East Asia and the Pacific

Macro Poverty Outlook

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

Annual Meetings 2022

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East Asia and the **Pacific**

Annual Meetings 2022

Cambodia
Central Pacific Islands
China
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North Pacific Islands
Papua New Guinea
Philippines
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South Pacific Islands
Thailand
Timor-Leste
Vietnam

CAMBODIA

Table 1	2021
Population, million	16.9
GDP, current US$ billion	27.4
GDP per capita, current US$	1616.9
National Official Poverty Rate[a]	17.8
Gini index[a]	32.2
School enrollment, primary (% gross)[b]	105.4
Life expectancy at birth, years[b]	70.1
Total GHG emissions (mtCO2e)	70.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ National Statistics Office. Most recent value (2019/20).
b/ Most recent WDI value (2020).

Underpinned by a recovery of domestic economic activity and resilient exports, Cambodia's economy continued to recover, despite worsening global demand and rising commodity prices. Economic growth for 2022 is projected to reach 4.8 percent, marginally increasing from an earlier projection of 4.5 percent. While easing somewhat in recent months, inflationary pressures remain high and overall risks are titled to the downside with a deteriorating global outlook.

Key conditions and challenges

Coronavirus infections resurged, caused primarily by the spread of the Omicron variant. Nevertheless, there were no reported coronavirus-related deaths since early this year, reflecting the country's success in rolling out its vaccination program. By end-August 2022, about 86 percent of the population had received two doses of coronavirus vaccine. After adopting a strategy of "living with COVID-19" in late last year, the economy has gradually recovered, driven by domestic economic activity and merchandise exports. However, as an importer of energy, Cambodia was hit by the global oil price shock. High inflation, largely driven by rising food and fuel prices weigh on real income and household purchasing power, in turn constraining the recovery of private consumption.

While the near-term growth outlook has improved marginally since April, risks are tilted to the downside. Elevated inflation is worsening people's welfare. In addition, monetary tightening in the United States, weakening growth in China, and the war between Russia and Ukraine, are negatively affecting the external environment which will in turn dampen Cambodia's exports. Domestically, high credit growth and concentration of domestic credit in the construction and real estate sector remain a key risk to Cambodia's financial stability.

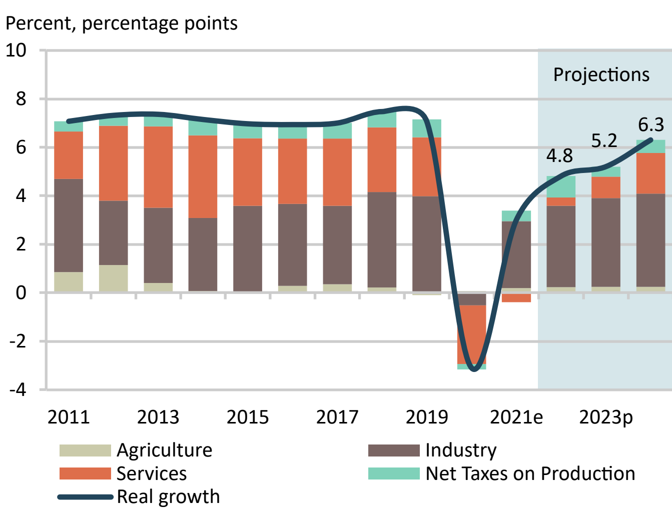
Recent developments

In the second quarter of 2022, the economic recovery gained momentum as investment and trade expanded. Approved FDI project value reached US$315 million in the second quarter of 2022. Merchandise (excluding gold) exports accelerated further, expanding at 33.0 percent y/y during the first seven months of 2022 (figure 2), driven mainly by a recovery of garment, travel goods, and footwear (GTF) exports. GTF exports to the U.S., Cambodia's largest exports market, remained robust, growing at 39.1 percent y/y during the first seven months of 2022. The services sector, especially the travel and tourism sector also improved.

Driven by rising food and fuel prices, consumer price inflation surged. However, inflation eased to 5.4 percent in July 2022, down from 7.8 percent in June 2022. The exchange rate continued to be stable at 4,100 riel per U.S. dollar. The current account deficit improved as merchandise imports decelerated. Gross international reserves declined marginally to US$19.5 billion in June 2022, down from US$20.2 billion in December 2021, but remained at about 8 months of imports.

