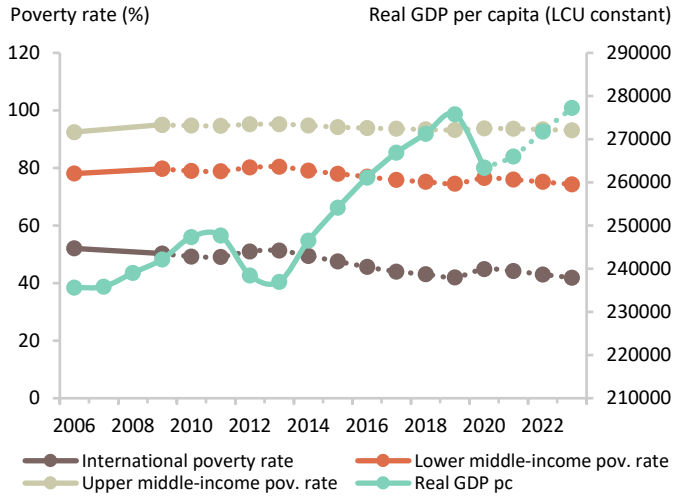
The fiscal deficit reached 5.4 percent of GDP in 2020, due to lower revenues from pandemic-induced spending and tax expenditures, reduced grants, and wage bill increases. Financing needs were covered by concessional credits, grants, increased domestic borrowing and resources freed by the Debt Service Suspension Initiative (DSSI). Public debt reached 47.4 percent of GDP (partly reflecting a data reconciliation

FIGURE 1 Mali / GDP growth, fiscal and current account balance



Sources: Malian government and the World Bank.

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



Source: World Bank. Notes: See Table 2.

that included previously under-recorded loans), while the country remains at a moderate risk of debt distress. In the first half of 2021, both customs and domestic tax collections showed signs of recovery. Spending in 2021 remains high, driven by fiscal measures to contain food and fuel price, and increases in subsidies and wage bill.

Mali's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a peg between the CFA Franc and the Euro. Its reserves have remained stable since 2019 and reached an estimated 5.8 months of imports in 2020 due to large donor support and a large Eurobond issuance in Cote d'Ivoire. To support the regional economy and COVID-19 related extra spending, the BCEAO implemented monetary and macroprudential measures beginning in March 2020 (including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds) which were extended into 2021.

Between 2015 and 2019, Mali experienced significant poverty reduction. Poverty incidence fell from 47.6 percent to 42.1 percent, driven by higher agricultural production and the expansion of the tertiary sector which encouraged rural households' consumption. This positive trend was reversed in 2020 due to growth contraction which increased poverty to 44.9 percent. In high frequency surveys, 12.7 percent of respondents employed before the pandemic report being unemployed in May 2020 due to the crisis. However, the share of respondents reporting unemployed fell to 6.3 percent in September, and to 5.8 percent in October 2020.

Outlook

Real GDP growth is expected to rebound to 4 percent in 2021 and to average 5.1 percent over 2022-2023. Private consumption is expected to continue to recover alongside remittance inflows as the pandemic wanes down. The programmed transition to democratic rule by early-2022 would ease political uncertainty and encourage private investment over the medium-term. Poverty is projected to remain at 44 percent in 2021, before decreasing gradually to the pre-pandemic level of about 42 percent by 2023. Main risks to further poverty reduction remain weather variability, price inflation, and conflict deterioration.

The external position is expected to deteriorate with less favorable terms of trade over 2021-2023. Import demand will rise with the recovery in private consumption. The CAD is projected to increase to 5 percent of GDP in the medium term, financed by official inflows and FDI. In August 2021, the BCEAO received 1.4 percent of aggregate GDP in additional SDR allocations from the IMF which have been on-lent to member countries.

The budget deficit is projected to stay at 5.5 percent of GDP in 2021. Spending in 2021 may further increase with election-related activities, the harmonization of allowance and bonus, and extra security spending. In the medium-term, revenue is expected to improve with ongoing reforms and donor reengagement. Spending will stabilize, creating room for fiscal consolidation. The deficit will gradually return to the WAEMU criterion of 3 percent by 2024. The DSSI extension is expected to free resources of over 0.2 percent of GDP in 2021. The debt stock will reach 50.8 percent of GDP in 2022 before declining.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	4.7	4.8	-1.6	4.0	5.2	5.0
Private Consumption	3.0	3.8	-11.0	8.0	4.0	3.5
Government Consumption	2.0	4.0	20.9	-5.2	-2.0	5.6
Gross Fixed Capital Investment	-0.9	6.3	-16.7	8.7	16.7	11.5
Exports, Goods and Services	-0.1	2.3	-8.4	-6.1	8.0	6.0
Imports, Goods and Services	-12.1	5.9	0.1	4.0	5.3	5.0
Real GDP growth, at constant factor prices	5.3	4.5	-1.6	4.0	5.2	5.0
Agriculture	5.9	4.1	-6.5	8.0	5.2	5.0
Industry	5.5	3.7	0.1	1.5	5.2	5.0
Services	4.8	5.2	1.7	2.1	5.2	5.0
Inflation (Consumer Price Index)	1.7	-2.9	0.5	3.0	2.1	2.0
Current Account Balance (% of GDP)	-4.9	-7.5	-0.2	-5.2	-4.8	-5.6
Net Foreign Direct Investment (% of GDP)	2.7	5.0	3.1	2.4	2.4	2.4
Fiscal Balance (% of GDP)	-4.7	-1.7	-5.4	-5.5	-4.5	-3.5
Debt (% of GDP)	36.1	40.6	47.4	50.8	50.4	50.0
Primary Balance (% of GDP)	-3.9	-0.7	-4.2	-4.0	-2.6	-1.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	43.2	42.1	44.9	44.2	43.1	41.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	75.3	74.6	76.6	76.0	75.2	74.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	93.5	93.2	93.8	93.7	93.4	93.1
GHG emissions growth (mtCO2e)	3.8	4.6	-1.5	5.8	4.4	4.4
Energy related GHG emissions (% of total)	18.1	18.2	18.1	18.0	18.5	19.0

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

(a) Calculations based on 2009-ELIM .Actual data: 2009. Nowcast: 2010-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2009) with pass-through = 0.87 based on GDP per capita in constant LCU.

MAURITANIA

Table 1	2020
Population, million	4.7
GDP, current US$ billion	7.7
GDP per capita, current US$	1638.3
International poverty rate ($1.9)[a]	6.0
Lower middle-income poverty rate ($3.2)[a]	24.1
Upper middle-income poverty rate ($5.5)[a]	58.8
Gini index[a]	32.6
School enrollment, primary (% gross)[b]	100.4
Life expectancy at birth, years[b]	64.9
Total GHG Emissions (mtCO2e)	13.3

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

In 2020, Mauritania's economy experienced its first contraction in a decade. However, external and fiscal balances remained resilient and contained into 2021, supported by increased donor financing, debt service suspension, and better terms of trade. Growth and poverty reduction are expected to gradually recover in the medium term. Downside risks include sustained pandemic, climatic hazards, slower structural reforms, and regional insecurity. Extreme poverty increased from 5.4 percent to 6.1 percent between 2019 and 2020.

Key conditions and challenges

Macroeconomic stability had improved before the Covid-19 pandemic on the back of improved terms of trade, and reforms to reduce fiscal deficits after the 2014-2015 commodity price shock. Growth increased to 5.8 percent in 2019, with accompanying extractive GDP growth of 14.9 percent, as the country prepared to implement social reforms. However, with the pandemic, the reforms were delayed, the economy remains undiversified and overly reliant on the extractive sector, and subject to global uncertainties. There were no changes in the low future productivity (37 percent) of a child born in Mauritania between 2015 and 2019. This may be partially explained by insufficient investment in human capital and basic infrastructure, and the inability to channel economic gains from trade and fiscal buffers to address development constraints.

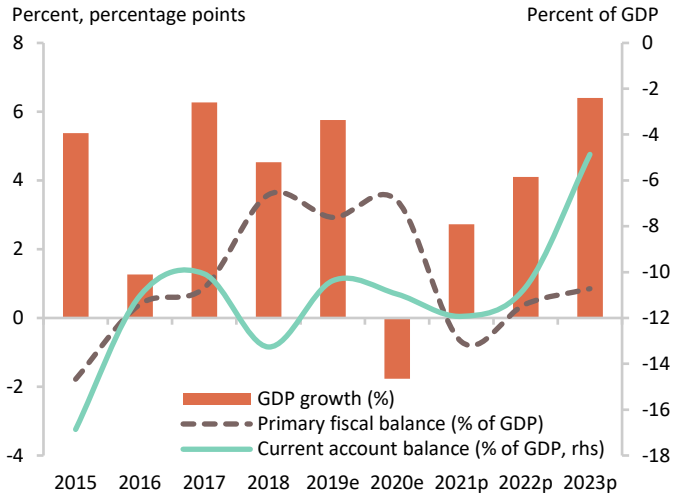
The Covid-19 pandemic continues to impose severe human, economic, and social hardships, despite mitigating measures implemented to contain the impact on the poor. The contraction of the economy in 2020 led to employment and income losses, pushing an estimated 38,000 people into extreme poverty. Addressing high poverty rates and social deprivations requires macroeconomic stability and a focus on poverty reducing programs. In response, the government launched programs to support an economic recovery and sustain growth in 2021 and 2022. The government needs to focus on supporting economic recovery, creating inclusive jobs, preparing the fiscal framework for 2023 gas revenues, and mitigating the impact of climate related shocks on the agricultural sector.

Recent developments

The economy contracted by 1.8 percent in 2020 induced by a global recession and lockdown measures to mitigate the impact of the Covid-19 pandemic. Contractions were observed mainly in the fishing, transport, and ICT sectors. The extractive and manufacturing sectors were resilient, benefiting from rising international prices for extractive exports. Though the exchange rate remained stable in 2020 and the first half of 2021, headline inflation rose from 1.5 percent (y-o-y) in August 2020, reaching 4.4 percent (y-oy) in August 2021. Supply constraints imposed due to the implementation of Covid-19 measures in 2021 continues to fuel higher food prices and offset the removal of import taxes on food consumed by the poor.

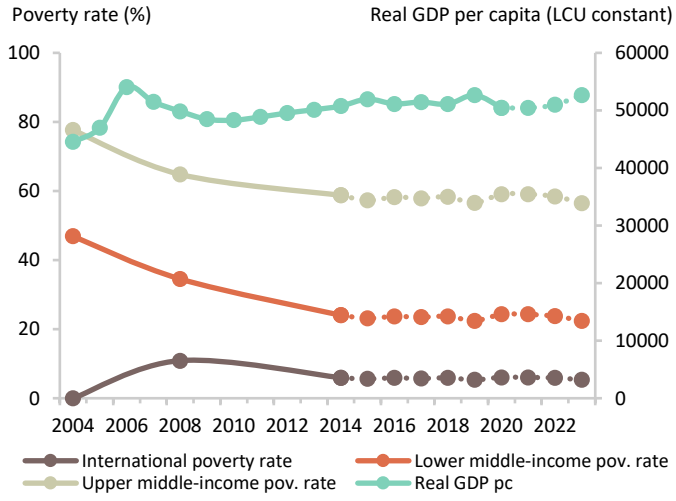
The current account deficit (CAD) widened slightly to 11 percent of GDP in 2020, from 10.4 percent in 2019, mainly on account of stronger imports of food and capital goods for the extractive sector. Despite the pandemic, increased exports of iron ore and gold compensated for a sharp drop in fish exports in 2020. The CAD was financed by strong extractive related FDI, increased donor financing, and lower debt amortization. Gross international reserves (excluding extractive industries) increased

FIGURE 1 Mauritania / Evolution of main macroeconomic indicators



Source: World Bank.

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



Source: World Bank. Notes: See Table 2.

from 4.5 months of imports in 2019, to 5.9 months in 2020.

Fiscal policy was impacted by the economic slowdown in 2020 as the lockdown affected both revenue collection and budget execution. The fiscal surplus remained mostly unchanged between 2019 and 2020 at 2 percent of GDP. A surge in SOE dividends in 2020 partly compensated for the fall in tax revenues, which fell from 12.3 percent of GDP in 2019, to 11.7 percent. On the spending side, increases in current transfers were offset by a reduction in public investments. Public debt increased slightly, to reach 73.2 percent in 2020, but is expected to decline sharply in 2021 aided by some debt forgiveness.

Monetary policy was responsive to impact of the crisis in 2020. The central bank eased its reserve requirement and policy rate and conducted liquidity management operations to absorb excess liquidity. This did not result in lower lending rates, lower domestic prices, nor increased lending to the private sector, reflecting the limited effectiveness of the monetary policy. Nonperforming loans remain high and rose to 25.8 in September 2020 relative to end period level of 21.5 percent in 2019.

The decline in per capita GDP of 4.2 percent between 2019 and 2020, reversed years of poverty reduction. Extreme poverty, measured by US$ 1.9/day (2011 PPP), increased from 5.4 percent in 2019 to 6.1 in 2020, corresponding to nearly 38,000 people falling into extreme poverty. According to a phone survey in March 2021, two-thirds of households reported difficulties in accessing healthy and nutritious food, while 94 percent of households reported being affected by higher food prices. Three out of four households experienced a fall in income due to the pandemic.

Outlook

The economy is expected to recover in 2021, and over the medium term, on the back of the extractive sector. In the short term, successful implementation of measures to curb the spread of the virus and vaccinations is expected to support the recovery of the non-extractive sectors to result in GDP growth of 2.7 percent in 2021. With a favorable outlook over the medium term and the onset of gas production in 2023, GDP growth is expected to reach about 6.4 percent in 2023.

The current account deficit is expected to increase and remain elevated at 11.9 percent of GDP in 2021 as a result of higher imports of food, and capital equipment to support the extractive and hydrocarbon activities. External financing will continue to be met by extractive related FDI and concessional financing, resulting in gross international reserves of more than 5 months of non-extractive imports.

The 2021 budget included most of the measures to fight the ongoing pandemic that were not implemented in 2020, resulting in a projected fiscal deficit of 1.7 percent of GDP in 2021. In the medium term, the budget is expected to be balanced, as Covid related social spending is curtailed, and tax collection improves along with the stronger economic growth.

The economic recovery is expected to support the reversal of poverty trends and bring back the poverty rate to its pre-pandemic level of 5.4 percent by 2023. Nevertheless, the pandemic will continue to represent a significant risk to growth in the medium term if the virus is not contained and further waves trigger stricter containment measures. Rising inflation since August 2020 poses a threat to poverty reduction efforts if maintained over the medium term.

TABLE 2 Mauritania / 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	4.5	5.8	-1.8	2.7	4.1	6.4
Private Consumption	2.7	2.7	2.7	1.9	2.4	2.7
Government Consumption	-3.4	1.0	9.2	13.1	-1.6	5.1
Gross Fixed Capital Investment	38.0	24.4	-17.8	6.8	7.2	6.3
Exports, Goods and Services	0.0	19.1	-1.9	2.1	6.2	11.2
Imports, Goods and Services	13.1	11.7	2.0	6.5	4.3	5.1
Real GDP growth, at constant factor prices	3.8	6.6	-1.0	1.4	4.2	6.4
Agriculture	2.5	9.4	-3.6	0.7	1.2	2.3
Industry	3.1	6.5	2.6	4.9	5.7	10.5
Services	4.7	5.4	-1.7	-0.1	4.7	5.9
Inflation (Consumer Price Index)	3.0	2.2	2.4	2.6	3.0	3.5
Current Account Balance (% of GDP)	-13.3	-10.4	-11.0	-10.9	-9.8	-5.2
Net Foreign Direct Investment (% of GDP)	10.5	11.2	11.5	12.5	12.1	9.1
Fiscal Balance (% of GDP)	2.4	2.0	2.1	-1.7	-0.6	0.0
Debt (% of GDP)	73.8	70.7	73.2	65.1	62.9	60.5
Primary Balance (% of GDP)	3.6	2.9	3.4	-0.7	0.4	0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	5.9	5.4	6.1	6.1	5.9	5.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	23.8	22.5	24.3	24.3	23.8	22.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	58.3	56.6	59.1	59.1	58.5	56.6
GHG emissions growth (mtCO2e)	1.2	2.8	-0.2	3.6	2.4	3.6
Energy related GHG emissions (% of total)	32.6	33.6	33.1	31.8	32.2	32.8

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

(a) Calculations based on 2014-EPCV.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2014) with pass-through = 0,87 based on GDP per capita in constant LCU.

MAURITIUS

Table 1	2020
Population, million	1.3
GDP, current US$ billion	10.9
GDP per capita, current US$	8384.6
Lower middle-income poverty rate ($3.2)[a]	2.2
Upper middle-income poverty rate ($5.5)[a]	12.7
Gini index[a]	36.8
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	74.2
Total GHG Emissions (mtCO2e)	6.0

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

After a deep pandemic-driven recession in 2020, a second wave of Covid-19 has delayed recovery in 2021 despite the successful rollout of vaccines. Pensions' reform and phased unwinding of Covid-19 support will be key to maintain debt sustainability. Authorities need to strike a balance to avoid a premature withdrawal of support that could compromise recovery, while creating fiscal space to address longstanding structural challenges. The effects of Covid-19 have reversed recent gains in poverty reduction and female labor force participation.

Key conditions and challenges

Mauritius became a High-Income Country in July 2020 based on 2019 data. However, even before the pandemic struck, its development trajectory had become more fragile due to four interrelated challenges that emerged over the past decade: (i) a growth trajectory increasingly driven by consumption, with a declining share of investment and stagnating capital productivity; (ii) a sustained loss in overall export competitiveness; (iii) an ageing population and increasing frictions in the labor market, resulting in high structural unemployment, rising skill shortages and growing inequality; and (iv) persistent fiscal deficits and rising levels of public debt to GDP.

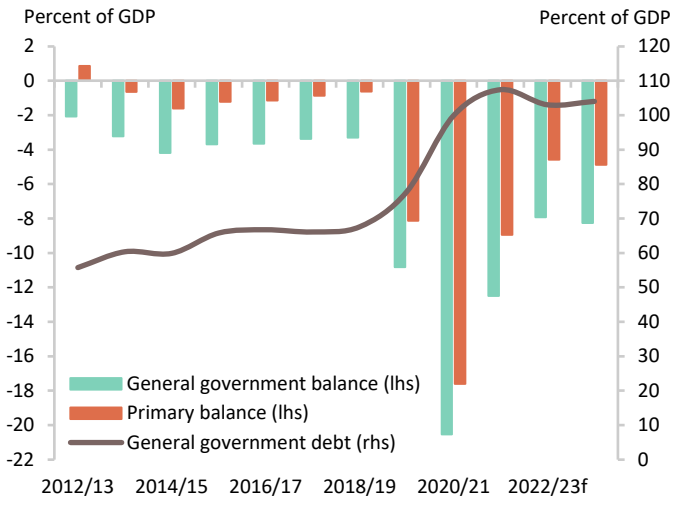
Despite the successful handling of the public health emergency, the economic impact of Covid-19 was severe due to the centrality of tourism in the Mauritian economy. Real GDP plummeted by 14.9 percentage points in 2020, causing Mauritius to slip back into Upper-Middle-Income status in 2021. Government support to households and firms was extensive, totaling over Rs 121 billion, or 28 percent of 2020 GDP. As public debt spiked, following an initial transfer of Rs 18bln (3.5 percent of GDP) from the special reserves fund under the 2019/20 budget, the Bank of Mauritius law was modified to allow for direct non-refundable transfers to government and another Rs 60bln (14 percent of GDP) were transferred.

Achieving inclusive growth in the future will require overcoming constraints to a more inclusive labor market. This includes increasing the participation of youth and women with low educational attainments. Over 50,000 youth aged 16 to 29 are neither in education nor in employment, and about 1 out of 3 has obtained at most a certificate of primary education. Similarly, only 1 in 2 women participates in the labor market, and only 1 in 3 among women with low education. The impact of Covid-19 reversed recent gains in labor force participation of women. Women were significantly more likely to be displaced during this time, while men and women with a better education were significantly less likely to be laid off overall.

Recent developments

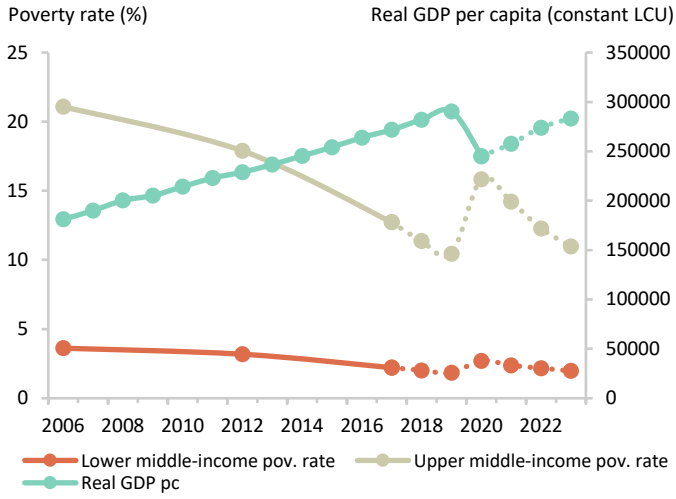
After remaining covid free since April 2020 and partially open to travel since October 2020, albeit with a two-week quarantine requirement for visitors, a second wave of Covid-19 led to new border closings on March 10, 2021, accompanied by a new lockdown. Vaccines' rollout started in February 2021, and 63 percent of the population was fully vaccinated by end-August. Borders began reopening on July 15, although with strict quarantining and testing requirements. Inbound travel remained subdued with arrivals dropping to 12,027 over the first half of 2021, compared to 424,127 in the first semester of 2020, pulling down backward and forward industries. Merchandise exports

FIGURE 1 **Mauritius** / General government balance and debt



Sources: Statistics Mauritius and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

increased 17.9 percent in S1 of 2021 compared to S1 of 2020, driven by manufactures. As merchandise imports increased in a similar percentage, trade and current account deficits widened.

Fiscal deficit escalated to 20.5 percent in FY 20/21, and despite being partially financed through a 14 percent of GDP non-refundable Central Bank transfer, still caused public debt to spike to 99.9 percent of GDP. Moody's downgraded Mauritius' credit rating in March 2021 from Baa1 to Baa2 due to its weakened fiscal and economic stance while maintaining a negative outlook based on risks to the recovery of tourism and the weakening of the BOM balance sheet. The inclusion of Mauritius on the FATF and EU AML/CFT watchlists in 2020 has so far not resulted in GBCs financial flow reversals. In its June 2021 Plenary, the FATF made the initial determination that Mauritius has substantially completed its reform plan and warrants an on-site assessment. Meanwhile, the government suffered a pitfall with the July 14 arbitrage ruling in favor of Betamax in its appeal to the Supreme Court of Mauritius' decision against it. The ruling entitles Betamax to a payment of around Rs 5.68 Billion effective on or before June 22, 2021.

Poverty (Upper-MIC threshold of $5.5 a day 2011 PPP) fell from 18 to 10 percent between 2012 and 2019. However, given the dramatic contraction of GDP in 2020, poverty is estimated to have increased by over 5 percentage points.

Outlook

GDP is expected to rebound by 5.1 percent in 2021 and accelerate to 6.6 percent in 2022, against a backdrop of a gradual resumption of tourism in the second semester of 2021 as travel restrictions are eased, accompanied by a continued recovery of manufacturing exports in line with global demand, and uptakes in construction, wholesale trade, and financial and insurance services.

The current account deficit is expected to reach 18.4 percent of GDP in 2021 before gradually narrowing over the medium term, assuming recovery in tourism and additional efforts to strengthen export competitiveness. The fiscal deficit is expected to moderate to 12.5 percent in FY 21/22 as the economic recovery accelerates and Covid-19 support measures are lifted, aiding a progressive fiscal consolidation. Public debt would peak at 107.5 percent of GDP in FY 21/22, although the expected phase-in of CSG in 2023/24 would put the debt trajectory back on the rise. Projections indicate that poverty will fall to 11 percent, half a point above the pre-COVID -19 level, well into 2023.

Significant downside risks cloud the horizon. The emergence of new Covid-19 variants threatens the rebound of tourism, while failure to address competitiveness challenges and skills mismatches could result in less dynamic exports and lingering unemployment. Pensions' reform and the phased unwinding of Covid-19 support will be key to maintain debt sustainability, while recapitalizing the BOM and strengthening its independence will be critical to sustain effective monetary policy and price stability.

TABLE 2 Mauritius / 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]	3.8	3.0	-14.9	5.1	6.6	4.2
Private Consumption	3.2	3.2	-18.7	3.9	4.6	4.3
Government Consumption	4.2	2.0	-1.2	1.8	2.2	1.1
Gross Fixed Capital Investment	10.9	6.1	-26.4	15.3	12.5	7.2
Exports, Goods and Services	2.7	-4.2	-38.0	7.5	11.4	4.3
Imports, Goods and Services	-0.2	2.1	-28.9	4.8	4.8	2.5
Real GDP growth, at constant factor prices	3.6	3.2	-14.8	5.0	6.6	4.2
Agriculture	-1.3	4.1	-3.1	5.5	2.9	2.4
Industry	2.6	2.4	-19.1	12.2	5.1	5.0
Services	4.1	3.3	-14.3	3.3	7.2	4.1
Inflation (Consumer Price Index)	3.2	0.5	2.5	5.1	6.6	3.0
Current Account Balance (% of GDP)	-3.9	-5.4	-12.6	-18.4	-12.2	-10.5
Net Foreign Direct Investment (% of GDP)	10.3	14.3	26.0	24.2	25.1	24.5
Fiscal Balance (% of GDP)[b]	-3.3	-10.8	-20.5	-12.5	-7.9	-8.3
Debt (% of GDP)[b]	67.6	77.7	99.9	107.5	103.1	104.1
Primary Balance (% of GDP)[b]	-0.6	-8.1	-17.6	-8.9	-4.6	-4.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	2.0	1.8	2.7	2.4	2.2	2.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	11.4	10.5	15.8	14.2	12.3	11.0
GHG emissions growth (mtCO2e)	0.2	1.4	-12.5	5.7	6.6	4.4
Energy related GHG emissions (% of total)	62.4	62.2	61.1	62.2	63.8	64.5

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

(a) Historical demand-side data is being revised due to a consistency problem.