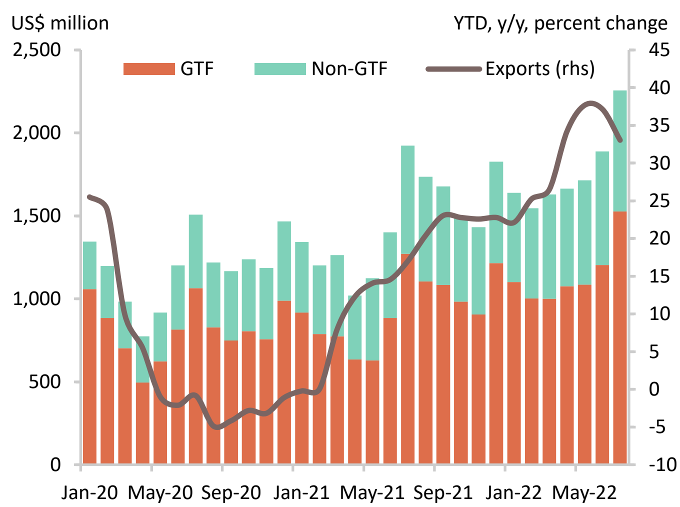
Monetary conditions continued to be accommodative. Broad money growth, however, eased to 12.9 percent y/y in June 2022, compared to 19.2 percent during the same period last year as foreign currency deposit growth slowed. Private sector deposit growth held up at 15.1 percent y/y in June 2022. Reflecting a robust demand for

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



Source: Cambodian authorities and World Bank staff projections.
Note: e = estimate; p = projection.

FIGURE 2 Cambodia / Merchandise (excluding gold) exports



Source: Cambodian authorities.
Note: GTF = garment, travel goods, and footwear (and other textile products); YTD = year-to-date; y/y = year-on-year; and rhs = right-hand scale.

credit to finance economic recovery, domestic credit growth was strong at 23.4 percent y/y in June 2022.

Revenue collection accelerated, growing at 19 percent y/y during the first six months of 2022. Fiscal revenue including grants is projected to improve, reaching 21.4 percent of GDP, while expenditure is expected to remain at 27.2 percent of GDP. The fiscal deficit is, therefore, expected to narrow, but remains relatively large at 5.8 percent of GDP. The deficit will continue to be largely financed by external borrowing, covering about 80 percent, while the rest is to be financed by a drawdown of government deposits (fiscal reserves) which stood at 17 percent of GDP in June 2022.

The government has extended the cash transfer program to the end of 2022 to also address the negative impacts of the food and oil price shock. The program benefits approximately 690,000 households (2.7 million individuals) or 17 percent of the population. As of July 2022, the program has disbursed US$714 million since the launch in June 2020. The results of a High Frequency Phone Survey of Households show that employment has returned to pre-pandemic levels. The impacts of the pandemic on non-farm family businesses have stabilized; however, relatively weak consumer demand remained the main driver of revenue losses. In May 2022, 28 percent of households reported their incomes had reduced over the past two months while the majority reported no change.

Outlook

Cambodia's real GDP growth is projected to reach 4.8 percent in 2022. Traditional export-oriented growth drivers—especially the garment, footwear, travel goods, and bicycle manufacturing industries as well as agriculture—continue to underpin the economic recovery.

In 2023, economic growth is expected to improve to 5.2 percent, supported by recovering domestic consumption as employment rates improve along with strong government consumption during the election year and inflation recedes,. The travel, tourism, and hospitality industries are expected to see a boost, underpinned by a revival of domestic demand and tourism. The fiscal balance is projected to continue to normalize on the back of stronger growth, stabilizing. debt levels. The external account sees further improvement through relatively resilient exports. Over the medium term, the economy is expected to trend back to potential, growing at 6 percent. Poverty is expected to decline due to the projected economic recovery and moderating inflation.

The medium-term outlook is, however, subject to the global environment's downside risks. Cambodia's export-oriented manufacturing is vulnerable to an extended slowdown in the U.S and structural slowdown in China. Similarly, if elevated energy prices linger, the deterioration of the terms of trade will undermine consumer confidence, corporate profitability and potentially prevent the economy from reaching potential growth by 2024. Further, intensifying geopolitical tensions, growing stagflationary headwinds, rising financial instability, continuing supply-side constraints, and worsening food insecurity all present serious risks to Cambodia's projected path to economic recovery.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	7.1	-3.1	3.0	4.8	5.2	6.3
Private Consumption	7.0	-0.8	10.9	-8.3	1.2	2.1
Government Consumption	10.0	12.5	-24.1	4.0	12.0	17.8
Gross Fixed Capital Investment	6.9	11.2	35.0	-11.5	-0.2	14.7
Exports, Goods and Services	7.8	1.1	2.9	16.5	12.6	12.3
Imports, Goods and Services	6.0	7.3	48.7	1.2	6.5	9.3
Real GDP growth, at constant factor prices	6.8	-3.1	2.8	4.3	5.2	6.3
Agriculture	-0.5	0.4	1.1	1.3	1.5	1.5
Industry	11.3	-1.4	7.4	8.6	9.1	9.2
Services	6.2	-6.2	-1.0	0.9	2.6	4.9
Inflation (Consumer Price Index)	1.9	2.9	2.8	6.0	4.2	3.8
Current Account Balance (% of GDP)	-15.2	-12.4	-41.9	-25.0	-15.5	-12.5
Net Foreign Direct Investment Inflow (% of GDP)	13.2	13.5	12.4	12.4	13.0	14.2
Fiscal Balance (% of GDP)	1.5	-4.9	-6.7	-5.8	-5.4	-4.4
Debt (% of GDP)	28.2	36.1	35.3	35.1	35.1	35.7
Primary Balance (% of GDP)	1.9	-4.3	-6.1	-5.2	-4.8	-3.8
GHG emissions growth (mtCO2e)	1.9	-1.3	-0.4	1.7	2.5	3.3
Energy related GHG emissions (% of total)	19.3	18.5	18.3	19.4	20.9	22.8

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	4663

Sources: WDI, World Bank staff estimates.

Growth rates in Kiribati, Nauru, and Tuvalu are expected to recover as borders gradually reopen. While Tuvalu remains COVID-free, Kiribati and Nauru experienced community outbreaks in 2022. Global inflation, slowing global growth, drought, and changes to Nauru's Regional Processing Centre will weigh on the Central Pacific's economies in the medium term. Longer term, a narrow economic base and vulnerability to climate change are key challenges for growth and reducing poverty.

Key conditions and challenges

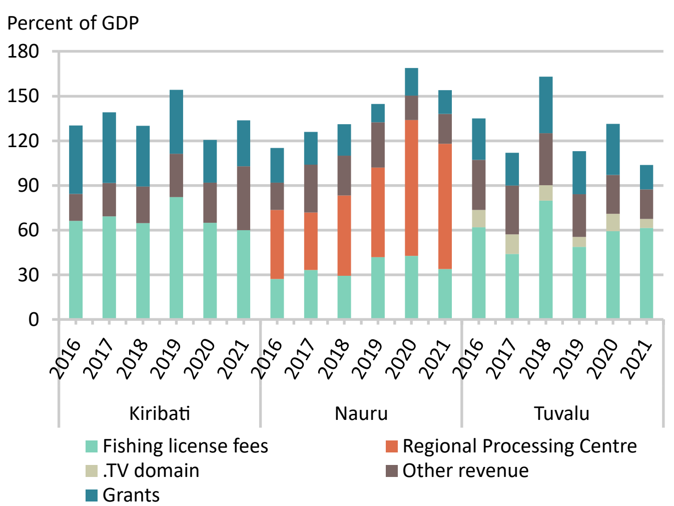
The Central Pacific faces major development challenges due to climate change, small size, remoteness, heavy reliance on external grants, near-total dependence on imports for foods and fuel, concentrated economic bases, and volatile revenue streams (like fishing). All three countries have invested in trust funds to stabilize volatile revenues and provide long-term development financing, but fiscal sustainability remains an important challenge.