(b) Fiscal balances are reported in fiscal years (July 1st - June30th).

(c) Calculations based on 2017-HBS.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

(d) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.

MOZAMBIQUE

Table 1	2020
Population, million	31.3
GDP, current US$ billion	14.0
GDP per capita, current US$	447.3
International poverty rate ($1.9)[a]	63.7
Lower middle-income poverty rate ($3.2)[a]	82.4
Gini index[a]	54.0
School enrollment, primary (% gross)[b]	116.4
Life expectancy at birth, years[b]	60.9
Total GHG Emissions (mtCO2e)	109.8

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

Following the first contraction in three decades in 2020, the economy is expected to grow at 2.3 percent in 2021, supported by increased agricultural production and recovery in demand. However, the poverty rate is projected to change marginally from 63.3 to 63.5 percent between 2020 and 2021, as per capita income growth stays flat. Growth is anticipated to reach 9.6 percent in 2023, mainly driven by prospects in natural gas, but considerable uncertainties remain due to COVID-19 and the military insurgency in Northern Mozambique.

Key conditions and challenges

Mozambique's development model, reliant on non-renewable resources, has exposed the country to vulnerabilities in the global market and has limited the pace of poverty reduction. Growth has been dependent on capital-intensive mega-investments and exports of primary commodities, with limited local linkages. Low human and physical capital, and a weak investment climate limit private sector growth and activity in the non-resource sectors. In rural areas, where most of the poor reside, low agriculture performance traps the poor in poverty. Climate shocks have intensified in frequency and magnitude, severely impacting the low growth economy.

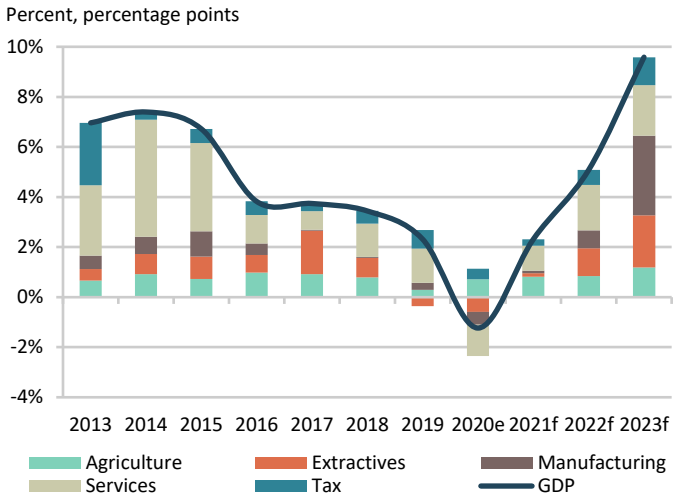
The Liquified Natural Gas (LNG) industry, under development since the discovery of massive gas fields in 2010, is the key driver of growth prospects, but is threatened by a military conflict near major gas projects. Addressing the conflict in a sustainable manner requires tackling the underlying causes of fragility, besides a military intervention. These include regional socio-economic disparities, lack of employment and opportunities for the youth, low access to public infrastructures and services. However, Mozambique needs to deal with these challenges while still recovering from COVID-19, and in a context of considerable fiscal constraints, partly reflecting rising wage bill and high debt burden.

Mozambique's immediate priorities include speeding up the vaccination program to accelerate the reopening of its economy. The delays in LNG development can be used as an opportunity to establish the regulatory and institutional framework for sound management of resource revenues. This implies, among others, improving economic management to prevent adverse effects from the upcoming revenue windfalls, and strengthening linkages between the LNG industry and the local economy. Concurrently, diversifying away from the resources sector is essential, while building resilience to climatic shocks through prevention and mitigation actions. While waiting for the gas revenues, fiscal space should be created, including through acceleration of wage bill and SOE reforms.

Recent developments

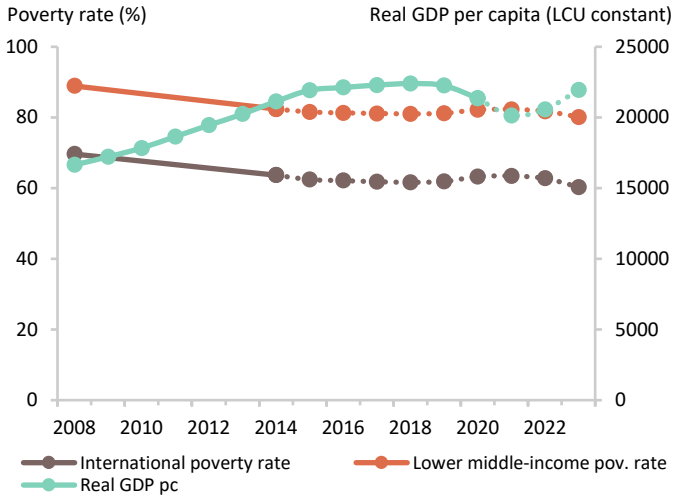
The year started with major challenges. Terrorist attacks near the LNG projects operation site led to the suspension of the Total- led project, and the postponement of the Final Investment Decision of another major LNG project. A surge in COVID-19 cases and the following social distancing measures delayed economic recovery. Despite this, the economy is bouncing back, albeit slowly. GDP grew by 2 percent in the second quarter of 2021, putting half year growth at 1.1 percent compared to the percent contraction in the same period of 2020. The recovery was driven by agriculture and public services, the latter

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



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

mostly reflecting increased public investment spending. Private services, manufacturing and extractives still struggled as the third wave of the virus led to tightening of social distancing measures and global trade recovers gradually.

In the first 7 months of the year, annual average inflation surged to 5.2 percent, compared to 3 percent during the same period in 2020. This trend, mainly induced by increased food prices due to currency depreciation, combined with job losses due to COVID-19, is projected to push 6 hundred thousand people into poverty in 2021.

Fiscal revenue increased by 16 percent in the first half of 2021 (y-o-y) owing to higher income, and goods and services tax collection. Expenditure grew by 7 percent, due to salaries, and defense, anticipated to continue to add spending pressures. As a result, the primary and overall deficits are expected to widen to 3 and 6 percent of GDP in 2021, up from 1.2 and 4.6 percent in 2020, respectively. Domestic debt, which increased by a percentage point to 21 percent of GDP in the first semester of 2021, is likely to remain the main financing source.

At US$ 2.2 billion in the first half of 2021, the current account deficit (CAD) dropped by 3 percent (y-o-y). Recovering manufacturing and extractives exports—specifically, coal, and aluminum—offset a relative growth in imports, mainly driven by consumption goods and construction materials. The CAD also reflects delays in the LNG projects, which had been projected to push CAD levels to around 60 percent in the 3 years starting in 2021. As a result, external reserves stood at around US$3.7 billion (equivalent to 8 months of imports, excluding megaprojects).

Outlook

The economy is projected to rebound modestly in the short-term. Growth is anticipated at 2.3 percent in 2021 mainly due to higher agriculture production underpinned by ongoing investments in infrastructure and improved inputs. Despite the third COVID-19 wave, services and manufacturing are expected to recover as mobility is restored. In addition, trade and commodities prices recovery will support extractives production. However, the poverty rate is expected to increase marginally from 63.3 to 63.5 between 2020 and 2021, reflecting a limited growth in per capita income due to fast population growth. GDP growth is anticipated to accelerate from 2022, reaching 9.6 percent in 2023 as gas production kicks-off from 2022, and more LNG projects advance in 2022 and 2023, boosting the business environment and allowing the poverty rate to fall to 60.3 percent by 2023.

As LNG projects resume, the CAD may jump from 32 percent in 2021 to around 40 percent of GDP in 2023, due to higher imports of services and equipment. The financing needs are projected to be covered by foreign direct investment and private debt.

The authorities face significant medium-term financing challenges. Budgetary pressures from military spending, COVID-19, and recurrent natural disasters are likely to keep public expenditure hovering above 30 percent of GDP in 2022 and 2023. Nevertheless, the authorities are expected to resume fiscal consolidation, improving the overall fiscal deficit from 6.2 percent to 3.8 percent of GDP between 2021 and 2023. However, debt challenges will remain high with debt ratios projected to remain above 100 percent in the medium-term.

TABLE 2 Mozambique / 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	2.3	-1.2	2.3	5.1	9.6
Private Consumption	4.9	3.1	-2.1	9.8	9.5	3.7
Government Consumption	-5.8	3.6	-19.3	16.0	-1.1	-71.3
Gross Fixed Capital Investment	4.2	-0.6	60.1	16.4	32.0	26.7
Exports, Goods and Services	47.9	-9.5	-15.0	20.4	14.5	27.0
Imports, Goods and Services	43.4	-1.5	-0.4	27.9	23.4	1.4
Real GDP growth, at constant factor prices	3.3	1.8	-1.9	2.3	5.1	9.6
Agriculture	3.4	1.3	3.1	3.4	3.4	5.0
Industry	4.2	-0.4	-5.8	1.3	10.2	27.7
Services	2.9	2.9	-2.7	2.2	4.0	4.5
Inflation (Consumer Price Index)	3.9	2.8	3.1	6.2	6.4	5.5
Current Account Balance (% of GDP)	-30.3	-19.6	-27.2	-32.1	-43.5	-44.3
Net Foreign Direct Investment (% of GDP)	18.2	14.4	16.7	16.6	21.9	17.7
Fiscal Balance (% of GDP)[a]	-4.1	-0.4	-4.6	-6.2	-4.5	-3.8
Debt (% of GDP)	108.9	107.5	125.3	121.4	119.9	110.2
Primary Balance (% of GDP)[a]	0.3	2.8	-1.3	-3.4	-1.4	-1.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	61.6	61.9	63.3	63.5	62.8	60.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	81.0	81.1	82.2	82.3	81.7	80.1
GHG emissions growth (mtCO2e)	3.5	0.4	-0.6	-4.6	-0.9	-0.7
Energy related GHG emissions (% of total)	7.8	7.9	7.9	4.7	4.0	3.4

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

(a) Figure includes once-off capital gains revenues in 2017, estimated at 2.7 percent of GDP.

(b) Calculations based on 2014-IOF. Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.

(c) Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.

NAMIBIA

Table 1	2020
Population, million	2.5
GDP, current US$ billion	10.6
GDP per capita, current US$	4240.0
International poverty rate ($1.9)[a]	13.8
Lower middle-income poverty rate ($3.2)[a]	30.3
Upper middle-income poverty rate ($5.5)[a]	51.0
Gini index[a]	59.1
School enrollment, primary (% gross)[b]	124.2
Life expectancy at birth, years[b]	63.7
Total GHG Emissions (mtCO2e)	22.2

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

Namibia's rebound is hampered by the protracted effects of the pandemic. The economy has exited from a devastating third wave of infections that had widespread health and economic impacts. Recession persisted in early-2021 and the projected upper middle-income poverty rate remained high at 65 percent. The trajectory of the pandemic poses significant risk to the outlook and pre-COVID-19 structural constraints will limit the scale of the medium-term recovery and poverty reduction.

Key conditions and challenges

Namibia's growth challenge predates the COVID-19 crisis. Real GDP peaked in 2018 and is not expected to return to that level over the forecast horizon. In the decade to 2015, economic growth averaged nearly 5 percent annually while the years thereafter have been mostly marked by recession. Until the mid-2010s, investments in mineral extraction, a boom in exports and government spending underpinned growth. Namibia subsequently suffered from falling commodity prices, weak growth in key trade partners (notably South Africa) and tight fiscal policy on the back of government's effort to rebalance public finances. In real terms, GDP per capita growth has been negative since 2016, with corresponding projected poverty increases. Weak demand and skills mismatches have constrained job creation with the unemployment rate averaging above 20 percent since 2016.

The government's response to the pandemic was timely but led to a marked deterioration in fiscal balances. The room for additional fiscal stimulus is reduced. Global and regional developments will remain an important driver of Namibia's fiscal and external positions as the country is highly reliant on commodity exports and SACU transfers. Volatility in prices of Namibia's exports, particularly diamonds and uranium, present risks as well as growth prospects in key trade partners.

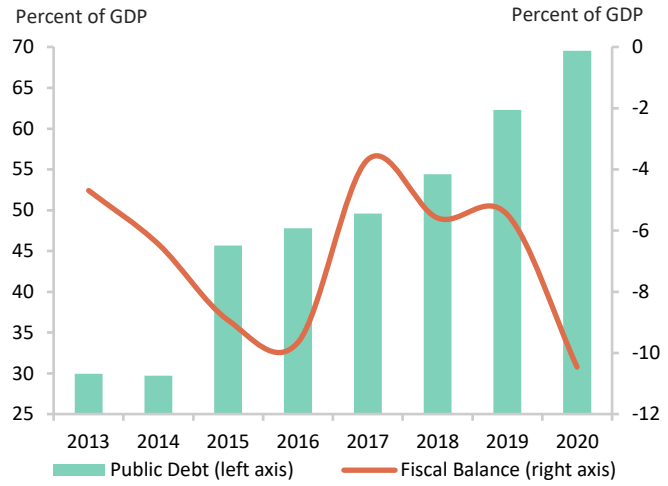
Namibia is amongst the driest countries in the world and severe drought remains a persistent threat for economic performance and for the welfare of poor subsistence farmers.

Uncertainty regarding the outlook combined with an uncompetitive business environment will continue to constrain private investment, leading to weak growth and job creation. COVID-19 vaccinations are proceeding but coverage remains relatively low. The possibility of recurrent restrictive measures domestically remains a significant downside risk to the recovery. The pandemic has further exacerbated Namibia's disparities in economic opportunities and access to services. Globally, Namibia is one of the most unequal countries, with a Gini coefficient of 59.1 in 2015. In addition, in 2020 around 64.5 percent of the population is projected to live on less than US$5.5 daily (2011 PPP).

Recent developments

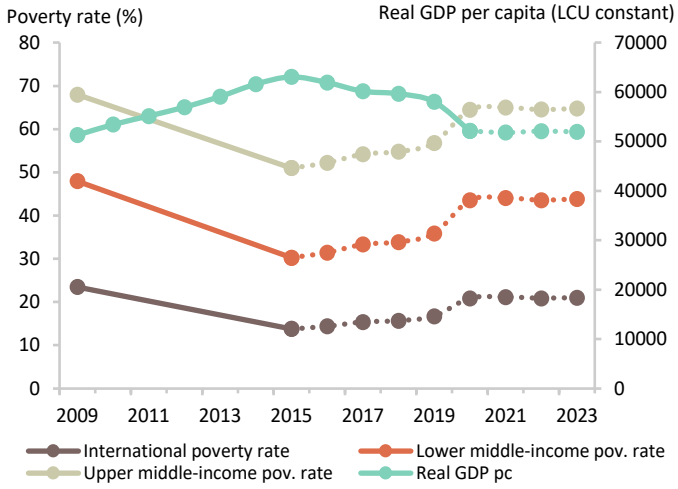
The country experienced a devastating third wave of COVID-19 infections over May-July, which impelled tighter restrictions. As the economy exited the third wave in August, restrictions have begun to be eased, allowing for increased activity. Vaccinations began in March. As of end-August, over 329,000 vaccine doses had been administered, although only about 5 percent of the population has been fully vaccinated. With procurement of more doses and donations, vaccine supply has improved in Q3.

FIGURE 1 Namibia / Budget balance and debt



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

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



Source: World Bank. Notes: see table 2.

Macroeconomic variables confirm that the impact of the COVID-19 shock has extended into 2021. Real GDP declined by 6.5 percent year-on-year in Q1, exceeding the contraction in Q4 2020. This was driven by steep drops in several sectors including mining, manufacturing, finance and trade services. Health as well as information and communication maintained strong growth rates. Aside weak domestic demand, the labor market has deteriorated markedly, restraining disposable income.

The fiscal situation remains fragile, and the government is undertaking reforms to manage risks and support the recovery. The budget deficit is estimated to have widened to 10.5 percent of GDP in FY 2020/21 as the government responded to the multifold challenges of the pandemic. Public debt (including guarantees) rose close to 70 percent of GDP. The government is implementing its Economic Recovery Plan through which it aims to attract private investment. Authorities also launched the Harambee Prosperity Plan II (2021-2025) which prioritizes the implementation of targeted programmes.

The current account widened to 8.7 percent of GDP in Q1 mainly driven by a large contraction in exports. Despite this deterioration, financing from multilaterals and SACU inflows have ensured that foreign exchange reserves remain adequate. Reserves stood at N$42.7 billion in July and are expected to be boosted by the recent IMF SDRs allocation.

Outlook

Economic output is expected to remain below potential in 2021. The improved global demand for commodities is favorable, although the performance is being limited by idiosyncratic factors. This includes lost production from plants which were placed under care and maintenance. Growth and employment creation in sectors which are highly exposed to the impact of COVID-19, such as tourism, will remain muted. Monetary policy remains accommodative and driven by the peg with the South African rand. The scale of the medium-term recovery will depend on the trajectory of the pandemic and the government's ability to address long-lasting challenges to higher growth. The rebound is expected to be slower than initially expected, with growth reaching 1.2 percent in 2021 and 2.4 percent in 2022. Corresponding negative per capita GDP growth and slow job creation are projected to maintain poverty near 65 percent (US$5.50 line).

The authorities are committed to restoring fiscal sustainability, but public finances will remain under pressure. Prospects for weaker SACU revenues, which is acknowledged in the budget, and possible spending pressures as the pandemic extends are main risks to the fiscal outlook. Borrowing requirements will remain elevated – on external debt, Namibia's inaugural US$500 million Eurobond falls due in November 2021. The budget deficit is expected at 9.8 percent of GDP in FY2021/22 while the debt ratio is projected to keep rising in the short term. Financing is expected to be sourced from both domestic (debt and the partial listing of MTC) and external sources. The government has thus far received external funding from the IMF and AfDB. Ensuring fiscal sustainability while preserving social spending will be important to limit the risks of further worsening of poverty and inequality.

TABLE 2 Namibia / 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	1.1	-0.9	-8.5	1.2	2.4	1.5
Private Consumption	-0.2	0.4	-10.3	4.9	3.5	3.0
Government Consumption	-0.2	1.5	-1.5	-2.6	-1.5	-0.5
Gross Fixed Capital Investment	-6.0	-8.9	-11.2	-3.5	5.8	3.5
Exports, Goods and Services	16.1	-9.0	-17.7	1.5	7.4	4.5
Imports, Goods and Services	1.2	-3.4	-14.7	2.9	6.1	5.0
Real GDP growth, at constant factor prices	1.1	-0.2	-7.1	1.2	2.4	1.5
Agriculture	4.0	-3.2	6.1	1.6	1.4	1.4
Industry	5.3	-2.3	-13.7	-3.1	5.4	2.5
Services	-1.0	1.1	-5.7	2.9	1.4	1.1
Inflation (Consumer Price Index)	4.3	3.7	2.2	3.8	4.5	4.5
Current Account Balance (% of GDP)	-3.4	-1.8	2.6	-6.4	-4.6	-2.9
Net Foreign Direct Investment (% of GDP)	0.8	-1.5	-1.3	0.9	1.4	1.5
Fiscal Balance (% of GDP)[a]	-5.6	-5.5	-10.5	-9.8	-8.6	-7.2
Debt (% of GDP)[b]	54.4	62.3	69.5	81.0	84.9	88.5
Primary Balance (% of GDP)[a]	-2.3	-1.7	-6.0	-5.1	-3.8	-2.3
International poverty rate ($1.9 in 2011 PPP)[c,d]	15.7	16.7	20.8	21.1	20.9	21.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[c,d]	33.9	35.8	43.5	44.1	43.6	43.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[c,d]	54.8	56.8	64.5	65.0	64.6	64.8
GHG emissions growth (mtCO2e)	-4.1	-2.0	0.7	-0.1	3.0	0.7
Energy related GHG emissions (% of total)	19.2	19.1	17.7	16.1	18.0	18.0

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

(a) Fiscal balances are reported in fiscal years (April 1st -March 31st).
(b) Refers to Public and Publicly Guaranteed debt.
(c) Calculations based on 2009-NHIES and 2015-NHIES.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.
(d) Projection using annualized elasticity (2009-2015) with pass-through = 1based on GDP per capita in constant LCU.

NIGER

Table 1	2020
Population, million	24.2
GDP, current US$ billion	13.5
GDP per capita, current US$	557.9
International poverty rate ($1.9)[a]	45.4
Lower middle-income poverty rate ($3.2)[a]	77.2
Upper middle-income poverty rate ($5.5)[a]	93.6
Gini index[a]	34.3
School enrollment, primary (% gross)[b]	66.4
Life expectancy at birth, years[b]	62.4
Total GHG Emissions (mtCO2e)	50.3

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

Niger's economy has weathered relatively well the combination of health, security, and environmental crises in 2020. However, a decline in real per capita GDP is linked to an increase in the poverty rate of 0.4 percentage points, to 41.2 percent. With the global recovery and the start of oil exports, growth should accelerate to 5.5 percent in 2021 and could reach double digits in the medium term. However, future trends remain dependent on political stability, improving governance and climatic risks.

Key conditions and challenges

The Nigerien economy faces adverse structural factors that constrain sustainable inclusive growth. These include unfavorable geographic and climatic conditions, high demographic pressures, weak human capital, widespread informality, low agricultural productivity and insufficient structural transformation, as well as poor governance, weak institutions and other internal factors of fragility. More than four in ten Nigeriens live on less than US$1.9 per day (2011 PPP). A sustained pace of economic growth is required in the next decades to reduce large development gaps.

Beyond these structural factors, persistent insecurity and terrorist attacks are a major risk factor impacting Niger's overall economic performance, public finances, including through the requirement for military expenditures, and more broadly the security and well-being of the population. Another major hazard is the growing exposure to climatic shocks, which has led to large agricultural production fluctuations and heightened food insecurity among the poor. Finally, while official data suggest that the health toll of COVID-19 pandemic has not been severe, low levels of deployment of vaccines (with only 0.4% of the total population vaccinated at the end of August 2021) create additional uncertainty in the short term.

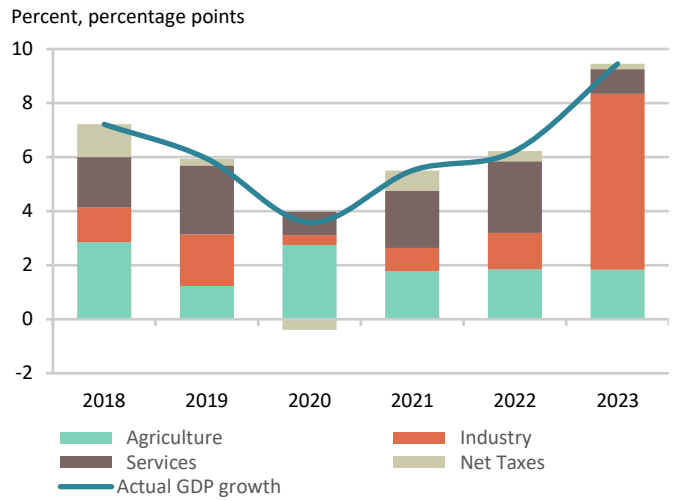
At the same time, the relatively peaceful transfer of power during the recent presidential election and the coming on stream of larger oil export capacities (oil exports are projected to increase by some 385 percent to 97,000 barrels/day by 2023 with the completion of a pipeline) represents a potential opportunity, in terms of attracting investors and mobilizing significant resources for development. Yet, the economic and social benefits of future oil windfalls will hinge on the transparent and efficient governance of theses resource, to the benefit the entire population and future generations.

Recent developments

Economic growth slowed to 3.6 percent in 2020 (real per capita GDP growth of -0.2 percent) from 5.9 percent in 2019. Activity has been supported by the resilience of the agricultural sector, whereas manufacturing sector growth fell because of the global recession and COVID-19 restrictions. Growth was particularly affected by the slowdown in investment (from 13.6 percent in 2019, to 4.9 percent in 2020). From a deflationary situation in 2019, inflation rose to 2.9 percent in 2020, due to supply disruptions.

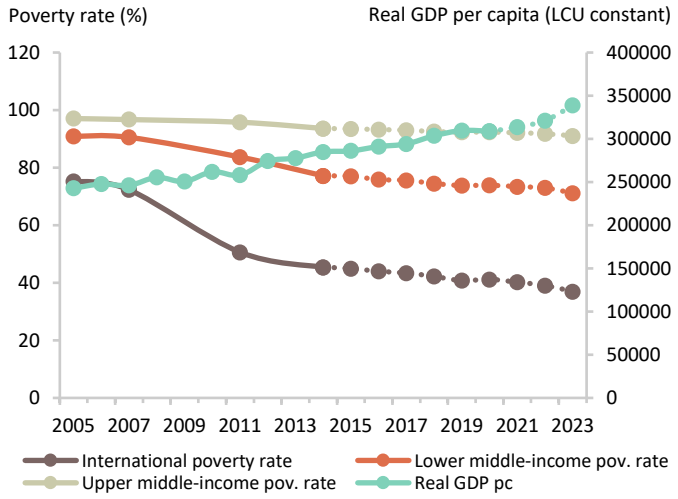
The fiscal deficit widened from 3.6 percent of GDP in 2019 to 4.9 percent in 2020, and public debt increased by more than 3 percentage points of GDP to 45 percent. This deterioration was mainly due to an increase in expenditures (2.4 percent of GDP), especially transfers to protect poor

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



Sources: INSN and World Bank staff estimates.