In recent years, **Kiribati**'s growing fisheries revenues have allowed the government to rapidly increase public spending to tackle its high rates of poverty and deprivation. According to a 2019 survey, 21.9 percent of the population were below the national poverty line, and high shares of the population were deprived of non-monetary needs, such as access to clean water, sanitation, and electricity. The latest IMF-World Bank LIC DSA (April 2021) found Kiribati's external debt, at 23.2 percent of GDP, to be sustainable but at a high risk of debt distress. As its fiscal space is now narrowing, Kiribati will need to focus on the quality of public spending to achieve further development gains.

Nauru needs to adjust to lower fiscal revenues and find new sources of economic growth over the medium term. Public revenues, economic growth, and employment have historically depended on phosphate mining, fishing, and Australia's Regional Processing Centre (RPC) for asylum-seekers. However, its phosphate has now been extracted, fishing revenues are volatile, and from January 2023 RPC income will fall, reducing fiscal revenues by 22 percent (or 38 percent of GDP) in FY2023. The latest IMF DSA (February 2022) found Nauru's public debt, at 27.1 percent of GDP, to be sustainable; improving on the 'unsustainable' assessment in 2019. The improvement was due to public debt falling by 70 percent in March 2021 when long-defaulted yen bonds were settled, and domestic debts from the Bank of Nauru liquidation were reduced. Looking forward, Nauru will need to focus on diversifying its economic base.

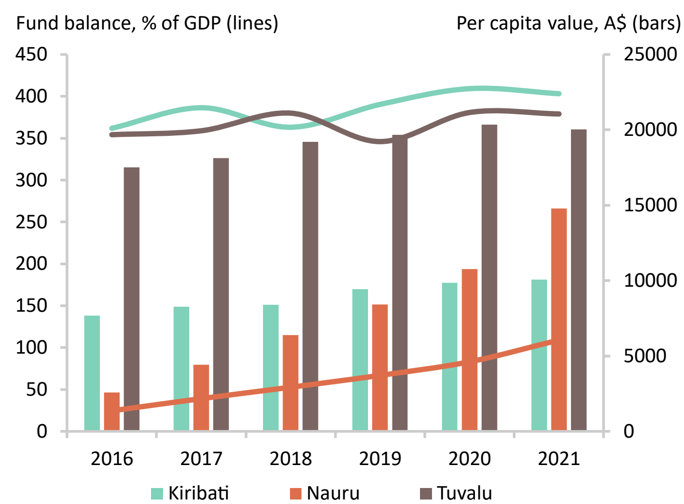
Tuvalu is one of the smallest and most climate-vulnerable countries in the world. Though no recent data on poverty is available, in 2010 an estimated 26 percent of the population lived below the national poverty line. Private sector development is restricted by inadequate infrastructure and no economies of scale. The COVID-19 fiscal response, support from development partners, and stable fisheries revenue enabled Tuvalu to weather the pandemic. While Tuvalu remains COVID-19 free, it has suffered from lower tourism activity, reduced remittances, and delays in infrastructure projects. As an import-dependent economy, rising international commodity prices are a concern as it erodes real household incomes. The July 2021 IMF-World Bank LIC DSA assessed Tuvalu as at high risk of debt distress but public debt is deemed sustainable.

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 / Trust Fund balances, 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. The Nauru Trust Fund was established in 2016.

Recent developments

Following a 0.5 percent economic contraction in 2020 due to COVID-19 border closures, **Kiribati** experienced a modest economic recovery in 2021 with an estimated 1.5 percent annual growth. The recovery is driven by increased public spending on social benefits that outweighed the ongoing effects of the border measures. This spending included a new unemployment benefit for all 18 to 60 year-olds, which is expected to reduce poverty as more than three quarters of the adult population are eligible. The benefit, however, has introduced significant fiscal pressures at an annual cost of 12 percent of GDP. Nonetheless, a 14.5 percent of GDP drawdown from the sovereign wealth fund limited the 2021 fiscal deficit to an estimated 3.7 percent of GDP. As of end-2021, the value of the sovereign wealth fund stood at 490 percent of GDP.

In FY22 **Nauru**'s economy is estimated to have grown by 0.9 percent. In July 2022 Nauru experienced its first Covid outbreak. The effects of lockdowns were offset by fiscal support, and the outbreak was largely over by mid-August with help from the high vaccination rate. Fiscal performance in FY22 was better than expected due to strong fisheries revenues and the RPC being extended to December 2022. This allowed the Government to provide additional support to SOEs and public services, offset a global oil price spike by lowering the fuel duty by 20 cents per liter in June 2022 and make a prepayment into the Intergenerational Trust Fund, which grew by 28 percent in FY22 through contributions and strong investment performance. As of 31 March 2022, the Fund was valued at 135 percent of GDP.

In **Tuvalu**, growth is estimated to be 0.3 percent in 2021 and 3.0 percent in 2022 as travel and infrastructure project implementation gradually resumes. The Government announced that when over 80 percent of the entire population is fully vaccinated, it will consider reopening the borders at the end of 2022. The Government projects a fiscal surplus of 7.0 percent of GDP in 2021 and a deficit of 12.0 percent of GDP in 2022. Total sovereign wealth funds for Tuvalu, comprising the Tuvalu Trust Fund (TTF), the Consolidated Investment Fund (CIF), and the Tuvalu Survival Fund (TSF), stood at 379 percent of GDP at the end-2021.

Outlook

In **Kiribati**, moderate growth of about 1.5 percent is projected in 2022. A lockdown in the first quarter, drought, and the slowdown in global economic activity will be offset by strong fishing revenues, supportive fiscal policies, and the international border re-opening in August. Despite doubling the copra subsidy from US$2 to US$4/kg, the Government projects a fiscal surplus of 1 percent of GDP in 2022 which increases steadily to 2025. This relies on dividends from the Revenue Equalization Reserve (RERF) which are highly uncertain, due to the option-like withdrawal rule. While the rule is an important fiscal anchor, a more stable version, like withdrawing a fixed share of assets, would make budgeting easier. To boost growth Kiribati should focus fiscal spending on targeted poverty reduction and investment in human capital.

In FY23 **Nauru**s GDP growth is projected to increase to 1.9 percent. This is driven by port upgrades that are expected to open in December 2022, offset by the RPC winding down. The latter will reduce government revenues by A$70m in FY23, so spending must tighten by A$52m (17 percent) to achieve a balanced budget and meet fiscal responsibility ratios. The Government plans to reduce spending on operations, social housing, and one-off payments from FY22. Nauru may have opportunities to increase RPC revenues when negotiating future "enduring capability" arrangements or move up the value chain to operate the RPC, which yielded a A$101m profit for the Australian operating company in FY21. Nauru also has opportunities to diversify the economy through expanding the Vessel Day Scheme, making greater use of international labor mobility schemes and niche tourism.

In **Tuvalu**, the gradual easing of restrictions and reopening of borders is expected to accelerate growth to 3.5 percent in 2023 and 4.0 percent in 2024. A fiscal surplus of 2.0 percent of GDP is projected in 2023 and a deficit of 3.0 percent of GDP in 2024 due to the unwinding of COVID-19 fiscal support. Additional revenue worth 2.0 percent of GDP is expected from the reinstated tuna transshipment in February 2022 in the capital Funafuti after a two-year COVID-19 ban. The future of the renegotiated.TV domain license (about 10 percent of total fiscal revenue) contract in 2021 is unclear as global demand for domain licenses drops. Risks to the outlook and potential poverty reduction include rising commodity prices, natural disasters, slower than planned COVID-19 vaccination, and declining donor grant support.

Risks to the Central Pacific outlook are substantial and include slowing global growth after the pandemic recovery; shocks to global commodity prices; volatile revenue flows, including grants 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)

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth, at constant market prices						
Kiribati	-0.5	-0.5	1.5	1.5	2.3	2.1
Nauru	1.0	0.7	1.5	0.9	1.9	2.8
Tuvalu	13.8	-4.9	0.3	3.0	3.5	4.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]						
Kiribati	19.4	20.6	20.6	20.6	20.6	20.3

Sources: World Bank and IMF.