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



Source: World Bank. Notes: See Table 2.

households and businesses from the effects of the pandemic.

The external current account deficit deteriorated by 0.8 percent of GDP in 2020 because of the deteriorated trade balance due to the closure of the border with Nigeria.

External reserves - managed by the Central Bank of West African States (BCEAO)- have remained stable since 2019 and reached an estimated 5.8 months of imports in 2020 due to large donor support and a large Eurobond issuance in Cote d'Ivoire. To support the regional economy and COVID-19 related extra spending, the BCEAO implemented a set of monetary and macroprudential measures beginning in March 2020 and extended into 2021, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds.

The poverty rate, measured by the international poverty line of US$1.9 (2011 PPP), was estimated at 40.8 percent in 2019. Due to the decline in real per capita GDP growth the poverty rate rose by 0.4 percentage points in 2020, which, combined with one of the highest population growth rates in the world, is expected to increase in the number of poor to almost 10 million. Data from high frequency phone surveys estimate that in 2020 about 40 percent, 27.5 percent and 9 percent of Nigerien households reported having experienced a decline in their income from agriculture, family enterprises and private transfers respectively during the last 12 months.

Outlook

Notwithstanding the high levels of uncertainty, the economic outlook is favorable and economic growth is projected at 5.5 percent. Agriculture, benefiting from the reopening of the border with Nigeria, and industry, from the recovery in global demand and boom in oil production, are expected to contribute most to the recovery. Domestic demand will remain the main driver of growth. In the medium term, real GDP growth rate is expected to accelerate with the coming on stream of oil exports. With prudent management of the oil windfall, inflation should remain around 2 percent.

The fiscal deficit is expected to remain high, at 6.8 percent of GDP in 2021, due to lower than expected revenue as well as an increase in spending to accommodate growing security needs and larger fiscal transfers. Public debt is projected to reach 48.5 percent of GDP in 2021. The external deficit is expected to widen in 2021 with the import of capital goods for major infrastructure projects. In the medium term, the increase in oil exports should strengthen Niger's public finances, with a gradual return to the WAEMU deficit target by 2024, and its external position. In August 2021, the BCEAO received 1.4 percent of aggregate GDP in additional SDR allocations from the IMF that could be temporarily on-lent to member countries.

Such a positive economic outlook may support a reversal of the extreme poverty rate, which is projected to fall from 41.2 percent in 2020, to 36.9 percent in 2023. However, downside risks from political instability and insecurity, exposure to climatic shocks, combined with one of the highest demographic growth rates in the world (3.8 percent per year) pose a serious risk to this projected poverty reduction path. The number of poor is projected to remain high and almost unchanged over the medium term.

TABLE 2 **Niger** / 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	7.2	5.9	3.6	5.5	6.2	9.4
Private Consumption	6.6	3.7	4.4	4.4	9.0	5.0
Government Consumption	4.8	8.1	3.7	10.8	-0.2	12.2
Gross Fixed Capital Investment	17.6	13.6	4.9	9.5	10.3	0.2
Exports, Goods and Services	-4.3	1.1	-6.3	-7.8	8.8	58.4
Imports, Goods and Services	9.4	6.2	2.7	4.4	15.4	4.9
Real GDP growth, at constant factor prices	6.3	6.1	4.2	5.4	6.2	9.3
Agriculture	7.9	3.4	7.7	4.8	5.0	5.0
Industry	6.0	9.0	1.7	4.1	6.4	30.9
Services	5.0	7.0	2.3	6.8	7.3	1.3
Inflation (Consumer Price Index)	2.8	-2.5	2.8	2.9	2.5	2.0
Current Account Balance (% of GDP)	-12.6	-12.7	-13.5	-15.3	-16.0	-11.4
Net Foreign Direct Investment (% of GDP)	3.3	5.3	2.6	4.6	5.1	3.2
Fiscal Balance (% of GDP)	-3.0	-3.6	-4.9	-6.8	-5.3	-3.4
Debt (% of GDP)	37.0	39.8	45.0	48.5	49.4	47.5
Primary Balance (% of GDP)	-2.1	-2.5	-3.8	-5.7	-4.0	-2.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	42.2	40.8	41.2	40.2	39.1	36.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	74.5	73.8	73.9	73.4	73.0	71.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.5	92.3	92.4	92.1	91.8	91.1
GHG emissions growth (mtCO2e)	4.5	4.9	3.5	6.6	5.8	8.3
Energy related GHG emissions (% of total)	14.5	14.4	14.3	14.3	15.2	17.7

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

(a) Calculations based on 2014-ECVMA. 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.

NIGERIA

Table 1	2020
Population, million	206.1
GDP, current US$ billion	440.9
GDP per capita, current US$	2139.3
International poverty rate ($1.9)[a]	39.1
Lower middle-income poverty rate ($3.2)[a]	71.0
Upper middle-income poverty rate ($5.5)[a]	92.0
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	84.7
Life expectancy at birth, years[b]	54.7
Total GHG Emissions (mtCO2e)	360.6

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for School enrollment (2016); Life expectancy (2019).

In 2020, Nigeria plunged into a recession due to the combined effects of COVID-19 and oil price shocks. The number of Nigerians living below the international poverty line is expected to rise by 12 million in 2019–23. In 2021, real GDP is expected to grow by 2.4 percent, supported by the rise in oil prices, and fiscal and monetary stimulus. Nigeria's growth outlook remains highly uncertain, however, fiscal, exchange rate, and business climate reforms will be necessary to ensure a robust recovery.

Key conditions and challenges

The Nigerian economy exited the COVID-19-induced recession in 2020Q4, due to the loosening of containment measures, a rebound in oil prices, and the quick response of the authorities to the pandemic. As part of its COVID-19 response, the government carried out several long-delayed policy reforms in 2020, often against vocal opposition. Notably, it: (i) began to harmonize exchange rates; (ii) initiated reforms to eliminate gasoline subsidies; (iii) adjusted electricity tariffs to more cost-reflective levels; (iv) cut non-essential spending; and (v) enhanced debt management and increased transparency in the public sector, especially for oil and gas operations.

In the short term, the biggest challenge remains the loss of welfare arising from the COVID-19 economic shock and the pre-pandemic macroeconomic imbalances. Three immediate policy priorities could help support Nigeria's poor. First, rolling out vaccinations quickly and equitably could help curb the direct health threat and lift restrictions, reinvigorating livelihoods. Second, adopting low-tech remote learning solutions that work for the poor to reduce the long-term adverse impact on human capital from any future school closures due to an increase in COVID cases or other similar factors. Finally, expanding social protection could offset income losses and prevent households from falling into—or further into—poverty.

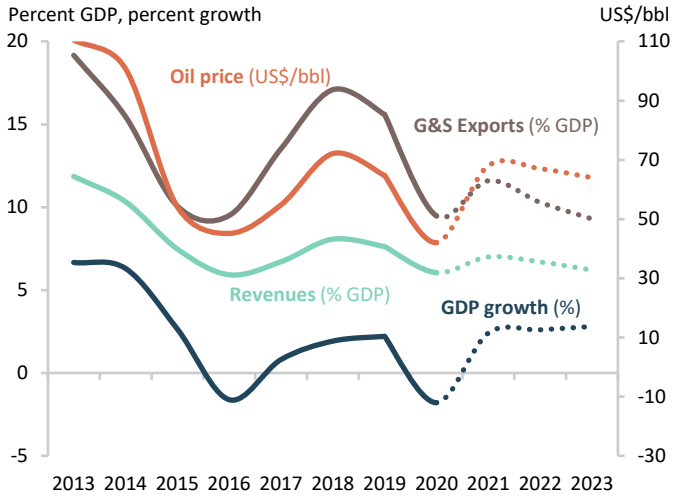
In the medium term, the government needs to sustain its efforts to address the pandemic and ensure a sustainable economic recovery. This includes merging its multiple exchange rates, lowering trade restrictions, improving the business climate, and reducing the monetization of the fiscal deficit. In addition, diversifying the economy, especially decreasing the dependence of revenues on oil, is essential to build resilience against future shocks and subsequently create productive jobs, improve socio-economic indicators, and reduce poverty.

Recent developments

In 2021H1, GDP grew by 2.8 percent, primarily due to the recovery of trade, agricultural production, IT services, and some manufacturing industries. Oil production, however, continued to decline up until 2021Q2 due to a lower OPEC quota and inefficiencies in production and distribution. Inflation remained elevated at 17.0 percent, year-on-year, in August 2021, driven by an increase in domestic food prices. Core inflation for the same period was 13.4 percent, year-on-year, due to higher prices of air and road transportation, medical services, pharmaceuticals, and cars.

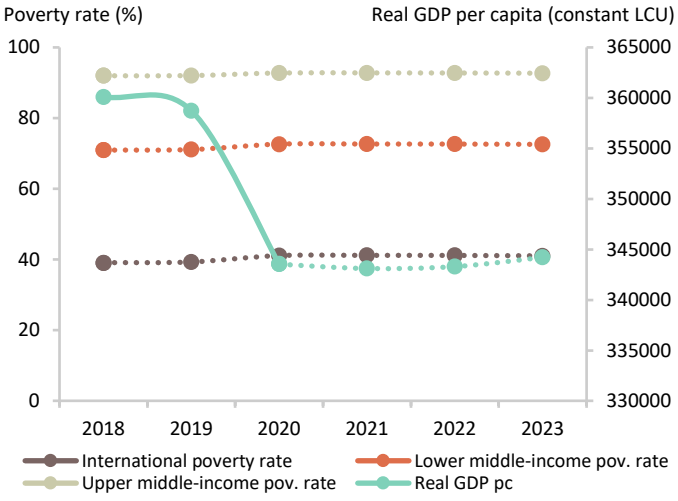
The COVID-19 crisis continues to disrupt Nigeria's labor market. The share of Nigerians working fell dramatically at the start of the pandemic, but it has since recovered and now exceeds pre-pandemic levels. However, labor market improvements have been primarily due to workers turning to

FIGURE 1 Nigeria / Real GDP growth, contributions to real GDP growth, and oil price



Sources: Nigeria Authorities, WDI, and World Bank.

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



Source: World Bank. Notes: see table 2.

small-scale, non-farm enterprise activities in retail and trade, the revenues of which remain precarious.

Narrowing the fiscal deficit continues to be a challenge. In 2020, the fiscal deficit of the consolidated government widened to 5.8 percent of GDP, but the timely passage of the amended budgets at both the federal and state government level helped minimize the need for central bank financing (which, nevertheless, remained significant at 2.8 percent of GDP). In 2021H1, the federation revenues (FAAC) declined by 16.7 percent year-on-year, as oil revenues transferred to the federation account declined by over 50 percent year-on-year, despite an increase in global oil prices. Expenditure growth remained strong as federal expenditure grew by 26 percent, boosted by an increase of more than 25 percent in debt servicing costs and a 193.3 percent increase in capital expenditure. For the first half of 2021, the federal government posted a fiscal deficit of 4.0 percent of half-year GDP.

In 2021Q1, the current account balance worsened as exports declined by 42 percent due to lower oil production, and imports declined by only 16 percent due to trade disruptions, foreign exchange scarcity, and lower domestic demand. While the Central Bank took steps to harmonize its multiple exchange rates by adopting the Investors' and Exporters' Foreign Exchange (IEFX) window rate as its official rate in May 2021, it was insufficient to equilibrate the market. An increase in capital controls led to foreign exchange scarcity, evidenced by the increasing parallel exchange rate premium, which averaged 20 percent in 2021H1.

Outlook

Nigeria's GDP is expected to recover and grow by 2.4 percent in 2021, driven by the services, trade, agriculture, and construction sectors. Yet, with GDP growth lower than population growth, GDP per capita at end-2021 is expected to be similar to that of 2010 and is not expected to return to pre-COVID-19 levels before 2025.

This baseline scenario assumes that the authorities maintain their current macroeconomic reform efforts, including measures aimed at: (i) revenue-based fiscal consolidation; (ii) strengthening of expenditure and debt management; (iii) stabilizing the financial sector; and (iv) adopting a more flexible and transparent foreign exchange management regime.

Nevertheless, the impact of the pandemic on poverty could linger. Given the combined effects of the COVID-19 crisis and population growth, the number of Nigerians living in poverty could rise by 12 million in 2019–23, and the absolute number of poor Nigerians could reach around 91 million by 2023.

Nigeria's economic outlook remains highly uncertain. Uncertainty around the pace of vaccinations and the duration of the COVID-19 pandemic persists and will continue to impact household consumption and private investment. Moreover, the modest projected recovery can be threatened by volatility in the oil sector, including an unexpected shock to oil prices, and weaknesses in the financial sector. Even in the most favorable global context, the policy response of Nigeria's authorities will be crucial to lay the foundation for a robust recovery.

TABLE 2 **Nigeria** / 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	2.2	-1.8	2.4	2.6	2.8
Private Consumption	5.2	-2.4	1.3	-1.0	0.5	0.7
Government Consumption	33.2	15.0	13.6	-7.4	-1.0	3.3
Gross Fixed Capital Investment	9.7	11.8	19.0	6.6	5.1	8.5
Exports, Goods and Services	-1.4	15.0	-32.2	16.0	6.1	4.6
Imports, Goods and Services	49.2	27.3	-23.5	12.4	1.8	7.3
Real GDP growth, at constant factor prices	1.9	2.3	-1.9	2.4	2.6	2.8
Agriculture	2.1	2.4	2.2	2.2	2.2	2.5
Industry	1.9	2.3	-5.9	2.8	2.3	2.3
Services	1.8	2.2	-2.2	2.4	2.9	3.1
Inflation (Consumer Price Index)	12.1	11.4	13.2	16.5	13.5	11.0
Current Account Balance (% of GDP)	1.0	-3.8	-2.4	1.2	1.1	-3.8
Net Foreign Direct Investment (% of GDP)	0.2	0.4	0.2	0.2	0.3	0.3
Fiscal Balance (% of GDP)	-4.1	-4.6	-5.8	-5.6	-5.5	-5.9
Debt (% of GDP)	19.3	21.7	25.2	29.9	31.7	33.4
Primary Balance (% of GDP)	-2.2	-2.6	-4.1	-4.2	-3.5	-3.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	39.1	39.3	41.1	41.2	41.2	41.1
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.0	71.1	72.6	72.7	72.7	72.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.0	92.1	92.8	92.8	92.8	92.7
GHG emissions growth (mtCO2e)	6.0	3.4	-2.4	2.9	3.0	3.0
Energy related GHG emissions (% of total)	39.0	39.9	40.1	41.1	42.4	43.7

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

(a) Calculations based on 2018-LSS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

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

RWANDA

Table 1	2020
Population, million	13.0
GDP, current US$ billion	10.2
GDP per capita, current US$	784.6
International poverty rate ($1.9)[a]	56.5
Lower middle-income poverty rate ($3.2)[a]	80.2
Upper middle-income poverty rate ($5.5)[a]	91.9
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	131.3
Life expectancy at birth, years[b]	69.0
Total GHG Emissions (mtCO2e)	8.0

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

Rwanda's economy has started recovering in 2021, expected to growth at about 5 percent after being hit hard in 2020 as the COVID-19-induced crisis. The twin deficits deteriorated—requiring more external financing—and are expected to remain at above their pre-crisis levels in 2021–2023. Despite the government's unprecedented assistance program, the adverse effect of the crisis on output and employment means that poverty is likely to have increased and is expected to remain above the pre-crisis levels in 2022-2023.

Key conditions and challenges

Rwanda's economy was growing rapidly prior to the COVID-19 pandemic. GDP growth averaged 7.5 percent yearly between 2010 and 2019, raising average GDP per person by nearly 48 percent during that time. Despite this exceptional performance, the country faces major development challenges.

Growth must be more inclusive. Rwanda's poverty to growth elasticity has been declining since 2010/11. In terms of the international poverty line of US$1.90 (2011 PPP), poverty rate declined from 69 percent to 55.4 percent over 2005–2019, but due to COVID, poverty is projected to have increased in 2020 by more than 3 percentage points with respect to its 2019 value, to then decrease by 0.7 percentage points in 2021. These changes imply adding more than 600,000 new poor in 2 years as a result of widespread decreases in household income and employment losses. This uptick in poverty increases the urgency to design a medium-term public investment strategy for broad-based and inclusive economic recovery following the pandemic (e.g., increasing productivity in agriculture and improving rural livelihoods).

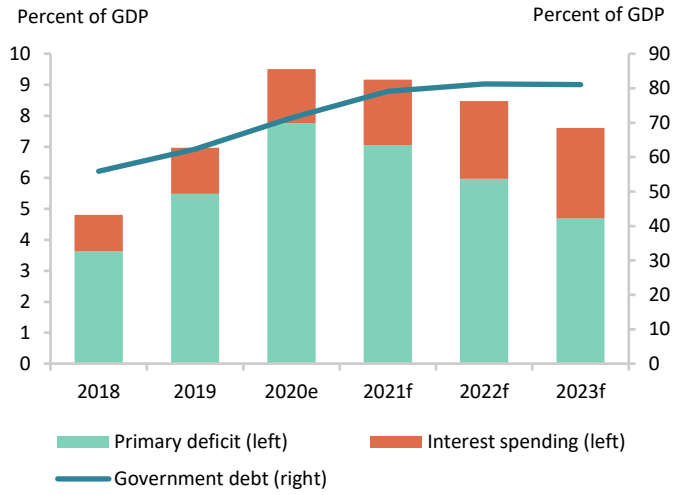
Rwanda needs to flatten its debt curve. Rapid GDP growth has relied heavily on public investment spending that increased by 14 percent annually over 2010–2019. However, public debt grew rapidly as well—more than tripling relative to GDP since 2010—raising concerns about its long-term sustainability with limited space to absorb shocks. This calls for a credible fiscal consolidation path, strengthening debt management capacity, and shift from public investment growth-led model to the private sector.

Strengthening the role of the private sector is key to future developments. With an almost depleted fiscal space, Rwanda's public investment growth-led model is no longer sustainable. Key reforms should aim to enable the emergence of competitive domestic enterprises, supporting young, innovative firms and micro, small and medium enterprises; foster innovation and improve access to credit by deepening financial intermediation and developing long-term finance.

Recent developments

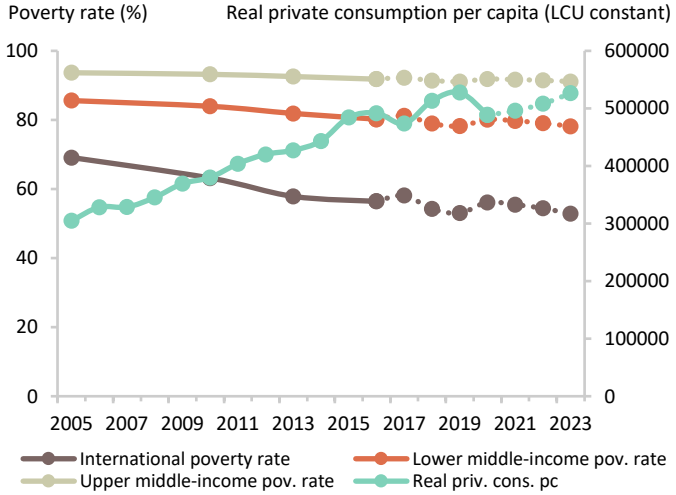
Economic activity recovered in 2021. After contracting by 3.4 percent in 2020, GDP grew by 3.5 percent in the first quarter and 20.6 percent in the second quarter (Q2), making 9.7 percent growth in the first half of 2021—despite a second wave of infections that prompted a three-week lockdown in Kigali in early 2021. The recovery was boosted by investment as well as the rebound in both private and public consumption, especially in Q2. Food production, construction, trade, transport and education services drove the recovery of output. Growth in tourism services—accommodation and catering services—turned positive in Q2, after

FIGURE 1 Rwanda / Primary deficit, interest payments, and public debt



Sources: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

dropping for four consecutive quarters. The economy is projected to grow by 4.9 percent for the year.

Both monetary and fiscal policy support continued in H1-2021. The National Bank of Rwanda (BNR) maintained accommodative policy stance to support the economic recovery and provide liquidity to the financial sector, taking advantage of the absence of inflationary pressures. The banking sector remained well-capitalized, but credit risk has heightened through rising non-performing loans. The government also continued an expansionary fiscal stance in 2021 through higher spending on public investment in infrastructure. The government continued also to implement its US$900 million Economic Recovery Plan (ERP), with policies focusing on increased spending to contain the epidemic and to strengthen the health system, social protection, education, as well as support for the private sector through the recovery fund. The government has added a new window, the "Manufacture and Build to Recover Programme," to form a second ERF in August. With about US$250 million, this aims to fast-track private sector investments in manufacturing and construction.

Outlook

The recovery is expected to gather momentum in the near term, powered by vaccine rollout, but the economy is projected to grow along a lower trajectory than it did before the pandemic. Confidence, consumption, and trade are expected to gradually improve, raising GDP growth to about 6.5 percent over 2022–2023. With a target of vaccinating 30 and 60 percent of the population by end-2021 and 2022 respectively, COVID-19 cases are expected to gradual decline, which would support growth in contact-intensive services sectors. A stronger recovery in advanced countries and some emerging market economies would support growth in mining and export-oriented sectors. Despite the government's unprecedented assistance program, the adverse effect of the crisis on output and employment means that poverty is expected to remain above the pre-crisis levels in 2022-2023, with government facing challenges to identify and reach households that become poor due to the pandemic. However, economic recovery could lose momentum if the progress on vaccination slows, mobility restrictions are reinstalled and last longer, public investments delayed, and external demand is weaker than expected. Business insolvencies and layoffs could hit incomes, increase poverty, and undermine banking sector stability.

Fiscal sustainability will remain a challenge in the medium term. Increased spending plans include an expansion of the COVID vaccination campaign, hiring of new teachers following the massive construction of classrooms last year, and the Economic Recovery Fund to support the private sector and state-owned enterprises. Public debt is forecast to reach 79.4 percent of GDP in 2021 and 81.6 percent in 2022. It would require a cumulative reduction in the overall headline deficit of 6 percentage points of GDP between 2021 and 2029 to reach the nominal debt anchor of 65 percent. The July 2021 World Bank/IMF DSA warns that Rwanda's limited fiscal space and this would continue to put pressure on the debt sustainability in the case of major shocks. Rwanda needs to identify credible revenue and spending measures for a growth-friendly fiscal consolidation with a view to reaching our debt anchor within a reasonable timeframe, and stepping up efforts to quantify, contain, and remediate emerging fiscal risks.

TABLE 2 Rwanda / 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	8.6	9.5	-3.4	4.9	6.4	6.8
Private Consumption	11.3	5.5	-5.0	4.1	4.9	6.1
Government Consumption	5.1	17.5	-2.5	14.2	2.1	3.5
Gross Fixed Capital Investment	6.0	32.0	-2.0	2.4	13.0	11.0
Exports, Goods and Services	10.3	19.9	-9.2	14.1	19.2	10.2
Imports, Goods and Services	8.1	18.0	-3.4	12.1	14.1	9.4
Real GDP growth, at constant factor prices	8.5	8.9	-3.5	4.9	6.4	6.8
Agriculture	6.1	5.0	0.9	5.8	5.5	5.5
Industry	8.7	16.6	-4.2	10.6	10.7	10.0
Services	9.7	8.3	-5.5	2.3	5.2	6.1
Inflation (Consumer Price Index)	1.4	2.4	7.4	2.5	4.1	5.0
Current Account Balance (% of GDP)	-9.2	-11.6	-12.4	-13.5	-12.2	-11.2
Net Foreign Direct Investment (% of GDP)	3.6	2.5	1.0	2.4	3.0	3.6
Fiscal Balance (% of GDP)	-4.8	-7.0	-9.5	-9.2	-8.6	-7.3
Debt (% of GDP)	55.9	62.3	71.4	79.1	81.3	81.1
Primary Balance (% of GDP)	-3.6	-5.5	-7.8	-7.1	-6.0	-4.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	54.3	53.1	56.2	55.5	54.4	52.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	79.0	78.3	80.2	79.8	79.1	78.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.4	91.1	91.9	91.7	91.5	91.1
GHG emissions growth (mtCO2e)	0.8	3.4	-1.3	0.4	1.0	1.5
Energy related GHG emissions (% of total)	26.4	26.0	25.0	24.0	23.2	22.5

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

(a) Calculations based on 2010-EICV-III and 2016-EICV-V. Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

(b) Projection using average elasticity (2010-2016) with pass-through = 0.7 based on private consumption per capita in constant LCU.

SÃO TOMÉ AND PRÍNCIPE

Table 1	2020
Population, million	0.2
GDP, current US$ billion	0.5
GDP per capita, current US$	2500.0
International poverty rate ($ 19)[a]	35.6
Lower middle-income poverty rate ($ 3.2)[a]	65.4
Upper middle-income poverty rate ($ 5.5)[a]	86.4
Gini index[a]	56.3
School enrollment, primary (% gross)[b]	106.8
Life expectancy at birth, years[b]	70.4
Total GHG Emissions (mtCO2e)	0.4

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

São Tomé and Príncipe (STP) is recovering from the COVID-19 pandemic through vaccination and resumption of international travel, supporting the recovery of commercial agriculture and tourism. But growth is expected to slow in 2021 with lower exceptional international financing compounded by an energy crisis. Support measures to vulnerable families contributed to maintaining poverty stable at around a third of the population. Delays in the implementation of structural reforms and pandemic-related uncertainty pose risks to the outlook.

Key conditions and challenges

STP is a small island country constrained by remoteness, a small private sector, limited institutional capacity, and low human capital. Growth has been driven by public expenditure, but its high reliance on external financing (grants and loans) and low domestic revenue mobilization have made it unsustainable. Growth opportunities are further limited by underdeveloped infrastructure, especially unreliable electricity that results in periodic crises with rolling blackouts, including one that has been underway for much of 2021. Energy reforms are crucial to support the country´s energy transition and to promote a private sector led growth model.

The country's fast-growing population is young and mostly low-skilled: about 60 percent of the working-age population have up to six years of schooling, relying heavily on informal family-enterprises and subsistence activities due to a lack of job opportunities in the private sector. Low access to finance further limits income-generating opportunities. Extreme poverty remains high, with about 35.6 percent of the population living on less than $1.90 per day (in 2011 PPP terms) in 2017.

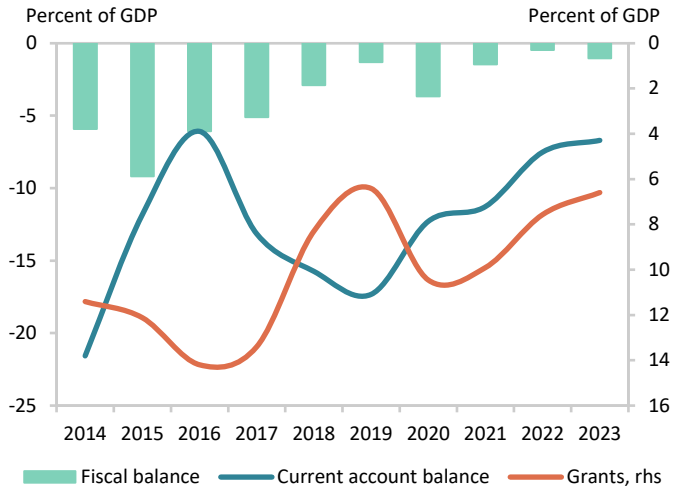
The COVID-19 pandemic affected the economy of STP mainly through the near-halt of the incipient tourism sector and pandemic related mobility restrictions. By August 2020, employment had fallen by 24 percent among household heads and most family enterprises reported lower earnings. However, progress on vaccination is supporting recovery. The government has vaccinated around 5.5 percent of the population as of end-June 2021, and aims to vaccinate about 70 percent of the population by mid-2022.

Recent developments

After unexpectedly growing by 3.1 percent in 2020 despite the pandemic, economic activity is estimated to decelerate to 2.1 percent in 2021 as the large, externally financed, fiscal impulse eases. Growth is being supported by the upturn of the agricultural sector due to the global economic recovery, as the demand for cocoa pushed the export of goods by 175 percent Year-on-Year in May 2021. Also, the resumption of international travel is supporting the recovery of tourism. STP received 2,530 tourists in the second quarter, higher than the 55 tourists that came in the second quarter of 2020 but still 73 percent below the 2019 level. Finally, the implementation of externally financed projects is expected to drive industrial growth.

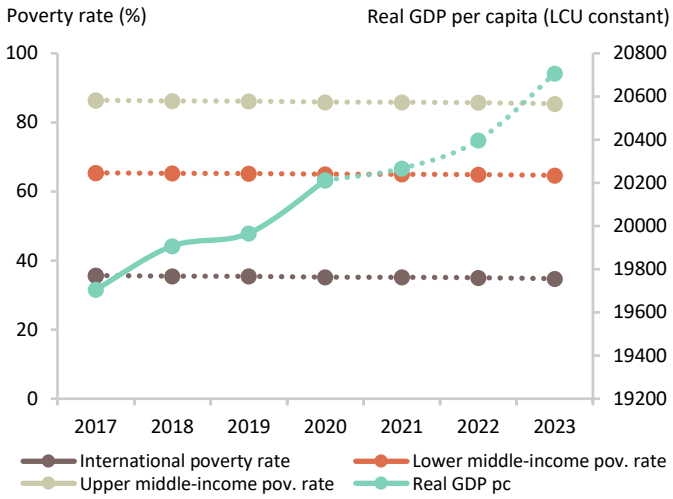
The current account deficit (including official transfers) is estimated to improve to 11.3 percent of GDP in 2021 led mostly by higher exports of goods and services, which will offset increases in imports driven by higher oil prices. Assuming most of the IMF's recent SDR allocation is kept in reserves, gross international reserves are estimated to increase to US$

FIGURE 1 São Tomé and Príncipe / Twin deficits and grants



Sources: Government authorities, IMF and World Bank projection.

FIGURE 2 São Tomé and Príncipe / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See Table 2.

73.4 million, equivalent to 4.6 months of next year imports.

Inflation has decelerated to 6.9 percent in July 2021 from 9.4 percent in end-2020 as the demand pressures fueled by the fiscal and monetary response to the pandemic lessen, and the disruptions in international trade ease. Also, to help reduce excess liquidity, the central bank increased the minimum reserve requirements in the end -2020, which has led to reduction of 8.6 percent in the monetary aggregate (M1) by May 2021.

As the government is committed to phase out pandemic-related spending only gradually, fiscal expenditures are estimated to increase to 27.2 percent of GDP in 2021, while revenues are estimated to increase slightly to 25.7 percent of GDP. Accordingly, domestic primary deficit is expected to widen slightly to 3.5 percent of GDP, with the additional deficit financed largely domestically. Public debt is estimated to reach 87.9 percent of GDP, but given its concessional nature, debt service will remain low.

Pandemic relief programs, including the distribution of food baskets and a temporary expansion of cash transfer programs to vulnerable families and displaced workers, alleviated the impact of the pandemic on poorer households. This was reflected in surveys showing that food insecurity did not increase during 2020. Though data are limited, poverty is expected to have remained stable during this period.

Outlook

Growth is projected to increase to around 3.1 percent in 2022-2023 driven by a dynamic agricultural sector, continued implementation of externally financed infrastructure projects, recovery of tourism, and structural reforms to promote a more competitive private sector. The current account deficit is projected to improve to around 7.1 percent of GDP, as the demand of the country´s high-value commodities and tourism services increases, while imports moderate, particularly oil products, as the efficiency of the energy sector improves.

The gradual resumption of fiscal consolidation, improvement in domestic revenue mobilization (e.g. introduction of VAT), and the implementation of the energy reforms are expected to improve the country´s fiscal situation, contributing to narrow the domestic primary deficit to around 1.1 percent of GDP. Similarly, the central bank's commitment to defend the peg and the fiscal consolidation efforts are expected to reduce inflation to around 5.0 percent.

Poverty dynamics in 2022-23 will depend on the pace of the recovery, scale of social protection efforts, and impact of policy measures such as VAT introduction. Continued reliance on low productivity self-employment along with high youth unemployment means that generating more jobs is key to reducing poverty.

Given the pervasive impact on the economy, delays in implementation of much need reforms (e.g. energy) pose risks to growth in medium-term, and exacerbate fiscal vulnerabilities. Additional risks stem from pandemic uncertainty (e.g. new variants), slower vaccine deployment, political uncertainty, and the ongoing energy crisis. Climate change threatens long-term growth through impact on key crops and fisheries stocks, which affect the most vulnerable. On the upside, implementation of the reform agenda and the externally-financed projects could boost growth in long-term.

TABLE 2 São Tomé and Príncipe / 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	2.2	3.1	2.1	2.9	3.3
Real GDP growth, at constant factor prices	2.1	2.5	2.3	2.1	2.9	3.3
Agriculture	-3.3	1.0	-1.1	1.5	1.8	2.2
Industry	0.8	0.7	4.4	2.0	2.5	3.0
Services	3.1	3.2	2.2	2.2	3.1	3.5
Inflation (Consumer Price Index)	7.9	7.8	9.9	6.8	5.7	5.8
Current Account Balance (% of GDP)	-15.9	-17.5	-12.4	-11.3	-7.5	-6.7
Fiscal Balance (% of GDP)	-2.9	-1.3	-3.7	-1.5	-0.5	-1.1
Debt (% of GDP)	93.2	99.9	87.4	87.9	86.5	84.3
Primary Balance (% of GDP)	-2.5	-0.6	-3.3	-1.1	-0.1	-0.7
International poverty rate ($1.9 in 2011 PPP)[a,b]	35.5	35.4	35.2	35.1	35.0	34.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.2	65.2	65.0	64.9	64.8	64.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	86.2	86.1	85.8	85.8	85.7	85.4
GHG emissions growth (mtCO2e)	1.7	1.0	0.9	0.7	1.2	1.4
Energy related GHG emissions (% of total)	38.8	39.2	39.6	39.6	40.0	40.4

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

(a) Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

(b) Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021to 2023.

SENEGAL

Table 1	2020
Population, million	16.7
GDP, current US$ billion	24.2
GDP per capita, current US$	1449.1
International poverty rate ($1.9)[a]	38.5
Lower middle-income poverty rate ($3.2)[a]	68.4
Upper middle-income poverty rate ($5.5)[a]	88.4
Gini index[a]	40.3
School enrollment, primary (% gross)[b]	82.1
Life expectancy at birth, years[b]	67.9
Total GHG Emissions (mtCO2e)	36.8

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

Growth reached 2.5 percent (y-o-y) during the first quarter of 2021, despite a resurgence of COVID-19. Growth will gradually recover before increasing substantially once hydrocarbon production begins in 2023. After a spike in 2020, the fiscal deficit is expected to gradually decline over the medium term. Downside risks include a sustained pandemic, climatic hazards, terms of trade shocks, and delayed structural reforms. Following general growth trends, the poverty rate will increase slightly in 2021, before resuming a gradual declining trend.

Key conditions and challenges

Over the past decade, Senegal benefited from greater international competitiveness, lower fertility rates, and modest structural transformation. Pre-COVID, growth averaged around 6 percent between 2014-19, boosted by investment, private consumption, and a favorable external environment. Growth supported a process of poverty reduction by only 5 percent, from 43 percent in 2011 to 37.8 percent in 2018/9 – falling short of top performing sub-Saharan African countries. In addition, inequality stagnated over the period, with the Gini coefficient remaining at 0.35 and persistent spatial and socio-demographic disparities, including gender gaps. COVID-19 worsened the situation markedly, with poverty estimated to have increased by 2.1 percentage points in 2020, according to the 2020 High Frequency Survey, equivalent to 357,000 additional poor.

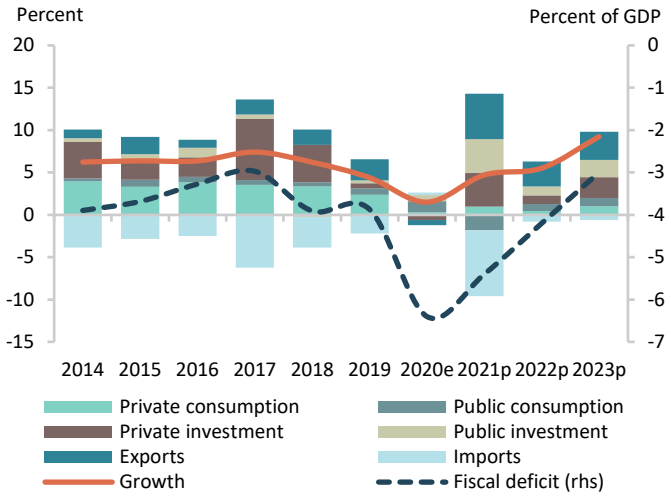
Risks are tilted to the downside. The resurgence of COVID-19 in the summer triggered new containment measures, which slowed activity in the formal and informal sectors. The fragility of economic recovery is exacerbated by structural vulnerabilities hampering Senegal's potential growth. On the one hand, insufficient and unevenly distributed human capital and structural inequalities constrain labor supply. On the other hand, the private sector has been unable to generate enough productive jobs to keep up with population growth, stifled by insufficient competition and inadequate financing.

The economy remains vulnerable to external shocks. Weaker-than-projected global growth or lower hydrocarbon prices with a global shift towards low-carbon initiatives would dampen domestic prospects. Senegal is also exposed to coastal erosion and climatic shocks (floods, droughts, and health hazards), which could slow recovery in tourism, reduce agricultural productivity, and reverse recent improvements in poverty reduction.

Recent developments

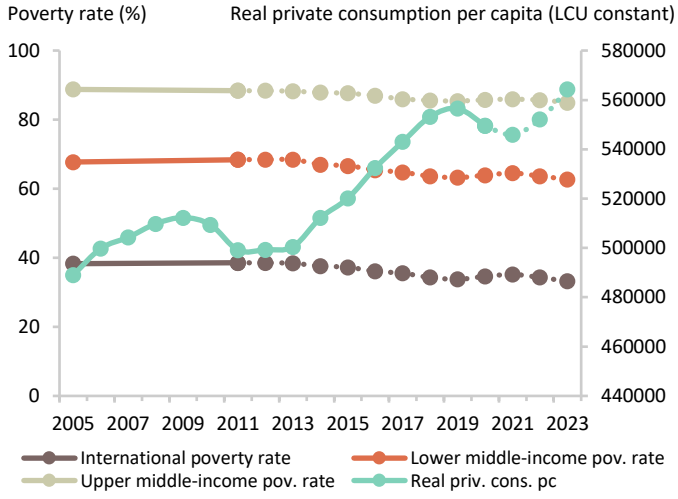
Growth decelerated to 1.5 percent in 2020 (-1.2 percent in per capita terms), as the negative impact of containment measures was partially offset by an 8.2 percent surge in agriculture production. On the demand side, public investment and public consumption increased by 13.5 and 12.6 percent, respectively. Despite a resurgence of COVID-19, growth reached 2.5 percent in Q1 2021, driven mostly by industrial production and the service sector (+20.7 and +14.4 percent y-o-y in the first 5 months of 2021, respectively), as households and businesses adapted to the pandemic. Formal employment also expanded: +7.7 percent y-o-y in Q1 2021. Inflation increased to 2.5 percent in 2020, and was at 2.9 percent in July 2021, due to higher food prices. The current account deficit (CAD) widened from 8.1 percent of GDP in 2019 to 10.2

FIGURE 1 Senegal/ Fiscal, deficit, Real GDP growth, and contributions to real GDP growth



Sources: Senegalese authorities and World Bank staff calculations.

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



Source: World Bank. Notes: See Table 2.

percent in 2020, due to weak demand in key export markets, particularly tourism. The deficit was financed by hydrocarbon related FDI and increased development assistance. In H1 2021, the terms of trade deteriorated as oil and international food prices increased.

In 2020, the fiscal deficit deteriorated to 6.4 percent of GDP. This reflects a combination of lower tax revenues from the slowdown in economic activity, with taxes on goods and services down 0.4 ppts of GDP, and an increase of 2.1 ppts of spending to mitigate the impact of the crisis, notably in the health sector. Consequently, debt-to-GDP increased from 63.8 percent of GDP in 2019 to 68.7 percent in 2020.

Senegal's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a peg between the CFA Franc and the Euro. Its reserves have remained stable since 2019 and reached an estimated 5.8 months of imports in 2020 due to donor support and Eurobond issuances. To support the regional economy and COVID-19 related extra spending, the BCEAO implemented a set of monetary and macroprudential measures beginning in March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds. These measures were extended into 2021.

The poverty rate is expected to increase to 35 percent in 2021, from 33.8 percent in 2019. As the recovery materializes mostly in urban centers initially, vulnerable rural households may not reap the benefits of the economic rebound for some time. An extension of pre-COVID-19 cash transfer programs to the most vulnerable rural households and of universal health coverage would help to mitigate the negative impacts of the pandemic.

Outlook

Assuming the pandemic gradually recedes, growth is expected to reach 4.7 percent in 2021, and average 7.3 percent over 2022-23. It will be driven by exports, a pick-up in private investment, and the resumption of major extractive projects, with oil and gas production expected to come onstream by end-2023. Inflation is expected to return to its pre-COVID levels, declining slightly to 2.4 percent in 2021.

The CAD is expected to widen to 12.2 percent of GDP in 2021. Whereas oil and gas projects will be almost exclusively supported by FDI, the rest of the deficit will be financed by a mix of concessional financing, commercial borrowing, and the G20's debt service suspension initiative (0.6 percent of GDP). The CAD is expected to remain elevated in 2022, at 11.6 percent of GDP, before dropping sharply to around 6.0 percent in 2023, as hydrocarbon exports gradually come on stream. In August 2021, the BCEAO received 1.4 percent of aggregate GDP in additional SDR allocations from the IMF that could be temporarily on-lent to member countries.

The fiscal deficit will fall to 5.4 percent of GDP in 2021, as the Government reins in current expenditures to pre-pandemic levels and tax revenues partially recover from the crisis, increasing by 0.4 ppts of GDP. While public debt remains sustainable, the debt-to-GDP ratio is expected to increase to 71.9 percent of GDP in 2021, before declining thereafter. Over the medium term, fiscal pressures will gradually ease as continued tax revenue mobilization efforts help to rebuild fiscal space, with the fiscal deficit expected to converge to the WAEMU criterion of 3 percent of GDP by 2023.

Higher expected growth (driven by an increase in exports and public investment and the ambitious socio-economic response plan) and low inflation should improve household real incomes. Consequently, the international extreme poverty rate is projected to decline to its pre-pandemic level of 33.2 percent by 2023.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.2	4.4	1.5	4.7	5.5	9.2
Private Consumption	4.7	3.4	1.5	2.8	3.8	4.9
Government Consumption	3.5	5.5	6.3	5.9	5.6	4.9
Gross Fixed Capital Investment	13.7	8.4	6.2	8.3	8.5	11.5
Exports, Goods and Services	8.2	11.2	-4.6	7.2	7.8	16.3
Imports, Goods and Services	9.0	5.3	2.6	5.5	5.7	6.0
Real GDP growth, at constant factor prices	6.2	4.4	1.5	4.7	5.5	9.2
Agriculture	8.1	4.5	8.2	4.8	6.4	7.3
Industry	6.5	3.7	2.9	4.2	5.2	16.1
Services	5.5	4.7	-1.0	4.9	5.4	6.5
Inflation (Consumer Price Index)	0.5	1.0	2.5	2.4	2.0	1.5
Current Account Balance (% of GDP)	-9.1	-8.1	-10.5	-12.2	-11.6	-6.0
Fiscal Balance (% of GDP)	-3.9	-3.9	-6.4	-5.4	-4.2	-3.0
Debt (% of GDP)	62.4	63.8	68.7	71.9	70.1	64.5
Primary Balance (% of GDP)	-1.9	-1.9	-4.4	-3.2	-2.1	-1.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	34.3	33.8	34.6	35.2	34.3	33.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	63.6	63.2	63.9	64.5	63.6	62.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	85.6	85.4	85.8	85.9	85.7	85.0
GHG emissions growth (mtCO2e)	0.7	3.1	3.9	4.5	5.0	8.3
Energy related GHG emissions (% of total)	33.6	33.5	32.9	33.8	35.0	37.8

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

(a) Calculations based on 2011-ESPS-II.Actual data: 2011. Nowcast: 2012-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2011) with pass-through = 0.87 based on private consumption per capita in constant LCU.

SEYCHELLES

Table 1	2020
Population, million	0.1
GDP, current US$ billion	1.2
GDP per capita, current US$	12000.0
International poverty rate ($1.9)[a]	0.5
Lower middle-income poverty rate ($3.2)[a]	1.1
Upper middle-income poverty rate ($5.5)[a]	5.2
Gini index[a]	32.1
School enrollment, primary (% gross)[b]	100.4
Life expectancy at birth, years[b]	73.9
Total GHG Emissions (mtCO2e)	0.8

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

Real GDP is expected to increase by 6.9 percent in 2021 and 7.7 percent in 2022 as the tourist industry recovers. This will contribute to the narrowing of the current account deficit. In addition, the fiscal balance is expected to return to a sustainable path as the government undertakes fiscal consolidation, the exchange rate appreciates, and the economy recovers. Poverty is expected to stay high in 2021 due to the impact of COVID-19.

Key conditions and challenges

Tourism and fisheries are the key sectors of the Seychelles' economy. The fishing industry, which is host to one of the largest tuna canneries in the world, contributes to between 8 and 20 percent to GDP annually and the tourism sector contributes 30 percent to GDP. The country is also dependent on imports. This lack of economic diversification exposes Seychelles to external shocks. These shocks are transmitted through disruptions in international travel and tourism demand, as well as through fluctuations in fishing stocks and instabilities in the price of essential commodities such as food and fuel prices. Seychelles is also exposed to fiscal risks emanating from State-owned enterprises (SOEs), particularly Air Seychelles, whose financial difficulties has been exacerbated by the decline in the global travel industry.

Poverty in Seychelles declined between 2013 and 2018, to 5.2 percent when measured against the poverty line for upper middle-income countries of USD 5.50 a day per capita in PPP terms. This decline has been driven by a rise in incomes from paid employment and self-employment as well as an increase in the benefits of various social protection programs. However, the high level of social spending undertaken by the Government is expected to become unaffordable in the wake of a rapidly aging population and in the context of COVID-19, which has led to an increase in fiscal pressures.

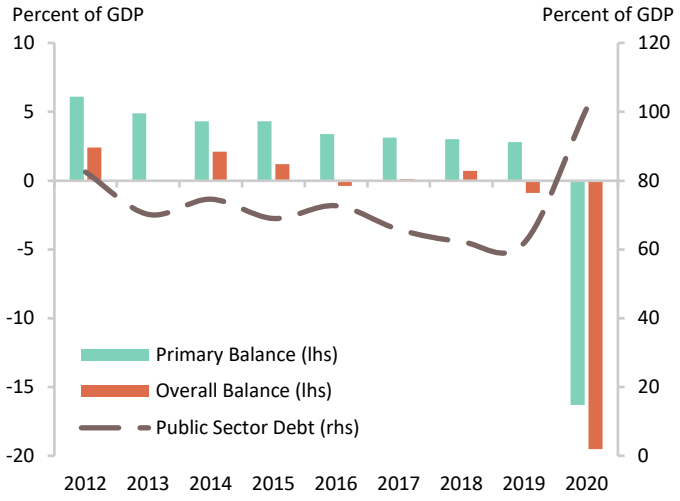
Recent developments

Economic growth is projected to recover to 6.9 percent in 2021 due primarily to a recovery in the tourism sector. Tourist arrivals begun to rebound in April 2021 following the reopening of borders in late March 2021, and the emergence of new tourist markets (Russia, UAE and Israel). The average inflation rate stood at 7.5 percent at end August 2021 due to increased demand. Despite a gradual revival of tourist activity, the current account deficit is projected to remain high at -25.7 percent of GDP in 2021 (compared to -29.5 percent in 2020). Gross international reserves stood at US$ 617 million in July 2021 (4.2 months of imports).

During the first six months of 2021, public expenditure declined by 3.5 percentage point compared to the same period of the previous year, driven mainly by a reduction in government transfers by 2 percentage point. In the same period, revenue collection declined by 0.5 percentage point due to generous loss-carry forward provisions for business taxes and the abolishment of Corporate Social Responsibility (CSR) tax. The GOS conducted a liability management operation (LMO) in July 2021 that increased the average maturity of the domestic debt portfolio to 4.8 years (compared to 1 year) and reduced the cost of the debt by 125-150 basis points.

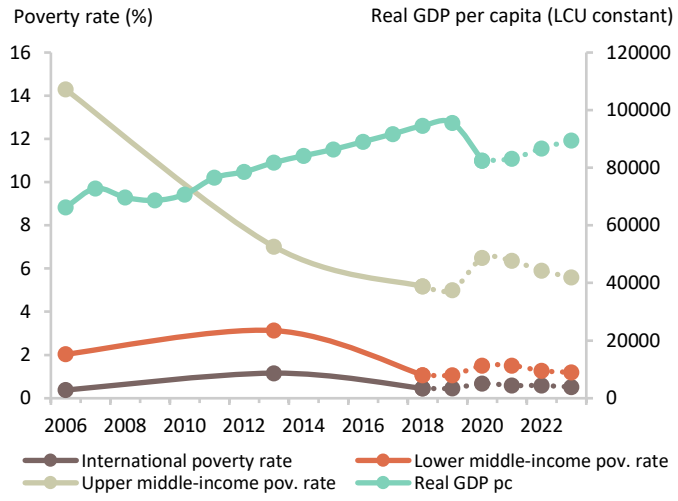
Negative growth in 2020 took a toll on poverty reduction. Poverty rose to 6.5

FIGURE 1 Seychelles / Fiscal balance and public sector debt



Sources: WDI and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

percent in 2020, compared to a pre-pandemic level of 5.2 percent, and is projected to fall only marginally to 6.4 percent in 2021. The unemployment rate declined to 4 percent in the fourth quarter of 2020 possibly thanks to the mitigating impact of the financial assistance for job retention program implemented by the government.

Outlook

Between 2022 to 2023 economic growth is expected to average 5.9 percent. Economic growth will be driven by tourism, which is projected to grow by 53 percent and 39.1 percent in 2022 and in 2023, respectively, driven by a rebound in tourist arrivals from traditional markets. Poverty (measured at $5.5 per capita per day) is projected to decline from 6.4 percent in 2021 to 5.6 percent in 2023. The inflation rate is projected to decline to 3.7 percent at end-2022 and 3.2 percent in 2023 as tourism resumes and foreign exchange supply increases, stabilizing the exchange rate. The current account deficit is projected to improve in the medium-term reaching -22.0 percent of GDP in 2023 from -29.5 percent of GDP in 2020, as exports of goods and services recover.

The fiscal deficit is projected to narrow in 2021 and continue declining in the medium term, as the government unwinds COVID-19 related expenditures and undertakes fiscal consolidation. This improvement will be due to the expenditure saving measures introduced in the 2021 budget, which are expected to remain in place until 2023. These measures include limiting new recruitments to key positions in certain ministries and departments; freezing salaries for public service employees; freezing long service allowance; and banning the introduction of new schemes of service. These expenditure measures are projected to save approximately 5.2 percent of GDP. Revenue collection is expected to increase in the medium term, driven by a resumption of economic activities as well as measures to improve tax policy, including limits to international profit shifting and the streamlining of VAT exemptions. Revenue reforms are projected to generate 3.6 percent of GDP. The public debt to GDP ratio is projected to decline to 70 percent of GDP by 2026 as economic growth recovers and the exchange rate is expected to appreciate.

TABLE 2 Seychelles / 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	4.1	2.0	-13.3	6.9	7.7	6.8
Private Consumption	3.3	4.8	-10.8	13.1	10.6	5.5
Government Consumption	8.8	-0.2	4.3	4.6	1.7	-1.5
Gross Fixed Capital Investment	3.8	-2.7	-37.7	-5.3	16.1	8.0
Exports, Goods and Services	2.9	2.0	-39.6	12.2	18.0	20.1
Imports, Goods and Services	4.0	0.9	-38.2	10.3	18.3	14.4
Real GDP growth, at constant factor prices	4.1	1.8	-13.4	6.9	7.7	6.8
Agriculture	0.9	1.1	-0.2	1.0	1.1	1.1
Industry	2.4	2.1	0.7	2.1	2.4	2.0
Services	4.4	1.7	-15.4	7.8	8.6	7.6
Inflation (Consumer Price Index)	3.7	2.0	1.2	9.9	3.2	3.0
Current Account Balance (% of GDP)	-19.6	-18.8	-29.7	-25.7	-22.0	-19.4
Net Foreign Direct Investment (% of GDP)	17.2	17.7	10.1	14.0	14.2	14.7
Fiscal Balance (% of GDP)	-0.2	1.0	-17.8	-13.6	-7.7	-2.9
Debt (% of GDP)	59.7	58.7	102.3	87.7	87.6	83.0
Primary Balance (% of GDP)	2.9	3.6	-14.3	-10.2	-4.5	0.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.5	0.5	0.7	0.6	0.6	0.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	1.1	1.1	1.5	1.5	1.3	1.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	5.2	5.0	6.5	6.4	5.9	5.6
GHG emissions growth (mtCO2e)	4.9	2.9	-6.0	7.1	7.9	7.0
Energy related GHG emissions (% of total)	79.5	79.7	80.1	80.0	80.0	79.9

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

(a) Calculations based on 2018-HBS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

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

SIERRA LEONE

Table 1	2020
Population, million	8.0
GDP, current US$ billion	4.0
GDP per capita, current US$	500.0
International poverty rate ($1.9)[a]	43.0
Lower middle-income poverty rate ($3.2)[a]	76.0
Upper middle-income poverty rate ($5.5)[a]	92.7
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	143.7
Life expectancy at birth, years[b]	54.7
Total GHG Emissions (mtCO2e)	11.0

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

After contracting by 2 percent in 2020, output is projected to expand by 4.2 percent in 2021. Both real GDP and per capita income are expected to surpass their pre-crisis levels in 2022-23, with poverty expected to fall and return to its 2019 level by 2022. Headline inflation and the budget deficit will decline over the medium-term as the economy recovers while exports will improve due to strong global demand.

Key conditions and challenges

Sierra Leone's (SL) economy is highly vulnerable to domestic and external shocks due to its dependence on commodities (i.e., mining, which is sensitive to shifts in global demand and prices) and agriculture (which is rain-fed and subject to weather changes). Economic growth averaged 4.4 percent between 2010 and 2020, but with a large standard deviation of 10.6 percent. Moreover, the country's high population growth rate has meant that per capita GDP has grown much slower than the economy (at just 2.2 percent). Despite these challenges, the poverty rate fell from 54.7 percent in 2011 to 40.6 percent in 2019, albeit predominantly in urban areas.

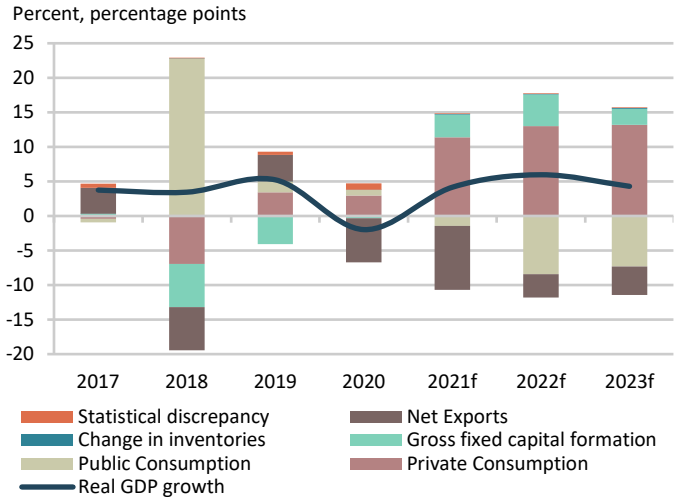
The country has experienced macroeconomic stress and fiscal imbalances in the recent past. Between the Ebola outbreak and the onset of the COVID-19 pandemic (2014–20), the budget deficit averaged 5.7 percent. In the same period, domestic revenue mobilization averaged 12.7 percent of GDP, with an estimated tax gap of 4.5 percent of GDP. Since 2019, SL has been ranked at a high risk of debt distress. The country's medium-term national development plan for 2019–2023 prioritizes productivity-raising structural reforms (under the economic diversification cluster) as well as improved cross-sector resource allocation through investments in physical and human capital. However, economic growth contracted by 2 percent in 2020, as the COVID-19 pandemic led to a contraction in the services and industrial sectors following global supply chain disruptions, suspension of international travel, lockdowns, and the closure of land borders. GDP per capita fell by 4 percent in 2020, reversing some of the recent gains in poverty reduction. Non-farm households dependent upon private sector income (whether self-employed or salaried) disproportionately saw incomes drop across the board during the height of the pandemic. The poverty rate jumped from 40.6 percent in 2019 to 43.5 percent in 2020, primarily affecting urban households.

Recent developments

Growth is expected to rebound in 2021 due to the easing of COVID-19-related restrictions, implementation of the government's fiscal response to the pandemic, and resumption of iron ore mining. The recovery has been broad-based on the supply side, with all sectors contributing to growth, and driven by domestic private consumption and investment on the demand side. Real GDP per capita is estimated to increase by 2.1 percent in 2021 leading to a modest decline in the poverty rate. However, a reversal in the sharp expansion of urban poverty is unlikely without higher growth rates especially in the services sector.

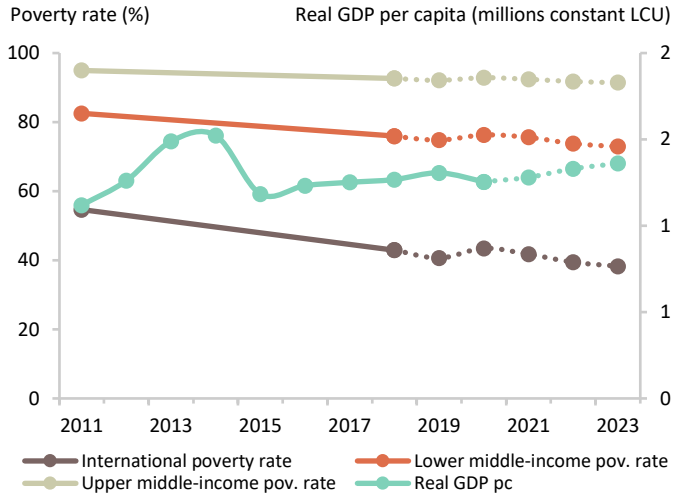
Headline inflation fell to 8.9 percent in March 2021, before rising sharply to 10.2 percent by end-June, reflecting an increase

FIGURE 1 Sierra Leone / Real GDP growth and contributions to real GDP growth



Sources: Sierra Leone authorities and World Bank staff estimates and projections.

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



Source: World Bank. Notes: see table 2.

in food and fuel prices. Indeed, food inflation reached 17.1 percent in June (2021H1), well above its pre-COVID-19 level of 9.9 percent (reflecting an increase in the price of key food staples due to food supply difficulties), while non-food inflation declined from 6.9 percent in December 2020 to 4.5 percent in June 2021, reflecting subdued demand for nonfood items. Given the price pressure and expected economic rebound, the Bank of Sierra Leone (BSL) kept the monetary policy rate unchanged at 14 percent in 2021H1. The BSL intervened to provide foreign exchange for the importation of essential commodities, which helped keep the Leone relatively stable (it depreciated by less than 5 percent against the US dollar in 2021H1).

The current account deficit is expected to improve by 1 percentage point to 16.4 percent of GDP in 2021 reflecting higher export receipts from the mining sector. In 2021H1, total public expenditure reached 12.3 percent of GDP while total revenue collection totaled 6.9 percent of GDP, below the annual budget targets of 23.1 and 14 percent of GDP, respectively. The overall budget deficit is projected to decline by 1.7 percentage points to 3.8 percent of GDP in 2021, reflecting a resumption of fiscal consolidation efforts (both on the revenue and expenditure side) as the pandemic recedes. Accordingly, public debt is estimated to decline by 0.7 percentage points to 72.9 percent of GDP in 2021, although the risk of external and overall debt distress was assessed as high in June 2021 (same as in 2020).

Outlook

Real GDP per capita will grow by 3.1 percent in 2022-23, surpassing its pre-crisis level in 2022. Agriculture is expected to contribute to about half of real sector growth as the government adopts policies to promote private sector participation and investments in cash crops. The expected recovery in trade and tourism will support a rebound in services while industry will be boosted by the resumption of iron ore mining. On the demand side, growth is expected to be driven mainly by private consumption and investment. With the boost in domestic food production, headline inflation should return to single digits by 2023. Moreover, the poverty rate is expected to fall slightly by 1.7 percentage points in 2021 and return to its 2019 level by 2022. The current account deficit is projected to narrow to 12.9 percent of GDP by 2023, financed by a combination of foreign direct investment and project support grants. In addition, new SDR allocation (US$283 million or 6.5 percent of GDP) from the IMF will help to cushion gross external reserves, reduce exchange rate variability, and safeguard external sector stability. About 14 percent of the total allocation have been earmarked to support SL's COVID-19 response (amounting to 0.8 and 0.3 percent of GDP in 2022 and 2023). The fiscal deficit is projected to decline to 2.3 percent of GDP by 2023, driven by improvements in domestic revenue mobilization and expenditure rationalization. However, the outlook is subject to significant downside risks and uncertainties related to the path of the pandemic and the pace of improvements in global economic conditions.

TABLE 2 Sierra Leone / 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	3.5	5.3	-2.0	4.2	6.0	4.3
Private Consumption	-7.0	3.8	3.4	12.3	13.0	12.4
Government Consumption	250.2	5.1	2.7	-4.5	-28.5	-36.6
Gross Fixed Capital Investment	-33.7	-34.2	-4.1	45.1	45.3	16.7
Exports, Goods and Services	-34.9	-1.6	-9.8	11.1	33.2	23.0
Imports, Goods and Services	-11.5	-7.0	7.5	19.9	16.7	14.8
Real GDP growth, at constant factor prices	3.4	5.3	-2.0	4.2	6.0	4.3
Agriculture	3.9	5.4	1.6	3.7	5.7	3.6
Industry	-2.5	10.9	-7.1	6.2	9.4	4.7
Services	4.1	3.7	-5.8	4.5	5.6	5.3
Inflation (Consumer Price Index)	16.0	14.8	13.5	11.8	10.2	9.6
Current Account Balance (% of GDP)	-18.6	-23.9	-17.4	-16.4	-14.5	-12.9
Net Foreign Direct Investment (% of GDP)	6.1	9.0	7.0	4.8	2.7	3.9
Fiscal Balance (% of GDP)	-5.6	-2.4	-5.5	-3.8	-2.9	-2.3
Debt (% of GDP)	69.1	71.4	73.6	72.9	72.0	70.1
Primary Balance (% of GDP)	-2.8	-0.2	-2.6	-1.1	0.4	0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	43.0	40.6	43.5	41.8	39.5	38.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	76.0	74.8	76.3	75.6	73.8	73.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	92.7	92.2	92.9	92.5	91.8	91.5
GHG emissions growth (mtCO2e)	-2.9	3.4	1.0	2.6	2.7	2.7
Energy related GHG emissions (% of total)	15.2	15.3	14.9	14.6	14.5	14.5

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

(a) Calculations based on 2018-SLIHS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

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

SOMALIA

Table 1	2020
Population, million[a]	15.0
GDP, current US$ billion	5.0
GDP per capita, current US$	333
International poverty rate ($1.9)[b]	68.6
Gini coefficient[b]	36.8
School enrollment, primary (% gross)[c]	33.0
Life expectancy at birth, years[d]	57.4

Source: WDI, IMF & World Bank (2020), UNFPA and Macro Poverty Outlook.
(a)Estimates based on 2013 population estimates by UNFPA and assumes an average annual population growth of 2.9%
(b) Most recent value (2017).
(c) Somali Poverty and Vulnerability Assessment Report (World Bank, 2019).
(d) Life expectancy for 2019 from WDI.

The Somali economy is projected to rebound in 2021 with a growth rate of around 2.3 percent, based on solid performance of the financial sector, increased remittance inflows and higher exports. However, with rural areas affected by persistent weather shocks, the gains from growth remain unevenly distributed. The poverty rate is expected to stagnate at 71 percent until 2023. Increased political instability and delays in the rollout of the COVID-19 vaccine pose as risks to economic recovery.

Key conditions and challenges

Following prolonged negotiations, political stakeholders across Somalia's emerging federation have agreed on a timetable and modalities for elections, which are likely to be held at the end of 2021 and early 2022. The upcoming election marks an important milestone in addressing the drivers of fragility by working towards rebuilding the social contract. However, rising insecurity and insurgence activities continue to test the strength of governance institutions and intergovernmental cooperation.

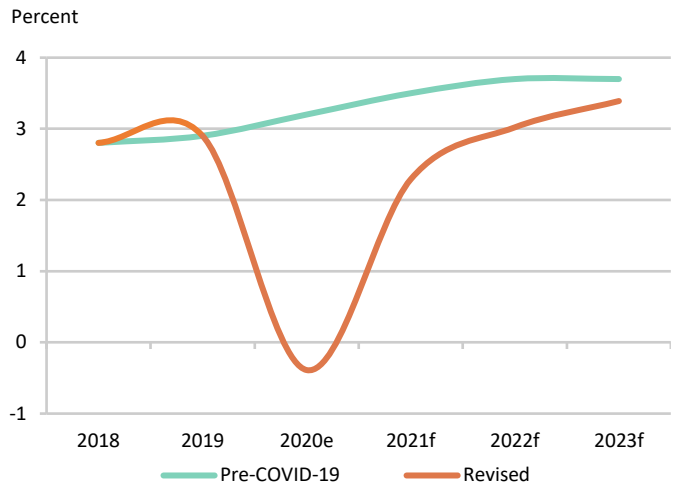
A commitment to implement and sustain the reforms agreed under the Heavily Indebted Poor Countries Initiative (HIPC) has been maintained, which provides a pathway towards achieving full and irrevocable debt relief. Real GDP growth has remained modest since 2014, averaging around 2.4 percent, lower than the population growth rate. Public resources are constrained, with tax collection at less than 5 percent of GDP. The federal and state governments therefore lack the resources to invest in human capital and infrastructure; and public spending remains focused on strengthening security and basic state apparatus. As institutions are at a nascent stage of development, the federal government does not have the macroeconomic policy tools to manage shocks to the economy, while the central bank lacks the capacity to conduct effective monetary policy. The country is therefore dependent on external partners to provide support during shocks.

While the economy is projected to rebound in 2021, the 2020 triple crisis of the COVID-19 pandemic, floods, and locust infestation continues to have lingering effects on high levels of joblessness and poverty. Despite a slight rebound in employment since the start of the pandemic, the overall employment rate is still low, where just over half of the population are participating in the labor market. The international poverty estimate (measured using the $1.90/person/day poverty line) remains at 71 percent in 2021.

Recent developments

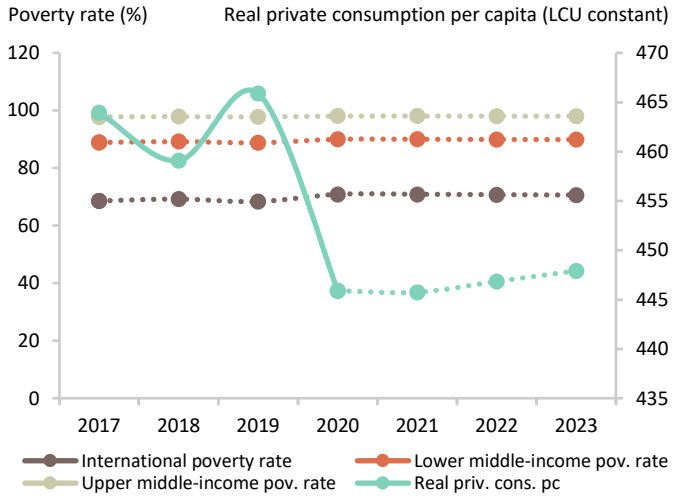
Following an economic contraction estimated at 0.4 percent in 2020, GDP growth is projected to rebound to 2.3 percent in 2021, based on encouraging performance in the first six months of the year. Bank deposits and credit to the private sector are up on upward trend, while the demand for automobiles, electronics and construction materials increased, signaling increased business activity. Export volumes have increased by nearly 30 percent, while total imports have grown by 12 percent as demand for consumer products rises. Despite a revival in economic activities, inflation has remained stable, averaging 4 percent in the three major cities of Mogadishu, Bosaso and Hargeisa in the first six months of 2021.

FIGURE 1 Somalia /Real GDP growth, pre-covid forecast versus current forecast



Source: World Bank Staff Estimates, 2021.

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



Source: World Bank. Notes: see Table 2.

Remittance inflows, used by households for consumption and private businesses for investment, increased by more than a third in the first half of 2021 compared to the same period the year before. However, rural areas have been hit by localized flooding and a locust invasion, which are lowering domestic agricultural production. Worsening insecurity in southern and central regions may also dampen agricultural activities and increase displacement to urban areas.

The prolonged election period is affecting the federal government's capacity to raise domestic revenues and donor grants, which reached only 37 percent and 20 percent of annual budget targets, respectively, by June 2021. Budget support from development partners (which had been anticipated to finance 25 percent of spending in 2021) virtually ceased due to the political stalemate, necessitating cuts in discretionary spending. However, the government is stepping up support to vulnerable populations in times of crisis, notably through the Gargaara lending facility which targets micro, small, and medium enterprises, as well as the national Baxnaano program to increase cash transfers. However, the scale of support is dwarfed by needs, particularly in a context of rising COVID-19 infections. Access to vaccines remains limited (716,000 doses have been received) and only 0.6 percent of the population has been fully vaccinated.

However, the nascent economic recovery has not supported the improved of the population, which remains unacceptably dire. Poverty levels have stayed at 71 percent and a vast majority of the population experienced a reduction in income compared to the pre-pandemic level. Similarly, food insecurity remains high; at the start of the year, more than half of adults reported that they were hungry but did not eat.

Outlook

Economic growth is projected to reach 3.0 percent in 2022 and 3.4 percent in 2023, returning to pre-pandemic levels over the medium term (Figure 1). This outlook depends on a continued national commitment to economic reform to reach the HIPC Completion Point, regardless of the election outcome, which is critical for medium-term growth and access to much needed external resources. A peaceful election, smooth political transition and the reform momentum are also likely to support increased consumer and investor confidence.

Over the long-term, planned investments in sectors such as energy, ports, and the financial sector are expected to gradually shift the drivers of growth from consumption to investment. This will help to harness Somalia's potential in sectors such as fisheries, agriculture, and renewable power generation, and diversify the export base. An expected increase in the availability of vaccines will support the government's plans to vaccinate 20 percent of its population by 2022, and further abate the effects of the pandemic.

The economic rebound is expected to push GDP per capita to US$352 in 2021, from US$332 in 2020. The international poverty rate is projected to remain at 71 percent in 2022 and 2023. Accelerating the pace of poverty reduction will require policy interventions and public investments that raise productivity, create jobs, and expand pro-poor programs.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.9	-0.4	2.3	3.0	3.4
CPI Inflation, annual percentage change	3.2	3.1	4.2	4.3	4.0	3.4
Current Account Balance	-7.5	-10.5	-14.3	-13.9	-14.3	-12.7
Trade balance	-84.8	-83.0	-91.1	-88.4	-91.7	-90.6
Private remittances	31.4	31.9	32.4	32.4	33.3	35.7
Official grants	46.6	41.3	47.9	43.7	44.6	41.6
Fiscal Balance[a]	0.1	0.5	0.2	0.0	-0.6	-0.8
Domestic revenue	3.9	4.6	4.3	4.0	4.9	5.0
External grants	1.8	2.2	6.0	3.8	4.8	5.9
Total expenditure	5.7	6.3	10.0	7.8	10.3	11.6
Compensation of employees	3.0	3.3	4.6	4.2	4.0	3.8
External debt	112.8	108.8	90.8	83.1	78.9	75.6
International poverty rate ($1.9 in 2011 PPP)[b,c]	69.2	68.4	70.8	70.9	70.7	70.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	89.2	88.8	90.0	90.0	90.0	89.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	97.9	97.8	98.1	98.1	98.1	98.1

Sources: World Bank Staff Estimates (2021), IMF (2021), and FGS (2021).
Notes: e = estimate, f = forecast.
(a) Federal Government of Somalia (FGS).
(b) Calculations based on 2017 SHFS-wave 2. Actual data: 2017. Nowcast: 2018-20. Forecast are from 2021-23.
(c) Projection using neutral distribution (2017) with pass-through = 1based on private consumption per capita in constant US$.

SOUTH AFRICA

Table 1	2020
Population, million	59.3
GDP, current US$ billion	335.1
GDP per capita, current US$	5650.9
International poverty rate ($1.9)[a]	18.7
Lower middle-income poverty rate ($3.2)[a]	37.3
Upper middle-income poverty rate ($5.5)[a]	56.9
Gini index[a]	63.0
School enrollment, primary (% gross)[b]	98.5
Life expectancy at birth, years[b]	64.1
Total GHG Emissions (mtCO2e)	679.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2014), 2011 PPPs.
(b) WDI for School enrollment (2018); Life expectancy (2019).

The South African economy has started to recover, following a 6.4 percent contraction last year. GDP growth is expected to rebound to 4.6 percent in 2021, driven by the favorable global environment. The domestic drivers of growth remain weak and structural reforms – some of which have been implemented over the last few months – need to continue to achieve higher growth and job creation. Poverty is reaching levels not seen for more than a decade, which puts further pressure on budget spending.

Key conditions and challenges

The global environment – higher growth in trade partners and favorable commodity prices – is supporting South Africa's economic recovery. Terms of trade have improved by more than 20 percent since end-2019, driven primarily by metal prices. Historically, commodities have played a big role in South Africa's economic trajectory. The mining sector only accounts for 7 percent of GDP but for over half of merchandise exports (platinum group metals, gold, iron ore and coal). Commodity cycles also tend to affect financial variables such as investment flows, the exchange rate and the stock market.

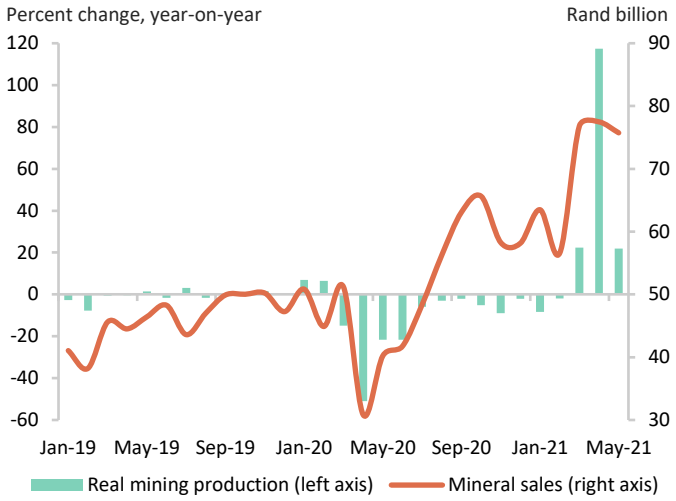
The pandemic has worsened social outcomes. Poverty rates have climbed back to levels of more than a decade ago, undoing years of progress. About 1 in 4 South African of working-age are unemployed or discouraged. Combined with political tensions over the imprisonment of former President Zuma, social hardship translated in civil unrest and looting in July, leading to significant damages (destruction of retail and warehouse facilities, disruption of major road transport corridors, etc.). President Ramaphosa has cited that the economic cost of the unrest, based on property owners' estimates could mount to R50 billion (0.9 percent of GDP). Following these events, the government reinstated the COVID-19 Social Relief of Distress grant until the end of this fiscal year (March 2022).

Given persistently weak domestic growth drivers, South Africa is vulnerable to changes in the global environment. Lower global growth accompanied by falling commodity prices would hamper the recovery. Generally benign financial conditions and trade dynamics have supported the Rand so far this year. However, portfolio investments continue to record net outflows which could put pressure on government bond yields and make fiscal consolidation more difficult. Domestically, additional waves of COVID-19 infections could translate into further job losses. A lack of improvement in living standards could threaten social stability and put additional pressure on public finances which are already constrained.

Recent developments

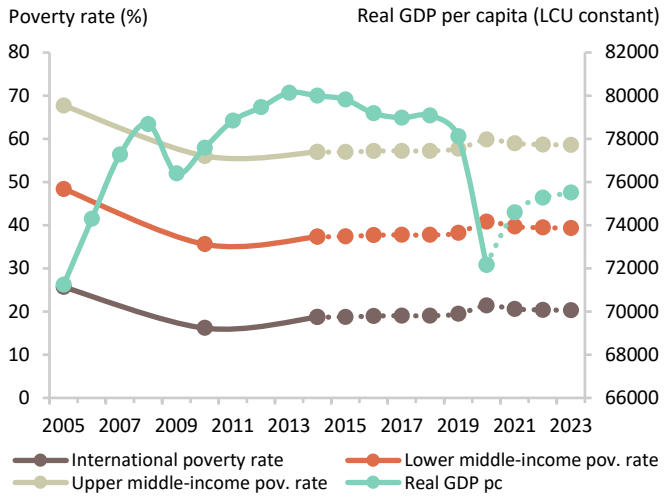
South Africa's economy continued to recover in the first half of 2021. Real GDP increased by 1 percent on a quarterly basis in Q1 and by 1.2 percent in Q2. Finance, mining, trade and transports were the main drivers of growth on the production side. On the demand side, households' consumption, change in inventories (lower destocking) and net exports (Q2) drove the increase while investment continued to lag. Recovering from last year's low base as a result of the pandemic-related hard lockdown, GDP increased by 7.5 percent in H1 2021 compared to H1 2020, with mining and manufacturing having the largest recoveries (+25.2 and +17 percent respectively).

FIGURE 1 South Africa / Mining production and sales



Source: STATS SA.

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



Source: World Bank. Notes: see Table 2.

South Africa suffered from a third wave of COVID-19 infections during its winter months. Weekly infections increased to a peak of 134,000 in July despite renewed restrictions to contain the pandemic. The vaccination program suffered delays at its start, but it has gathered pace. About 14 percent of the population has been fully inoculated as of end-September 2021 and all adults (above 18 years old) are now eligible. The economic impact of the pandemic has been severe. The unemployment rate has continued to increase, reaching 34.4 percent at end-June 2021. The poverty rate has increased from 57.7 percent in 2019 to 59.8 percent last year, based on the upper middle income country poverty line.

Thanks to high commodity prices, the current account balance has recorded a surplus of 5 percent of GDP over January-June 2021, supporting external balances. Boosted by higher growth, fiscal revenue has performed better than budgeted. At the same time, spending is also set to increase this fiscal year as the government announced additional expenditure for R38 billion (about 0.6 percent of GDP) to mitigate the effects of the pandemic. CPI inflation averaged 4 percent over January -July and inflation expectations remain well anchored. Monetary policy has remained accommodative with the SARB keeping the repo rates at 3.5 percent since July 2020.

Outlook

Driven by the global recovery, the vaccination rollout and favorable commodity prices, GDP growth is expected to rebound to 4.6 percent this year. However, the domestic drivers of growth remain muted. The growth recovery hasn't translated in job recovery so far and social outcomes are expected to remain deteriorated this year. The poverty rate is projected to hover around 59 percent in 2021 based on the upper middle income country poverty line, and to stay around that level in 2022-23 unless growth recovers more decisively.

South Africa's public finances are in a difficult position. Public debt has been rising fast over the last decade Based on the government's ambitious consolidation plan, the fiscal deficit is expected to decrease to 7.8 percent of GDP in 2021 and further to 5.2 percent of GDP in 2023. Public debt is projected to reach 72 percent of GDP in 2021 and increase further to 78.7 percent by 2023. However, the government could face spending pressures in the context of the pandemic and its economic and social impacts. In this context, it will be critical to prioritize the allocation of limited resources where they can have the highest developmental impact.

Structural reforms are needed to support higher growth rates in the medium term. Constraints such as weak investment, electricity shortages and transport and logistical costs and bottlenecks continue to weigh on economic activity. Important long-standing steps have been taken recently such as the increase of the licensing threshold for embedded electricity generation, the announcement of the opening of South African Airways' capital, the separation of the ports' authority from the operating SOE Transnet and plans to open ports to private investment. The reform momentum must continue in order to stimulate private investment and foster job creation. Taking advantage of the favorable global environment to deepen South Africa's participation in global value chains would support growth.

TABLE 2 South Africa / 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	1.5	0.1	-6.4	4.6	2.1	1.5
Private Consumption	2.4	1.1	-6.5	4.0	3.1	2.6
Government Consumption	1.0	2.7	1.3	-0.2	-1.6	-1.4
Gross Fixed Capital Investment	-1.8	-2.4	-14.9	-1.8	5.0	4.5
Exports, Goods and Services	2.8	-3.4	-12.0	11.0	2.5	2.5
Imports, Goods and Services	3.2	0.5	-17.4	8.6	6.0	5.0
Real GDP growth, at constant factor prices	1.5	0.1	-5.9	4.6	2.1	1.5
Agriculture	0.4	-6.3	13.4	1.5	2.5	2.5
Industry	0.8	-1.7	-12.6	5.5	1.6	1.2
Services	1.7	0.9	-4.3	4.4	2.2	1.5
Inflation (Consumer Price Index)	4.5	4.1	3.3	4.2	4.5	4.5
Current Account Balance (% of GDP)	-3.2	-2.7	2.0	2.6	-0.6	-1.7
Net Foreign Direct Investment (% of GDP)	0.3	0.5	1.5	1.0	0.3	0.4
Fiscal Balance (% of GDP)	-3.6	-5.1	-11.5	-7.8	-6.2	-5.2
Debt (% of GDP)	51.5	57.3	71.0	72.0	76.0	78.7
Primary Balance (% of GDP)	-0.1	-1.4	-7.1	-3.4	-1.5	-0.3
International poverty rate ($1.9 in 2011 PPP)[a,b]	19.0	19.4	21.4	20.6	20.4	20.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.7	38.2	40.8	39.7	39.4	39.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	57.2	57.7	59.8	58.9	58.7	58.6
GHG emissions growth (mtCO2e)	0.4	-0.7	-4.5	2.5	0.8	0.3
Energy related GHG emissions (% of total)	87.8	87.9	87.5	87.5	87.5	87.4

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

(a) Calculations based on 2014-LCS.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.

SOUTH SUDAN

Table 1	2020
Population, million	11.2
GDP, current US$ billion	4.9
GDP per capita, current US$	437.5
International poverty rate ($1.9)[a]	76.4
Lower middle-income poverty rate ($3.2)[a]	91.6
Upper middle-income poverty rate ($5.5)[a]	97.8
Gini index[a]	44.2
School enrollment, primary (% gross)[b]	73.0
Life expectancy at birth, years[b]	57.8
Total GHG Emissions (mtCO2e)	79.2

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2015); Life expectancy (2019).

South Sudan's economy is estimated to have contracted by 5.4 percent in FY2020/21 as the pandemic affected key sectors, notably oil and services. Living conditions deteriorated and continue to be affected by displacement and inadequate access to basic services. Poverty is estimated to have reached 79 percent in FY2020/21, up from 77 percent in FY2019/20. While a mild growth recovery is expected in FY2021/22, medium term growth prospects will depend on sustainability of peace, commitment to reforms, and economic diversification.

Key conditions and challenges

Despite vast oil wealth and considerable access to development assistance both before and after independence, South Sudan emerged in 2011 as one of the poorest countries in the world. At the same time, recurring cycles of conflict and violence have placed large constraints on both institutional and human capital development, sustaining large capability deficits. Consequently, South Sudan has struggled to leverage its vast natural resource wealth to develop a modern economy.

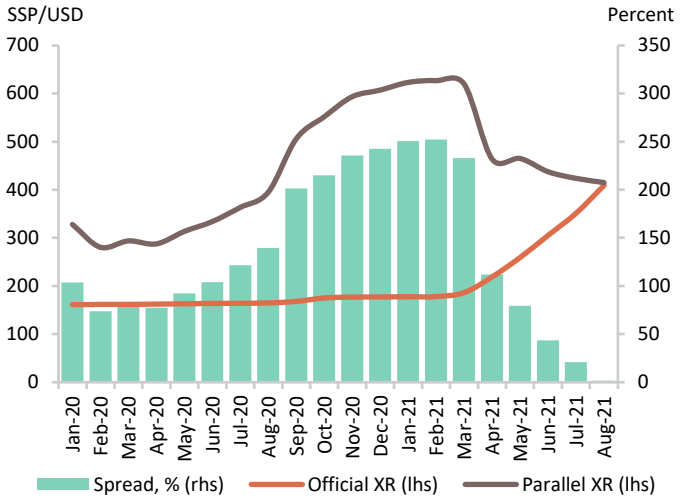
A decade after independence, South Sudan remains caught in a web of fragility, economic stagnation, and instability. Economic mismanagement and monetization of the fiscal deficit led to soaring inflation and widening exchange rate premium, with output contracting for consecutive years during 2015 – 2018. Consequently, real household disposable income declined, and the poverty rate increased from 44.7 percent in 2009 to about 76 percent in 2016. Extremely high poverty levels have been sustained in subsequent years by conflict, displacement, and shocks. The conflict has caused severe damages to productive assets, resulted in a major economic crisis, while sustaining large humanitarian needs. It is estimated that about 1.6 million people remain internally displaced and 2.2 million South Sudanese refugees are still residing in neighboring countries. Food insecurity deteriorated consistently from late 2012 onward, with the number of South Sudanese facing severe food insecurity estimated at 7.2 million people (60 percent of total population) in FY2020/21.

As the COVID-19 pandemic has disrupted a fragile economic recovery, diversifying sources of growth and revenue will be critical as the current oil led growth model has reached its limits. In the past, the oil sector provided the wherewithal for large government consumption outlays, but current production levels, estimated at about 160,000 bpd in FY2020/21, are expected to remain just about one half of pre-crisis levels. Nevertheless, strengthening service delivery institutions, governance, economic, and public financial management systems will prove critical as the country seeks to build resilience to future shocks, providing building blocks for an inclusive and sustainable growth path.

Recent developments

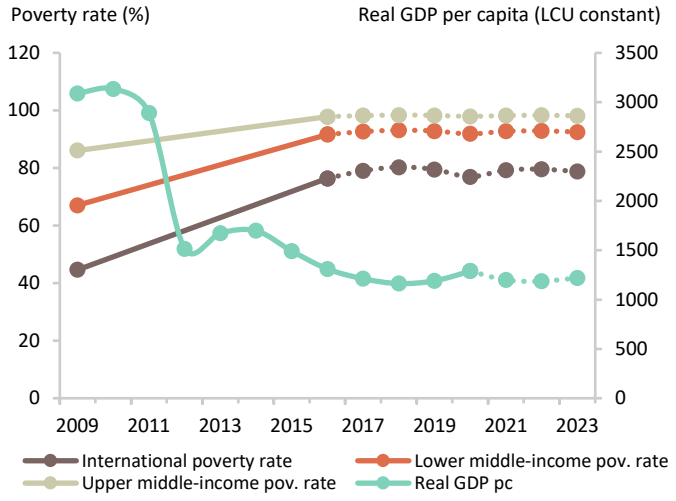
The economy is estimated to have contracted by 5.4 percent in FY2020/21, with growth negatively impacted by the COVID-19 pandemic, floods, and conflict in parts of the country. Oil production declined by 5.9 percent, as floods affected production and the COVID-19 pandemic delayed new investments to replace exhausted wells. Food insecurity remained dire, with nearly three out of four households experiencing food price increases and nine out of 10 rural households worried about having enough to

FIGURE 1 South Sudan / Exchange rate developments



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

eat in October 2020. The poverty rate increased by about 2 percentage points in FY2020/21, to an estimated 79 percent. Inflation continued to decline in FY2020/21, reflecting the authorities' implementation of basic macroeconomic and fiscal management reforms. According to official CPI data, the 12-month inflation rate fell to 18 percent in June 2021, from a peak of nearly 70 percent in January 2021. At the same time, exchange rate policy is on course to achieve unification, and this has contributed to declining inflation. The gap between the market and official exchange rates declined from 250 percent in January 2021 to about 1 percent in August 2021.

The FY2020/21 budget deficit is estimated to have narrowed to about 6.9 percent of GDP from 9.8 percent in FY2019/20, reflecting higher than projected oil and non-oil revenue and fiscal consolidation efforts. The budget revenue impact of lower oil production was offset by higher prices, with oil revenue increasing to 26.7 percent of GDP in FY2020/21 from 25.5 percent in FY2019/20. At the same time, non-oil revenue increased to about 5 percent of GDP from 4.0 percent, reflecting the authorities' efforts to expand the tax base. On the expenditure side, the fiscal position benefited from a large adjustment of operating expenditure which declined to 6.6 percent of GDP in FY2020/21 from 10.5 percent in FY2019/20. The current account deficit is estimated to have narrowed to 5.5 percent in FY2020/21 from 20.3 percent in FY2019/20, reflecting higher oil export values and weaker import demand.

Outlook

South Sudan's economy could grow by 1.0 percent in FY2021/22, with challenges in the oil sector constraining a faster recovery. Over the medium-term, growth may average around 4.5 percent with developments in the non-oil sectors, along recovering consumption, being the main contributing factors. However, a stronger broad-based recovery is needed to achieve poverty reduction gains. At these growth rates, per capita GDP will not revert to FY2019/20 levels until FY2024/25 and poverty is expected to remain stagnant at 79 percent in the coming years. The ongoing PFM reforms, if successful, could create opportunities for the achievement of faster and more inclusive growth going forward. Inflation is expected to decline gradually and will benefit from improved fiscal and monetary discipline, exchange rate market liberalization, and deepening PFM reforms. While the new FY2021/22 budget envisions a fiscal deficit of about 1.9 percent of GDP, the fiscal outlook could improve further, reflecting higher oil prices and a fiscal adjustment that has led to lower current spending. Expenditures are expected to remain contained, despite a one-off doubling of salaries contained in the FY2021/22 budget. South Sudan remains at high risk of debt distress with total public debt estimated at 54.9 percent of GDP in FY2020/21, of which 44.8 percent is external debt. However, the country's debt sustainability could benefit from utilization of part of the SDR allocation to pay non-concessional debt.

The major downside risk to the outlook relate to the sustainability of peace and security, especially as subnational conflict continues in parts of the country. A large decline in oil prices would also adversely affect the macroeconomic outlook, posing a significant risk to growth as well as fiscal and external sustainability. Additional risks relate to the future path of the pandemic, particularly as additional waves and mutations of the virus provide added uncertainty.

TABLE 2 South Sudan / 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	-3.5	3.2	9.5	-5.4	1.0	5.2
Real GDP growth, at constant factor prices	-3.5	3.2	9.5	-5.4	1.0	5.2
Agriculture	-2.5	9.9	6.0	3.5	3.7	3.9
Industry	15.0	20.9	27.5	-6.1	-0.7	5.5
Services	-14.6	-12.1	-9.6	-6.5	3.1	5.0
Inflation (Consumer Price Index)	121.6	63.6	33.3	43.1	24.0	16.0
Current Account Balance (% of GDP)	-9.8	17.3	-20.3	-5.5	0.7	2.1
Net Foreign Direct Investment (% of GDP)	-0.5	-1.7	-0.4	0.9	0.9	0.8
Fiscal Balance (% of GDP)	-3.4	-1.0	-9.8	-6.9	-0.7	1.9
Debt (% of GDP)	46.1	32.7	40.7	54.9	52.6	48.0
Primary Balance (% of GDP)	-3.1	-0.5	-7.8	-4.5	1.3	3.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	80.3	79.5	76.9	79.2	79.5	78.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	93.1	92.8	91.8	92.7	92.9	92.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	98.4	98.3	97.9	98.2	98.3	98.2
GHG emissions growth (mtCO2e)	4.0	7.8	7.3	0.0	3.2	5.4
Energy related GHG emissions (% of total)	2.7	2.6	2.7	3.8	4.3	4.5

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

(a) Calculations based on 2016-HFS-W3.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

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

SUDAN

Table 1	2020
Population, million	43.8
GDP, current US$ billion	20.4
GDP per capita, current US$	465.8
International poverty rate ($1.9)[a]	12.2
Lower middle-income poverty rate ($3.2)[a]	44.0
Upper middle-income poverty rate ($5.5)[a]	79.3
Gini index[a]	34.2
School enrollment, primary (% gross)[b]	76.8
Life expectancy at birth, years[b]	65.3
Total GHG Emissions (mtCO2e)	117.6

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2014), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2019).

The Government remains committed to stabilizing the economy and containing the fiscal deficit, but success will depend on measures to bring mounting energy subsidies under control. Economic growth is expected to turn positive at 0.9 percent in 2021 following three years of recession. Poverty is estimated to have increased in 2020 and 2021 and risks of increased vulnerability and poverty remain elevated but can be mitigated, to some extent, by expansion of the Sudan Family Support Program (SFSP).

Key conditions and challenges

Sudan's Transitional Government has forged ahead with ambitious reforms to address macroeconomic imbalances and contain the fiscal deficit. In FY2021, these reforms include liberalizing the exchange rate, sharply reducing fuel subsidies, and rolling out the SFSP. By clearing arrears to Multilateral Financial Institutions (MFIs), Sudan has embarked on full re-engagement with these institutions, paving the way for the country to access external support, including nearly USD 2 billion in grants from the World Bank. The government has also committed to adopt a zero ceiling on the contraction of non-concessional debt and to the regular publication of debt data.

Although Sudan received a boost from some capital inflows following the exchange rate unification, the country is still struggling to turn the corner toward stabilization and economic growth in 2021. Exchange rate unification has increased capital inflows through official channels and has helped improve the trade balance, increase remittances, and shift the current account into a surplus in early 2021. However high inflation persists, due to monetization of the fiscal deficit in the absence of government debt markets. Government must continue to address energy subsidies in a bold manner, to contain the fiscal deficit.

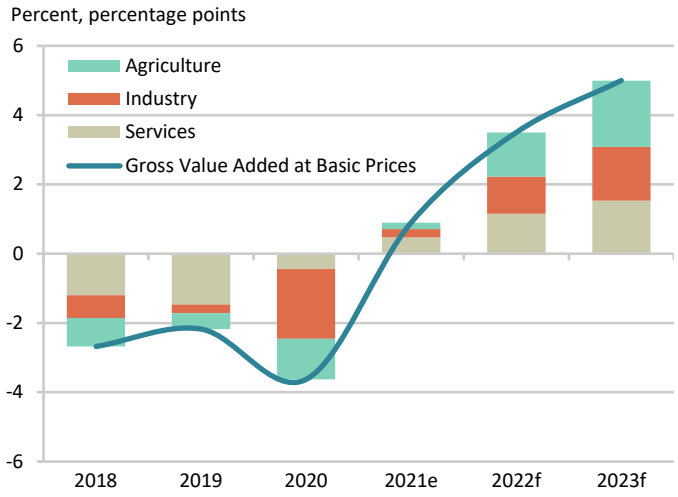
Major risks to economic stabilization include uncertainty around COVID-19, flooding, and potential instability of money demand in the context of exceptionally high inflation. The COVID-19 pandemic, and negative external shocks, such as flooding in 2020, could exacerbate an already difficult situation. Results from the Bank's ongoing COVID-19 high frequency survey suggest that about one-third of households are worried about having enough food to eat, and many modified their eating habits. These impacts are partially mitigated by the Sudan Family Support Program (SFSP) which is providing cash transfers to households.

Recent developments

A third wave of COVID-19 hit Sudan in April and May, prompting a reinstatement of various containment measures and travel bans. However, the adverse impacts of COVID-19 containment measures were mitigated by government's policy permitting the food industry to operate under strict adherence to ministry of health guidelines. Non-food industries (i.e., tourism, cloth manufacturing) were closed from April until July. As a result, agriculture has fared better relative to other sectors in the first half of 2021.

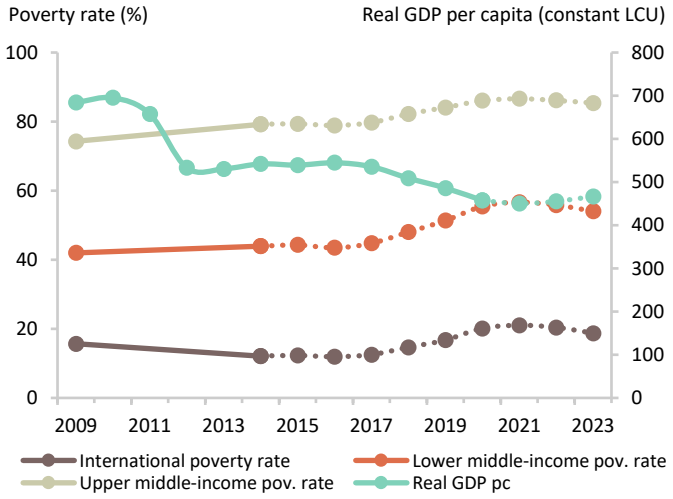
The balance of payments received a boost from exchange rate liberalization, with net capital inflows turning strongly positive in the second quarter of the year. The trade balance also improved with higher gold prices and an increase in gold exports, leading to a 240 percent increase in the value of gold exports in the first half of

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



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

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



Source: World Bank. Notes: see Table 2.

2021 relative to the same period in 2020. A positive balance of payments position has allowed for a much-needed accumulation in gross foreign exchange reserves of US$ 160 million in the first half of 2021.

Inflation continued to accelerate in the first half of 2021, registering a record high of 422.8 percent in July (in annual terms). Reducing inflation remains the primary policy objective of the Government in 2021, and Sudan has been working under ambitious targets on fiscal consolidation and slower monetary expansion, supported by the IMF program. The Government made important reform progress in the first half of 2021, bringing down the fiscal deficit to an estimated 2.2 percent of GDP and limiting growth of currency in circulation to 36 percent. Following a period of stability after unification, the exchange rate started to depreciate in April, moving from 381 to 485 SDGs to the dollar by early June; as of mid-August it appreciated somewhat, to 450.

Based on estimates using the latest household survey from 2014, and GDP growth projections, poverty rates may have increased in 2020, reaching an estimated 20.2 percent at $1.90/day PPP and 55.5 percent at $3.20/day PPP. These estimated trends are supported by data from the recent high frequency COVID-19 survey. Overall, 26 percent of the men and 10 percent of the women that lost their jobs at the onset of the pandemic remained unemployed in April 2021. The SFSP is helping to mitigate some of these effects. To date, of the 2.5 million households registered, 1 million have received at least one payment, with 25 percent of these going to households headed by women.

Outlook

GDP growth is expected to pick up to 0.9 percent in 2021, from -3.6 percent in 2020, driven by favorable conditions in agriculture and improved economic activity as the COVID-19 related restrictions were lifted. Economic growth is expected to rebound further in 2022 and 2023, as progress towards economic stabilization leads to higher capital inflows and development financing. On the supply side, services are expected to be the main driver of growth in the short term. Against continued fiscal consolidation, inflation is expected to slow down to double digits in 2023. Tax and customs reforms should have a positive impact on revenue mobilization. On the expenditure side, a sharp reduction in subsidies is expected facilitate increased social spending and transfers to states. In addition, continued efforts to contain the fiscal deficit would reduce the need for monetization and moderate the expansion of the money supply. The pace of poverty reduction is expected to be slow. Projections suggest poverty will continue to increase until 2021. Even though poverty is expected to start declining in 2022, poverty rates measured by all poverty lines are still higher than the pre-COVID levels in 2023.

TABLE 2 Sudan / 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	-2.7	-2.2	-3.6	0.9	3.5	5.0
Private Consumption	-2.5	-0.9	-3.4	2.4	4.7	5.8
Government Consumption	-2.5	-10.9	-6.0	1.0	2.5	4.1
Gross Fixed Capital Investment	-2.3	-0.2	-5.8	-7.0	7.7	8.3
Exports, Goods and Services	7.6	6.9	5.0	7.7	25.0	24.4
Imports, Goods and Services	2.4	-0.9	-3.9	26.0	21.3	16.0
Real GDP growth, at constant factor prices	-2.7	-2.2	-3.6	0.9	3.5	5.0
Agriculture	-1.8	-1.0	-2.5	0.4	2.7	4.1
Industry	-1.9	-0.7	-5.7	0.7	3.1	4.5
Services	-6.1	-7.8	-2.5	2.6	6.3	8.2
Inflation (Consumer Price Index)	63.3	51.0	163.3	347.0	112.0	34.4
Current Account Balance (% of GDP)	-9.3	-11.4	-13.2	-5.9	-5.5	-5.2
Net Foreign Direct Investment (% of GDP)	3.4	2.8	2.1	3.6	4.3	4.5
Fiscal Balance (% of GDP)	-7.9	-10.8	-5.9	-2.9	-1.5	-1.0
Debt (% of GDP)[a]	185.6	200.3	249.1	208.6	191.9	184.0
Primary Balance (% of GDP)	-7.8	-10.6	-5.9	-2.8	-1.3	-0.8
International poverty rate ($1.9 in 2011 PPP)[b,c]	14.7	16.8	20.2	21.0	20.5	18.8
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	48.1	51.4	55.5	56.7	55.9	54.1
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	82.3	84.1	86.1	86.7	86.2	85.4
GHG emissions growth (mtCO2e)	0.5	-0.8	-2.5	-2.3	-0.2	1.0
Energy related GHG emissions (% of total)	15.5	15.1	14.5	14.3	14.9	15.8

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

(a) Debt projections do not include any restructuring achieved during the HIPC process.

(b) Calculations based on 2014-NBHS.Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021to 2023.

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

TANZANIA

Table 1	2020
Population, million	59.7
GDP, current US$ billion	61.8
GDP per capita, current US$	1035.2
International poverty rate ($1.9)[a]	49.4
Lower middle-income poverty rate ($3.2)[a]	76.8
Upper middle-income poverty rate ($5.5)[a]	91.8
Gini index[a]	40.5
School enrollment, primary (% gross)[b]	98.8
Life expectancy at birth, years[b]	65.5
Total GHG Emissions (mtCO2e)	185.3

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

Tanzania's economy is projected to expand by 4.3 percent in 2021, following the modest growth of 2 percent in 2020. Macroeconomic outlook hinges on improvements in external demand, domestic COVID-19 indicators, and support to the private sector. The international poverty rate is projected to fall marginally in 2021 but remain above the pre-pandemic level. The pandemic underscored the need to accelerate reforms to foster inclusive private sector-led growth, while ensuring fiscal sustainability.

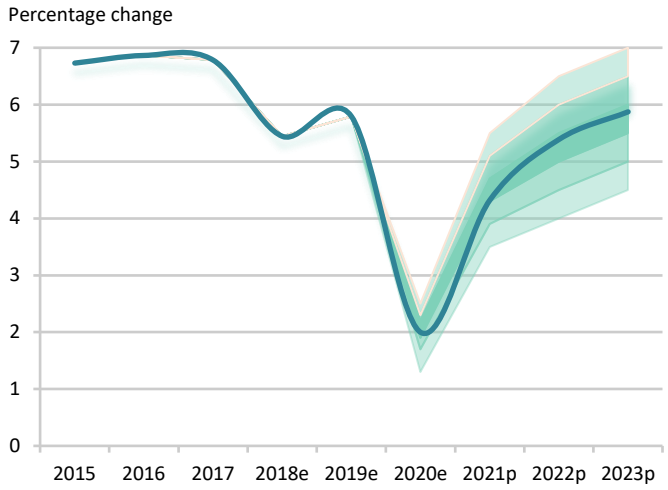
Key conditions and challenges

Tanzania became a lower middle-income country in July 2020 thanks to the solid income growth over two decades, averaging 6.5 percent per year, and macroeconomic stability. Inflation rates remained low, and fiscal and current-account deficits were manageable. Investment has been a key driver of growth, consistently contributing two-thirds to it. About three quarters of total investment was from private sources, but lately this ratio has declined with waning extractives FDI and a more challenging business environment. Poverty response to rapid economic growth has been moderate in recent years, and growth has not been very inclusive. High population growth, insufficient levels of education, low agricultural productivity, and slow and uneven creation of more productive income earning opportunities have hindered the inclusiveness of growth. The COVID-19 pandemic has further exacerbated existing challenges, reversing some of the gains in poverty reduction achieved over the last decade, especially in urban areas. Tackling the COVID-19 pandemic will require overcoming institutional inertia and strengthening the country's health and economic response. To realize Tanzania's Development Vision 2025 and ensure sustainable and inclusive growth beyond 2021, the government must implement a well-calibrated package of policies focused on macroeconomic stability, fiscal sustainability, and more inclusive and resilient growth. Policy priorities include accelerating productive investments, prioritizing human capital development, enabling agricultural transformation, leveraging digital technologies, and building public sector institutions and capabilities.

Recent developments

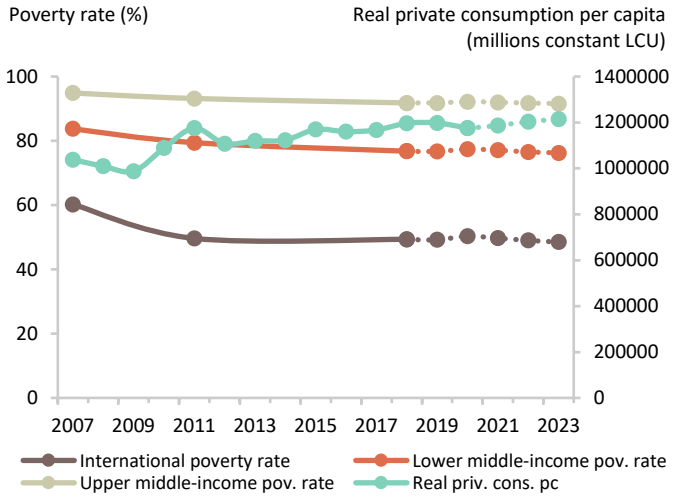
According to official data, in 2020 GDP growth was 4.8 percent, driven by construction, agriculture, and transport and storage, aided by the absence of lockdowns. However, high-frequency data suggest that GDP growth rate slowed to an estimated 2.0 percent in 2020, as shocks to export-oriented sectors such as tourism, manufacturing, and related services diminished business revenue and labor income, which adversely affected domestically oriented firms of all sizes across all sectors. Tourism declined significantly in 2020 as the number of visitors plummeted by 60 percent and the revenues fell by 72 percent. Private sector credit growth plunged to 3 percent in December 2020 from 11.1 percent a year earlier. Year on year decline in other indicators (electricity generation, capital goods import, government expenditures and taxes) point to a lower growth in 2020. High-frequency indicators from 2021 present mixed signals and suggest that the global pandemic continues to take a toll. Inflation remained stable at 3.3 percent throughout 2020 but accelerated moderately to 3.6 percent in June 2021. Despite increased gold exports,

FIGURE 1 Tanzania / Real GDP growth forecasts under alternative scenarios



Sources: NBS (2015-2017), World Bank Staff Estimates and Projections (2018-2023).

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



Source: World Bank. Notes: see Table 2.

the current-account deficit is estimated to widen to 1.9 percent of GDP during the year ending June 2021 due to declines in tourism and traditional exports. Helped by the DSSI and external financing, gross international reserves stood at 6.1 months of projected imports at end-June 2021. The fiscal deficit has widened to an estimated 2.6 percent of GDP in FY2020/21 due to the shortfall in revenues, which was partially offset by cuts in expenditures. The fiscal policy response to COVID-19 was limited and included expediting clearance of domestic arrears, expanding the coverage of social security schemes, and supporting public sector tourism institutions. According to the August 2021 joint IMF-World Bank Debt Sustainability Analysis, Tanzania's risk of external debt distress has increased from low to moderate mostly due to the pandemic-induced shock on tourism and the change in the country's debt carrying capacity from strong to moderate. In 2020, real per capita GDP declined for the first time in over 25 years. The poverty rate based on the international extreme poverty line is estimated to have risen from 49.3 percent in 2019 to 50.4 percent in 2020. Households that saw the highest drop in welfare were those relying on self-employment and informal microenterprises in urban areas.

Outlook

Tanzania's real GDP growth rate is projected to rebound to 4.3 percent in 2021 conditional on successful global rollout of a COVID-19 vaccine and improvement in business environment and fiscal management. Both external and fiscal positions are expected to weaken because of implementation of the Tanzania Covid-19 Socioeconomic Response Plan and the government's ambitious infrastructure program. The emergency imports (vaccine, medication, testing equipment) and higher capital -goods imports are expected to widen current-account deficit to 3.1 percent of GDP in 2021. The fiscal deficit is projected to widen to 3.3 percent of GDP due to higher pandemic-related spending. Under the different upside and downside scenarios, GDP growth could range between 3.5 and 5.5 percent in 2021. The evolution of the pandemic and the pace of vaccination, both globally and domestically, will be the most crucial factors driving the outlook. The shift in the government's approach to COVID-19, its renewed focus on regional trade and cooperation, and its commitment to domestic policy reforms designed to improve the business environment have somewhat attenuated downside risks. However, the spread of new variants of COVID-19 could extend the pandemic, while challenges around the procurement and distribution of vaccines could slow the domestic recovery. In the meantime, a difficult global context marked by restricted international borders, financial stress, and elevated debt levels continues to adversely impact trade, travel, and capital flows, threatening the projected recovery. The international poverty rate is projected to fall to 49.8 percent in 2021 but remain above the pre-crisis level. However, if the future growth projections are materialized, the international poverty rate in 2023 will be 48.6 percent, the lowest since 2000. But to sustainably reduce poverty, and lower the number of poor people, the recovery must create jobs, including for low-skilled workers, enable small enterprises growth, and foster productivity of agriculture, on which three-quarters of poor households depend. Lowering population growth and expanding the Tanzania Social Action Fund Productive Social Safety Net, including to urban areas, will also be essential. Also, the government will need to maintain prudent macroeconomic and fiscal stance to ensure that adequate fiscal space is available to finance major investments in physical, human, and institutional capital.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	5.8	2.0	4.3	5.4	5.9
Private Consumption	5.6	3.1	1.0	5.2	4.9	4.3
Government Consumption	2.0	2.3	7.4	12.3	8.5	3.9
Gross Fixed Capital Investment	7.7	8.0	2.4	5.4	7.7	7.0
Exports, Goods and Services	-1.7	19.0	-8.6	2.2	3.3	6.6
Imports, Goods and Services	16.7	-1.4	-7.6	13.3	9.8	3.6
Real GDP growth, at constant factor prices	5.4	5.8	2.0	4.3	5.4	5.8
Agriculture	3.4	3.5	3.1	4.1	4.6	5.2
Industry	9.7	10.3	2.5	6.5	7.6	8.2
Services	3.8	4.2	0.9	2.8	4.1	4.4
Inflation (Consumer Price Index)	3.5	3.5	3.4	3.5	3.6	3.8
Current Account Balance (% of GDP)	-3.9	-2.3	-1.6	-3.1	-3.8	-3.1
Net Foreign Direct Investment (% of GDP)	1.7	2.0	1.1	1.2	1.3	1.4
Fiscal Balance (% of GDP)	-2.6	-2.2	-2.0	-3.3	-3.9	-3.7
Debt (% of GDP)	39.9	38.3	38.7	39.5	39.6	38.8
Primary Balance (% of GDP)	-0.9	-0.5	-0.3	-1.4	-1.7	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	49.4	49.3	50.4	49.8	49.1	48.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	76.8	76.7	77.5	77.2	76.6	76.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	91.8	91.8	92.1	92.0	91.7	91.6
GHG emissions growth (mtCO2e)	0.0	3.0	2.5	3.1	3.2	3.2
Energy related GHG emissions (% of total)	20.5	21.3	21.9	22.7	23.3	23.7

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

(a) Calculations based on 2018-HBS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021to 2023.

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

TOGO

Table 1	2020
Population, million	8.3
GDP, current US$ billion	7.4
GDP per capita, current US$	891.6
International poverty rate ($1.9)[a]	51.1
Lower middle-income poverty rate ($3.2)[a]	74.2
Upper middle-income poverty rate ($5.5)[a]	90.8
Gini index[a]	43.1
School enrollment, primary (% gross)[b]	124.3
Life expectancy at birth, years[b]	61.0
Total GHG Emissions (mtCO2e)	10.0

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2019).

Growth decelerated in 2020 as the containment and mitigations measures to curb the spread of COVID-19 negatively affected private consumption, investment, and tourism. External and fiscal balances also worsened, while debt and poverty rose. Growth and poverty reduction will gradually recover over the medium term. Downside risks to the outlook include larger-than-expected COVID-19 effects, heightened insecurity in neighboring countries, tightening financial conditions as inflationary pressure emerge, and fiscal risks from SOEs and PPPs.

Key conditions and challenges

Togo experienced a robust economic growth prior to the COVID-19 pandemic, averaging 5 percent (2.4 percent in per capita terms) between 2017-19. However, it was lower than many peers and did not lead to significant improvements in living standards. Access to electricity and safe drinking water in 2018-19 were both only about 56 percent for the poor and 76 percent and 69 percent, respectively among the nonpoor. The COVID-19 crisis halted economic growth and poverty reduction, with the extreme poverty rate estimated to have increased by 0.1 percentage point between 2019-2020. The COVID-19 crisis has also disrupted the labor market. As illustrated by the COVID-19 high frequency survey (HFPS) conducted in May-June 2020, nearly 3 out of 10 workers experienced some disruption and this increased by more than twofold during June-July 2020.

The Government has maintained the momentum of reforms in the areas of tax revenue mobilization, public investment efficiency, debt management and transparency. To attract private investors, critical business enabling reforms and investments in infrastructures have been implemented.

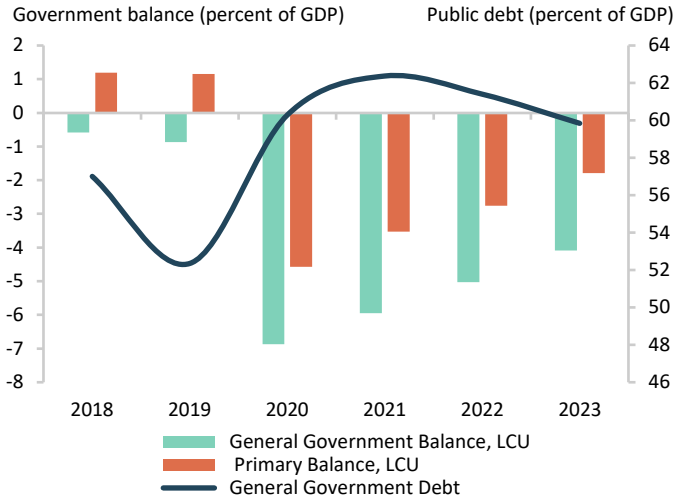
The path to an inclusive and sustained post-COVID recovery remains uncertain and depends on successful management of several downside risks that could narrow the fiscal space and depress private investment. These include additional COVID-19 waves, delays in achieving mass immunization, mounting and costly domestic debt, growing insecurity in the region, fiscal risks from PPPs and SOEs (notably two state-owned banks, water and energy utility companies) and rising inflationary pressures.

Recent developments

Growth decelerated to 1.8 percent in 2020 (-0.8 percent in per capita terms), as private consumption and investment fell following social-distancing measures that affected household incomes and business activity. Travel restrictions negatively impacted tourism, while the agriculture sector remained resilient. By end May 2021, the industrial production had increased by 19.8 percent y/y and traffic at the port resumed (+53.3 percent y/y), exceeding pre-COVID levels. Inflation rose to 1.8 percent in 2020and reached 6.2 percent (y/y) in June 2021, reflecting increase in oil prices and rising demand for food.

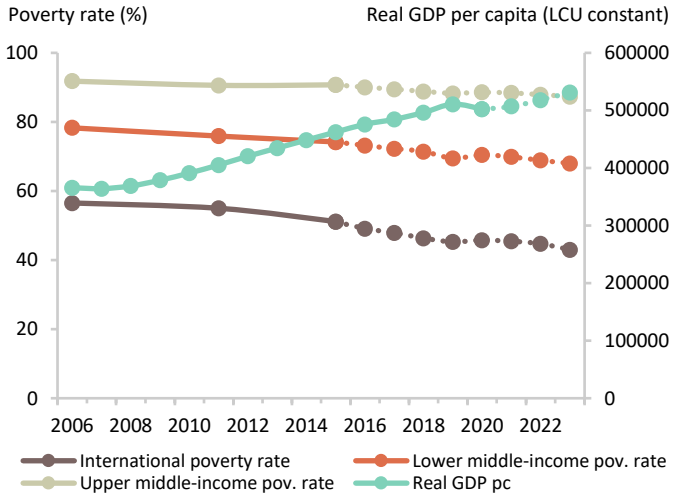
The current account deficit rose to 1.5 percent in 2020 from lower exports and higher imports of health products to combat COVID-19. Lower demand from key trading partners and a drop in the prices of phosphate and coffee lowered exports. In the first half of 2021, the trade deficit widened to 8.0 percent of GDP, as the recovery in export remains subdued while imports increased in nominal terms due to higher global commodity prices.

FIGURE 1 **Togo** / Evolution of fiscal indicators



Sources: INSEED and World Bank staff estimates.

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



Source: World Bank. Notes: See Table 2.

The fiscal deficit rose to 6.9 percent of GDP in 2020, reflecting a drop of 1 percent of GDP in government revenues as activity declined and due to tax breaks for firms, and a rise by 4.6 percent of GDP in expenditures to address the COVID-19 crisis and promote economic recovery. Public debt increased to 60.3 percent of GDP in 2020, driven by higher concessional borrowing from multilateral donors. In the first half of 2021, tax revenues were higher by 1.3 percent of GDP and expenditures marginally increased with lower execution of capital expenditures.

Togo's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a peg between the CFA Franc and the Euro. Its reserves have remained stable since 2019 and reached an estimated 5.8 months of imports in 2020 due to donor support and a Eurobond issuance in Cote d'Ivoire. To support the regional economy and COVID-19 related spending, the BCEAO implemented monetary and macroprudential measures beginning in March 2020, including a policy rate cut and extended refinancing operations with 3-month COVID-19 bonds. These measures were extended into 2021.

Extreme poverty stood at 45.3 percent in 2019 and is estimated to have increased to 45.4 percent in 2020 due to the COVID-19 outbreak, pushing almost 0.1 million people into extreme poverty. The negative effect of the pandemic mostly affected poor in urban areas as urban workers were more disproportionately affected by job losses, compared to their rural counterparts (72 percent and 51 percent, respectively).

Outlook

Output will grow by 4.7 percent (2.2 percent in per capita terms) in 2021, supported by higher agricultural exports as economic activity resumes in key trading partners and private investment increases. Also, plans to build or rehabilitate rural roads will boost activity in the construction sector, while the re-opening of borders will improve access to agricultural inputs. Average inflation is projected to reach 3.5 percent in 2021, driven by higher food prices.

The current account deficit will rise to 2.6 percent of GDP in 2021, as the demand for intermediary inputs rises. The current account deficit will be financed by grants, and concessional loans. In August 2021, the BCEAO received 1.4 percent of aggregate GDP in additional SDR allocations from the IMF, that can be on lent to member countries.

The fiscal deficit is projected at 5.9 percent of GDP in 2021 and will return below 3 percent by 2024. Revenues will rise after the tax holidays to support firms in 2020 expire. Total expenditure as a percent of GDP will remain unchanged, as the decrease in current expenditures is fully offset by the rise in capital expenditures. Public debt will peak at 62.4 percent of GDP in 2021, before declining over the medium-term as the primary fiscal deficit is gradually reduced. The risk of external debt distress is moderate, while the risk of overall debt distress is high due to increase in regional debt.

Extreme poverty will remain high at 44.5 percent in 2021, as food prices and other consumer prices remain high, reflecting a poor harvest and supply chain disruptions. Extreme poverty is projected to return to the pre-COVID downward trajectory in 2022, supported by the scaling-up of Government cash transfer programs to the poorest and other social measures such as school fees waivers.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.0	5.5	1.8	4.7	5.8	6.0
Private Consumption	2.8	3.0	-4.9	2.0	3.0	4.6
Government Consumption	23.1	-2.9	21.1	6.0	5.0	6.5
Gross Fixed Capital Investment	16.8	20.2	13.7	13.1	15.1	9.5
Exports, Goods and Services	2.0	1.0	3.6	5.0	4.5	4.5
Imports, Goods and Services	5.3	1.2	4.1	6.0	6.0	5.4
Real GDP growth, at constant factor prices	5.2	4.4	1.9	4.7	5.8	6.0
Agriculture	3.2	1.9	4.0	6.0	5.9	5.9
Industry	3.9	6.5	0.8	6.8	7.0	7.0
Services	6.6	4.5	1.5	3.2	5.2	5.6
Inflation (Consumer Price Index)	0.9	0.7	1.8	3.5	2.5	2.0
Current Account Balance (% of GDP)	-2.6	-0.8	-1.5	-2.6	-2.6	-2.5
Net Foreign Direct Investment (% of GDP)	3.5	4.0	2.2	2.6	1.9	2.5
Fiscal Balance (% of GDP)	-0.6	-0.9	-6.9	-5.9	-5.0	-4.1
Debt (% of GDP)	57.0	52.4	60.3	62.4	61.4	59.8
Primary Balance (% of GDP)	1.2	1.2	-4.6	-3.5	-2.8	-1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	46.4	45.3	45.4	44.5	42.5	40.6
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	71.5	69.5	69.9	68.8	67.3	65.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	88.8	88.3	88.3	87.8	87.1	86.3
GHG emissions growth (mtCO2e)	4.6	4.4	3.7	5.0	6.0	6.7
Energy related GHG emissions (% of total)	30.8	31.4	31.3	30.8	31.0	31.4

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

(a) Calculations based on 2015-QUIBB.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2015) with pass-through = 1 based on GDP per capita in constant LCU.

UGANDA

Table 1	2020
Population, million	45.7
GDP, current US$ billion	37.4
GDP per capita, current US$	817
International poverty rate ($1.9)[a]	41.3
Lower middle-income poverty rate ($3.2)[a]	69.6
Upper middle-income poverty rate ($5.5)[a]	87.6
Gini index[a]	42.8
School enrollment, primary (% gross)[b]	102.7
Life expectancy at birth, years[b]	63.4
Total GHG Emissions (mtCO2e)	73.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2016), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2019).

A reasonable recovery in early 2021 pushed GDP growth to 3.2 percent for FY21, before the second COVID-19 wave hit. Despite liquidity support, domestic demand slumped. The fiscal stimulus raised the deficit to 9.2 percent of GDP, which escalated public debt, elevating the risk of debt distress to 'moderate'. A stronger economic recovery is expected starting from FY23 as domestic and global conditions benefit from steadier vaccine rollout. Extreme poverty will likely rise, due to sustained employment and income losses.

Key conditions and challenges

Prior to the COVID-19 outbreak, an emerging structural transformation drove a decline in poverty, despite a decade-long slowdown in average economic growth. The transformation was characterized by a reduction in the workforce employed in agriculture and a take-off in mainly agro-processing industries, an expansion of the services sector, and a surge in use of digital technology. Nonetheless, the bulk of the workforce is still in low productivity jobs and total factor productivity growth remains negative.

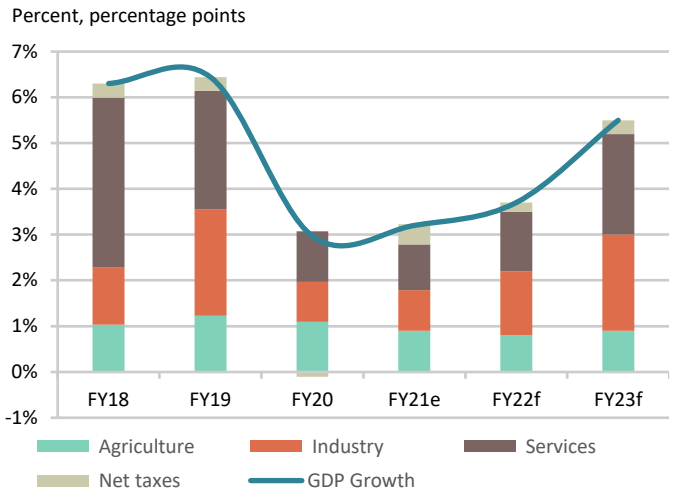
Uganda's infrastructure drive over the past decade has reduced spending on human development, raised its fiscal and debt vulnerabilities, and crowded out the private sector. For the first time since receiving debt relief in 2006, the country's risk of debt distress rose from 'low' to 'moderate' in mid-2021. Private sector investments are also growing sluggishly and real per capita investments in sectors such as education and health have been declining, to the detriment of service delivery, and now worsened by the effects of COVID-19. Urgent remedial action by government is required to avoid long term impacts on labor productivity and income inequality. The competition for public spending is only likely to intensify as Uganda approaches likely first oil in 2025 and additional demands placed on government to meet its commitments in developing this sector.

COVID-19 is exacerbating the deceleration in per capita income growth, poverty, and inequality, under the weight of high population growth (3.6 percent by 2019). Per capita real GDP growth had halved to 1.1 percent in the five years prior to the COVID-19 and the elasticity of poverty reduction with respect to growth declined. The service sector contributes most to GDP growth (Figure 1), but many jobs are informal and low-skilled, contributing minimally to poverty reduction. Climate change and weather shocks are increasing income volatility and vulnerabilities, especially in rural areas.

Recent developments

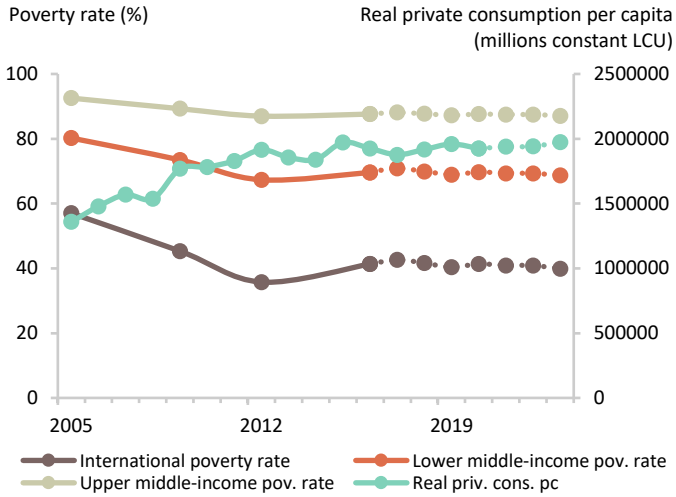
Given sustained COVID-19 impacts on domestic demand, real GDP growth increased only marginally to 3.2 percent in FY21, from 3.0 percent in FY20. Following the sharp contraction after the initial COVID-19 shock, real GDP growth rebounded strongly to 6 percent in Q3 of FY21, driven by industry and services, amidst the continued strain on particularly the education and leisure subsectors. Agriculture remains volatile, due to limited adoption of improved farming practices to manage weather variability. The sharp fall in output and employment—according to Uganda's Purchasing Managers Index—suggests that the second COVID-19 wave and subsequent lockdown slowed growth in Q4 of FY21.

FIGURE 1 Uganda / A gradual recover: Real GDP growth and sectoral contributions to real GDP growth



Source: Uganda Bureau of Statistics.

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



Source: World Bank. Notes: see Table 2.

Despite improving global conditions, Uganda's external position deteriorated during FY21. A doubling in gold shipments (now Uganda's top export) was partially offset by gold, food and machinery imports as global supply chains reopened, and overshadowed by the sluggish recovery of the tourism industry. The current account deficit, reached over 9 percent of GDP, financed mainly with FDI and government borrowing. Foreign reserves dropped to US$3.6 billion or 4 months of import cover in June 2021, from 4.4 months in June 2020. The special allocation of SDR 346 million could have boosted reserves in Q1 of FY22.

The central bank reduced its policy rate in July 2021 (by half percentage point to 6.5 percent) as private sector credit shrank, amidst liquidity assistance and credit relief measures. However, these measures minimally benefitted the small and medium enterprises and the informal sector.

Government's fiscal stimulus went through supplementary spending worth 3.4 percent of GDP during FY21, covering covid-related medicines, equipment and food aid, and increased military spending. Slower business activity, combined with tax exemptions and deferrals, reduced revenues and contributed to widening the fiscal deficit to 9.2 percent of GDP (Table 2). Borrowing, especially non-concessional and domestic, financed the stimulus, raising public debt by about 10 percentage points of GDP and heightening liquidity risks.

With lower consumption growth, amidst low remittances, limited credit, and job losses, poverty measured at the Uganda's official poverty line increased from 18.7 percent to 21.9 percent after the lockdown in March 2020, according to the 2019/20 National Household Survey. Despite recovery of employment rates in FY21, household incomes remained below pre-pandemic levels, according to the frequent phone surveys. Employment could have slumped again after the second lockdown in June 2021.

Outlook

Given the impact of additional waves of the pandemic and associated lockdowns, real GDP growth will likely average about 4.5 percent in FY22 and FY23. This is a full percentage point lower than the March projections, and further widens the output gap. Investment and exports are expected to accelerate as the global economy stabilizes. However, sustained improvements in domestic demand conditions are hinged on the successful COVID-19 vaccine rollout, currently covering only 0.5 percent of the population out of the targeted 49.6 percent (22 million people) by December 2021.

The government plans to reduce the fiscal deficit to 4.0 percent of GDP by FY23, assuming pandemic pressures ease. This would allow public debt to stabilize at around 53 percent of GDP. Nonetheless, given the weakened capacity to carry debt and increased vulnerabilities, the country's risk of debt distress may deteriorate beyond 'moderate' with further reliance on non-concessional debt and the costlier domestic market.

The World Bank projects that growth in private consumption could reduce poverty to 40.9 percent in 2022, from 41.4 percent in 2021. However, poverty will still be 0.6 percentage points above the pre-COVID-19 level, with a return to that level only expected in 2023. These prospects will also depend on how COVID-19 evolves and on the environmental shocks which may affect many households due to their limited adaptive capacity to disasters and limited alternative off-farm income streams.

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

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	6.3	6.4	3.0	3.2	3.7	5.5
Private Consumption	6.0	5.9	1.5	3.8	2.9	4.4
Government Consumption	11.6	6.9	7.9	9.6	0.9	2.5
Gross Fixed Capital Investment	5.7	9.9	-0.1	3.5	5.1	7.8
Exports, Goods and Services	9.3	6.3	0.6	3.2	14.2	12.6
Imports, Goods and Services	8.8	8.6	-5.4	8.3	9.4	9.1
Real GDP growth, at constant factor prices	6.3	6.4	3.0	3.2	3.7	5.5
Agriculture	4.4	5.2	4.6	2.9	3.4	4.0
Industry	4.8	9.0	3.1	4.4	5.1	7.6
Services	8.2	5.6	2.0	2.7	3.1	5.0
Inflation (Consumer Price Index)	3.4	2.6	2.3	2.5	4.0	5.0
Current Account Balance (% of GDP)	-5.3	-7.2	-6.7	-9.1	-8.2	-8.3
Net Foreign Direct Investment (% of GDP)	2.8	3.4	2.6	2.1	2.4	2.9
Fiscal Balance (% of GDP)	-4.1	-4.9	-7.1	-9.2	-6.4	-4.0
Debt (% of GDP)	36.2	36.6	40.5	50.2	53.4	53.3
Primary Balance (% of GDP)	-2.2	-2.8	-4.5	-6.5	-3.7	-1.1
International poverty rate ($1.9 in 2011 PPP)[a,b]	41.6	40.3	41.4	40.9	40.9	39.9
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	69.9	68.9	69.7	69.4	69.3	68.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	87.7	87.2	87.6	87.5	87.5	87.1
GHG emissions growth (mtCO2e)	1.3	2.5	2.0	2.8	3.5	3.8
Energy related GHG emissions (% of total)	31.7	32.1	32.3	32.3	33.4	34.6

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

(a) Calculations based on 2016-UNHS.Actual data: 2016. Nowcast: 2017-2020. Forecast are from 2021to 2023.

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

ZAMBIA

Table 1	2020
Population, million	18.4
GDP, current US$ billion	18.7
GDP per capita, current US$	1016.3
International poverty rate ($1.9)[a]	58.7
Lower middle-income poverty rate ($3.2)[a]	75.4
Upper middle-income poverty rate ($5.5)[a]	88.1
Gini index[a]	57.1
School enrollment, primary (% gross)[b]	98.7
Life expectancy at birth, years[b]	63.9
Total GHG Emissions (mtCO2e)	99.4

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

The Zambian economy is expected to grow moderately by 2.2 percent in 2021 following a historic contraction of 2.9% in 2020, driven by high copper prices, rising market confidence, and normal rainfall patterns. Poverty is expected to increase slightly by 0.2 percentage points to 60.3 percent, reflecting COVID-19 impacts. Economic activity will gradually pick up to potential growth rates beginning in 2023. However, risks stemming from prolonged debt negotiations and low COVID-19 vaccination rates will need to be managed.

Key conditions and challenges

The Zambian economy was under considerable stress on multiple fronts even before the onset of the COVID-19 pandemic. Economic growth averaged only 3.1 percent over 2015-19 and had slumped to 1.4 percent in 2019--the lowest in the past two decades, due to drought and a downturn in global copper prices. Fiscal and external indicators worsened, due to sizable public investments and a weakening exchange rate.

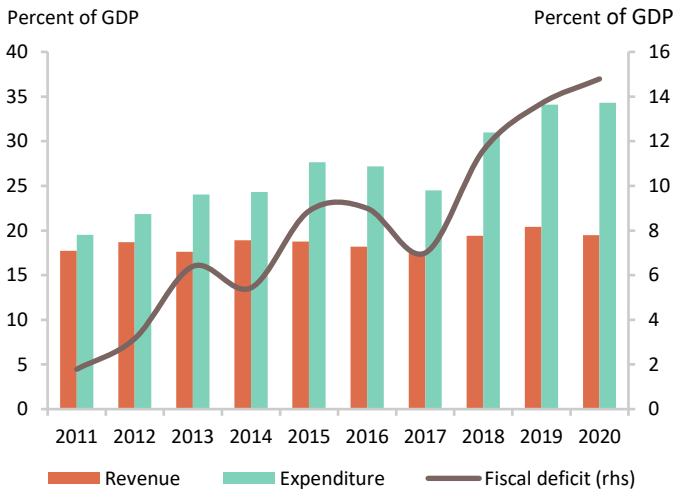
The impact of the COVID-19 pandemic heightened these macroeconomic imbalances in 2020. The economy contracted by 2.9% in 2020, marking Zambia's first recession since 1998. Mining and services suffered from lower global demand and social distancing measures, respectively, earlier in 2020. A relaxation of lockdown measures in the second half of 2020, along with a global pick-up of copper prices did, however, help activity to recover. Falling revenues and COVID-19 related expenditure pressures saw the fiscal deficit increase to 14.8% of GDP compared to an approved budget of 6.5%. The Kwacha depreciated by over 50% against the US$ while reserves declined to $1.2 billion against at least US$1.3 billion in debt service obligations. As a result, Zambia became the first Sub-Saharan African country to default on the Eurobonds in the midst of the COVID-19 crisis in 2020. Despite the persistent inflationary pressures that saw CPI inflation average 15.7% for the year, the central bank kept a relaxed monetary policy stance throughout 2020 to temper the adverse economic effects of the pandemic.

Recent developments

Recent economic developments point to a weak recovery in 2021, with higher copper prices and post-election rise in market confidence expected to strengthen economic activity in the second half. GDP in the first quarter of 2021 grew by 0.7% year-on-year, largely driven by agriculture and manufacturing, while continued challenges in tourism affected the services sector. The decade-high increase in copper prices is expected to help boost production, fiscal revenues, and external balances. The successful conduct of the August 2021 elections followed by the ushering in of a new administration and smooth power transfer have also helped improve market confidence and economic outlook, as reflected in the recent Kwacha appreciation and increasing participation of foreign investors on the domestic debt market.

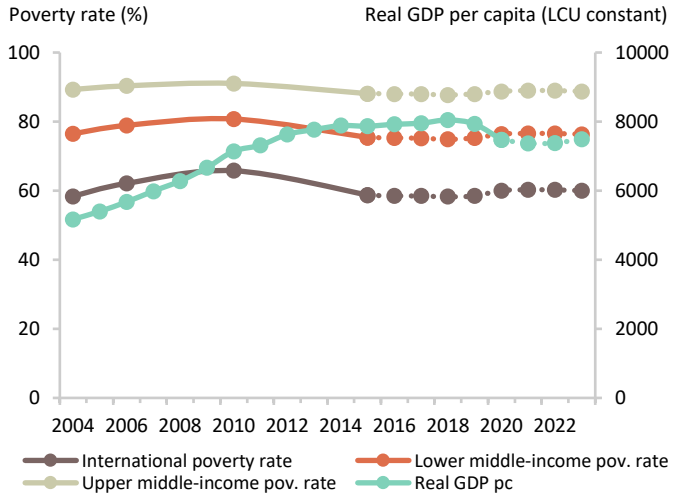
Zambia's exchange rate flexibility and the new IMF SDR allocation have helped to absorb the impact of the economic shock on the external sector. The Kwacha depreciation in 2020 led to huge import compressions, leading to a current account surplus of 12.0% of GDP. Preliminary data for 2021 also shows a sizeable current account surplus in Q1 of 2021 (about 5% of 2020 GDP), driven by increased

FIGURE 1 Zambia / Fiscal operations (2011-20)



Sources: Zambian authorities and World Bank Staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

copper sales and further declines in imports. Following a depreciation of 7% from the beginning of the year through mid-July 2021, the Kwacha has significantly appreciated in the past two months, reflecting an improved reserve position from the new IMF SDR allocation, improved post-election market confidence, and increased foreign currency sales by private sector agents. Overall, the Kwacha had appreciated by over 20% against the US dollar from the beginning of the year through mid-September 2021.

Nonetheless, the effects of the pandemic on poverty and vulnerability have continued in 2021. The national poverty headcount rate is projected to increase by around 1.7 percentage points since the start of the pandemic, from 58.6 percent in 2019 to 60.3 percent in 2021. This has largely been driven by increases in poverty in urban areas, and among those relying on employment income from the informal sector. A World Bank Household Monitoring phone survey found that 4 in 5 households reported a drop-in income from nonfarm business, and that 1 in 3 reported a reduction or disappearance of wages. A recent Socio-economic Impact Assessment conducted by the National Statistical Office found that 9 in 10 households have experienced spikes in the price of food, and that 64 percent of these had to reduce food consumption as a result. Core recurrent spending, including social benefits, has suffered in recent years, with only about one third percent of the government's budget on social cash transfers (SCT) disbursed in FY20. While the government has budgeted for a higher amount in SCT in FY21, this could be further affected by the increasing fiscal pressures due to the crisis, with a substantial impact on the most vulnerable households in the population.

Outlook

GDP growth is projected at 2.2 percent in 2021, gradually moving towards its potential growth region of between 4-5 percent by 2023. Higher copper prices, the commissioning of a new hydro power station, and a return to normal rainfall patterns are expected to support growth in agriculture and electricity production. However, the impact of COVID-19 will continue to dampen activity, especially in tourism and retail and wholesale trade. While the recent uptick in copper prices could help in ramping up mining activity in the next few years, a stable fiscal regime and clarity on the role of the state will be critical for increased long-term investment in the sector. More importantly, while mining will remain a key sector for driving growth in the foreseeable future, the country must begin to make significant steps towards economic diversification and structural transformation to generate sufficient jobs for its young and growing population and reduce poverty and inequality.

Risks to the outlook are balanced. On the one hand, the persistent upward trajectory in global copper prices will boost copper production, domestic revenue, and external stability. On the other, slow progress on debt restructuring negotiations will weaken the confidence that creditors and markets have given to the new government and may affect the economic outlook. Further, the continued low rates of COVID-19 vaccinations pose significant health and economic risks in case of a new outbreak. Rainfall variability remains a key structural risk to Zambia's sustainable growth, affecting key sectors like agriculture and electricity, and highlights the need to incorporate climate-smart solutions in the country's long-term growth strategy.

TABLE 2 **Zambia** / 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	1.4	-3.0	2.2	2.9	4.5
Private Consumption	1.2	2.3	3.1	3.6	4.5	4.5
Government Consumption	-14.9	-10.1	10.8	11.7	-33.1	-4.4
Gross Fixed Capital Investment	9.9	-14.3	-35.8	3.7	16.5	14.5
Exports, Goods and Services	8.7	-7.2	10.7	8.7	9.8	6.9
Imports, Goods and Services	4.9	-13.7	-10.7	17.4	14.3	13.1
Real GDP growth, at constant factor prices	4.0	1.5	-2.5	1.7	2.9	4.4
Agriculture	-21.2	7.7	17.2	5.0	4.4	4.0
Industry	4.6	-3.3	0.6	1.1	1.4	3.5
Services	7.3	3.5	-6.2	1.5	3.5	5.0
Inflation (Consumer Price Index)	7.5	9.1	15.7	22.5	15.0	10.0
Current Account Balance (% of GDP)	-1.3	0.6	12.0	10.3	8.5	5.4
Net Foreign Direct Investment (% of GDP)	1.4	-0.6	-1.1	1.8	2.7	2.7
Fiscal Balance (% of GDP)	-10.1	-9.5	-10.5	-2.6	-0.9	-0.1
Debt (% of GDP)	77.8	87.8	87.0	73.6	72.4	99.6
Primary Balance (% of GDP)	-5.5	-5.6	-7.2	0.5	2.5	2.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	58.3	58.6	60.1	60.3	60.3	60.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	74.9	75.3	76.4	76.6	76.6	76.3
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	87.7	88.0	88.8	89.0	89.0	88.7
GHG emissions growth (mtCO2e)	-0.7	1.7	4.8	1.2	1.2	1.6
Energy related GHG emissions (% of total)	11.8	11.2	10.4	10.7	10.1	9.8

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

(a) Calculations based on 2015-LCMS-VII.Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021to 2023.
(b) Projection using neutral distribution (2015) with pass-through = 0.7 based on GDP per capita in constant LCU.

ZIMBABWE

Table 1	2020
Population, million	14.9
GDP, current US$ billion	20.2
GDP per capita, current US$	1355.7
International poverty rate ($ 19)[a]	39.5
Lower middle-income poverty rate ($3.2)[a]	63.8
Upper middle-income poverty rate ($5.5)[a]	82.8
Gini index[a]	50.4
School enrollment, primary (% gross)[b]	109.9
Life expectancy at birth, years[b]	61.5
Total GHG Emissions (mtCO2e)	116.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent value (2019), 2011 PPPs.
(b) WDI for School enrollment (2013); Life expectancy (2019).

The economy is expected to rebound in 2021, underpinned by an exceptional agriculture season. Annual inflation fell to two-digit levels in July 2021 for the first time in two years, helped by monetary and exchange rate policies. Fiscal accounts will turn into a small deficit after two consecutive years of cash surplus, as revenue continues to recover while expenditure increases in response to the pandemic. Economic recovery will support poverty reduction, but poverty levels will remain high.

Key conditions and challenges

Macroeconomic challenges and natural disasters have kept Zimbabwe's growth volatile. High inflation, unstable exchange rates, and unsustainable debt have constrained macroeconomic stability and productivity growth. Trade integration has declined, and foreign direct investment has remained low, limiting transfer of new technologies and investment in modernizing the economy. Increased frequency of unfavorable weather events, including a drought persisting for almost three years and the devastating Cyclone Idai, downsized rain-fed agriculture, electricity and water production with ripple effects to other economic sectors and social conditions.

With no access to concessional external financing, Zimbabwe has relied on mobilizing domestic resources, donor assistance, and expensive external loans to mitigate the impact of natural disasters and the pandemic. Zimbabwe continues to be in debt distress: 62 percent of total external debt (US$10.5 billion) is in arrears. To contain inflation, fiscal policy remained tight during the pandemic which has weakened delivery of basic social services. As a result of low or negative economic growth and natural disasters, extreme poverty has steadily increased over the last decade, rising from 21 percent in 2011 to 42 percent of the population in 2020 (based on $1.90 poverty line).

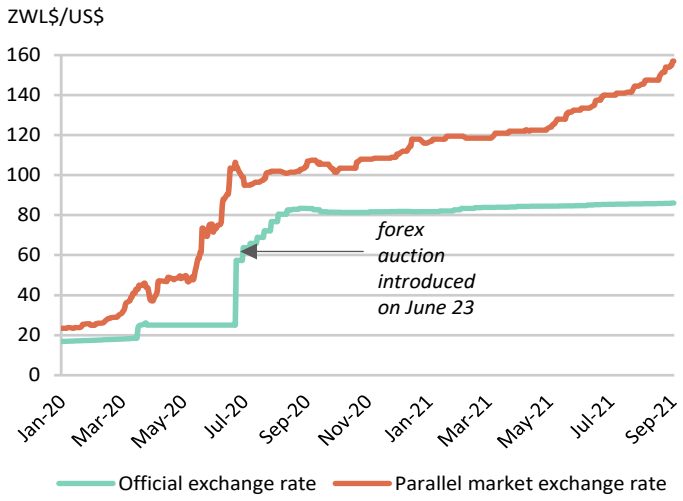
Zimbabwe's recovery needs to be underpinned by policies promoting productivity growth, such as reducing state intervention in the economy; lessening the regulatory burden; strengthening governance and anti-corruption efforts; lowering barriers to regional trade integration; and removing forex retention requirements. Bringing the pandemic under control so that economic activity can resume as normal remains the priority in the near term. Service delivery needs to be strengthened and household vulnerability reduced through robust social safety net programs.

Recent developments

The economy has shown signs of recovery, mainly boosted by higher agricultural production, improved capacity utilization in industry, and stabilization of prices and exchange rates. GDP is expected to rebound to 5.1 percent in 2021 after contracting for two years in a row. The strong rebound of the economy is anchored on a better 2020/21 rainfall season, boosting agriculture, electricity and water. Despite continuing lockdown restrictions, capacity utilization in industry strengthened as inflation slowed down markedly and forex availability improved. Domestic demand was bolstered by stabilizing prices, increasing incomes from the bumper harvest, and increased investment in public infrastructure.

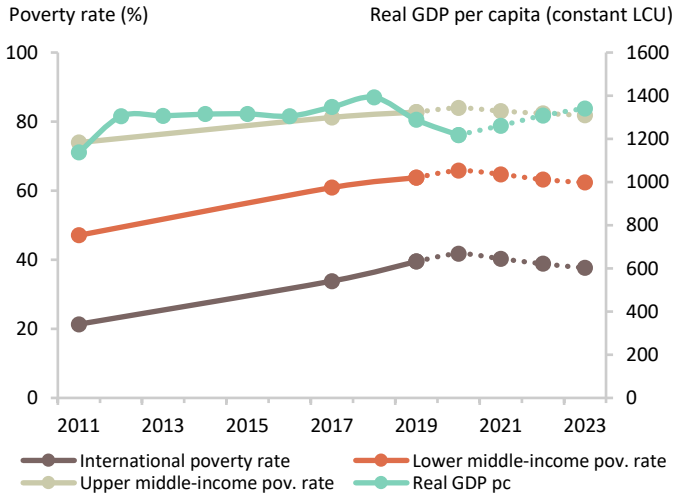
Monetary and exchange rate polices helped bring down inflation to two-digit levels for the first time in two years. Annual inflation

FIGURE 1 Zimbabwe / Exchange rates



Sources: Zimstat and World Bank staff estimates.

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



Source: World Bank. Notes: See Table 2.

stood at 50 percent in August 2021 down from the peak of 838 percent in July 2020 following the introduction of rule-based reserve money management, a foreign exchange auction, and relaxation of dedollarization. However, the continual widening gap between parallel market and official exchange rates (79 percent at end-August 2021) is likely to weigh on price stability in the future, with annual inflation expected to average 94 percent in 2021.

Fiscal accounts on cash basis were in small surplus in the first half of the year due to continued revenue growth coupled with expenditure restraint, particularly in relation to public wages. COVID-19 containment measures delayed implementation of key social programs. The fiscal balance is expected to turn into deficit (1.5 percent of GDP) after two consecutive years of fiscal surplus as expenditure increased to buy vaccines and strengthen social services. Improved economic environment eased social conditions although poverty levels remained high. The share of households that were able to buy basic food items increased noticeably in round 3 of the PICES survey (contacted between December 2020 and March 2021) compared to survey results of round 2 (September 2020) and round 1 (July 2020). The share of households experiencing severe or moderate food insecurity also declined in early 2021 from mid-2020, which could partly be due to the bumper harvest. Nevertheless, poverty and vulnerability level remain high, with a significant proportion of households reporting reduced or no income since the onset of the pandemic.

The number of people living below the international poverty line is expected to be 6.1 million in 2021 amid continued elevated prices, and a slow recovery of jobs and wages in the formal and informal sectors.

Outlook

Growth is expected to strengthen further in 2022 as the negative impacts of the pandemic subside, rain levels remain good, and implementation of structural policies outlined in the National Development Strategy accelerates. Good progress in vaccination in Zimbabwe is likely to boost tourism, trade, transport, and other sectors that were previously negatively affected by disruptions caused by COVID-related restrictions. Agriculture is expected to be robust underpinned by good rain levels. Continued implementation of disinflation policies and fine-tuning of the foreign exchange auction market are expected to bring down inflation to below 35 percent in 2022 and 2023. Risks to the outlook are significant, as COVID-19 pandemic persists, commodity prices are volatile, and the widening gap between parallel market and official exchange rates may disturb macroeconomic stability.

Fiscal deficit is projected to narrow in 2022, as the economy continues to recover, boosting revenue. Expenditure will moderate due to lower pressures from COVID response. Zimbabwe received equivalent of US$961 from IMF SDR allocation and intends to use the funds to support economic recovery (productive and infrastructure sectors and buildup of reserves) and mitigate the impact of the pandemic on the vulnerable groups.

Poverty levels are expected to marginally decline in 2022, supported by expected economic growth and relatively lower inflation. Getting the pandemic under control with widespread vaccination and adoption of preventive measures is crucial to reduce poverty and vulnerability through accelerated economic recovery.

TABLE 2 Zimbabwe / 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	4.8	-6.1	-4.1	5.1	5.4	4.2
Private Consumption	-4.5	-28.2	-26.8	4.8	5.3	5.0
Government Consumption	-2.3	24.9	3.0	5.2	3.0	4.3
Gross Fixed Capital Investment	178.3	-38.1	67.8	4.5	6.0	2.0
Exports, Goods and Services	11.6	1.7	-0.1	3.0	3.5	5.8
Imports, Goods and Services	22.8	-29.4	1.7	2.8	2.8	5.0
Real GDP growth, at constant factor prices	4.8	-6.1	-4.1	5.1	5.4	4.2
Agriculture	18.3	-17.8	4.2	16.0	6.0	5.6
Industry	3.2	-11.1	-5.5	5.8	6.1	6.0
Services	3.5	-2.1	-4.7	3.1	5.0	3.3
Inflation (Consumer Price Index)	10.6	255.3	557.2	94.0	33.0	20.0
Current Account Balance (% of GDP)	-8.4	5.8	5.4	4.0	3.6	3.0
Net Foreign Direct Investment (% of GDP)	-4.3	-1.6	-0.8	-0.4	-0.6	-0.6
Fiscal Balance (% of GDP)	-6.7	0.2	1.7	-1.5	-1.4	-1.7
Debt (% of GDP)	52.4	56.2	57.9	50.9	53.1	54.2
Primary Balance (% of GDP)	-5.7	0.5	1.8	-1.4	-1.4	-1.6
International poverty rate ($1.9 in 2011 PPP)[a,b]		39.5	41.8	40.3	38.9	37.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]		63.8	65.8	64.8	63.3	62.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]		82.8	84.0	83.1	82.4	81.9
GHG emissions growth (mtCO2e)	2.3	-1.2	-0.4	4.4	4.5	4.0
Energy related GHG emissions (% of total)	12.7	13.1	13.3	14.8	17.0	19.0

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

(a) Calculations based on 2019-PICES.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.

(b) Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

Macro Poverty Outlook

10/
2021

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