Note: e = estimate; f = forecast. Country authorities and World Bank and IMF staff estimates. Nauru data are based on the fiscal year ended June. Kiribati and Tuvalu are calendar years.

a/ Calculations based on EAPPOV harmonization, using 2019-HIES.

b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

CHINA

Table 1	2021
Population, million	1412.4
GDP, current US$ billion	17682.4
GDP per capita, current US$	12519.8
International poverty rate ($2.15)[a]	0.1
Lower middle-income poverty rate ($3.65)[a]	3.0
Upper middle-income poverty rate ($6.85)[a]	24.7
Gini index[a]	38.2
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	77.1
Total GHG emissions (mtCO2e)	12846.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

Amid multiple domestic and external headwinds, China's GDP growth is expected to slow sharply to 2.8 percent in 2022. Tight mobility restrictions in response to Omicron outbreaks have weighed on growth while persistent stress in the real estate sector has exacerbated downward pressure on economic activity. Despite the rise in global energy prices, inflationary pressures have remained moderate in light of subdued domestic demand. Poverty is expected to continue its declining trend in 2022, albeit at a much slower pace than in 2021.

Key conditions and challenges

Over the near term, China's economy has been facing multiple headwinds. COVID-related restrictions have weighed on China's growth, while persistent stress in the real estate sector has reduced housing sales and investment, further exacerbating downward pressure on economic activity. The external environment has also significantly worsened in the wake of Russia's invasion of Ukraine, with global growth slowing, inflation soaring, and financial conditions tightening.

Over the medium term, China's economy continues to confront a structural slowdown. Potential growth has been on a declining trend, reflecting adverse demographics, tepid productivity growth, and rising constraints to a debt-fueled investment-driven growth model. Geopolitical tensions that constrain China's access to global technologies could worsen.

Recent developments

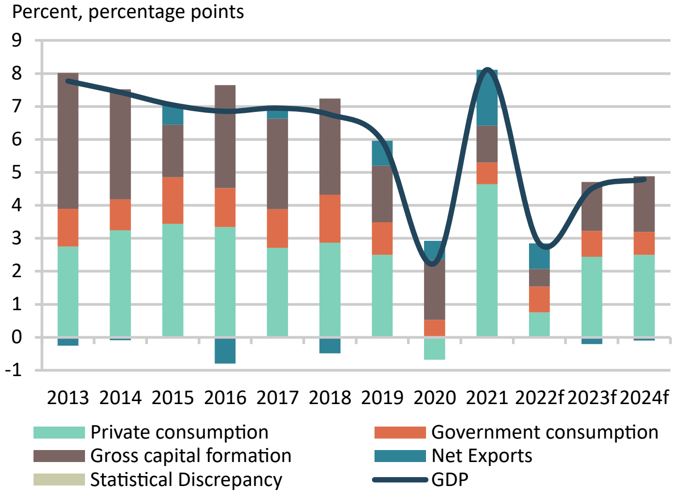
After a strong start in early 2022, China's growth cooled rapidly in the second quarter, mostly due to weaker consumption and services. Real GDP growth moderated to 0.4 percent y/y in the second quarter from 4.8 percent in the first quarter. Industrial production contracted as supply chains and logistics faced disruptions, with knock-on effects on trade flows. In light of subdued domestic demand, consumer inflation has stayed moderate and below the government's 2022 annual average target of 3 percent.

Prolonged weakness in the real estate sector remains a major headwind to China's economic recovery. Housing activity - which, together with second-round effects on the rest of the economy, accounts for an estimated 29 percent of GDP[1] - has rapidly deteriorated since mid-2021. Regulatory tightening, intended to curtail excessive leverage in the sector, has led to mounting stress in property developer funding, which has consequently constrained their investments, land purchases and construction starts. Weak consumer sentiment and mortgage boycotts by owners of homes still under construction have further weighed on the demand for real estate.

The strong recovery in 2021 resulted in poverty reduction, though slowing growth and a weaker labor market may limit welfare improvements this year. The poverty rate - as measured by the upper-middle income country line in 2017 PPP - is estimated to have fallen to 20.4 percent in 2021 (45 million fewer poor people than in 2020). Yet, the lockdowns in the second quarter of 2022 pushed urban unemployment up to 6.1 percent in April, the highest since February 2020, while youth unemployment reached a record level. Among urban residents without local hukou (household registration),

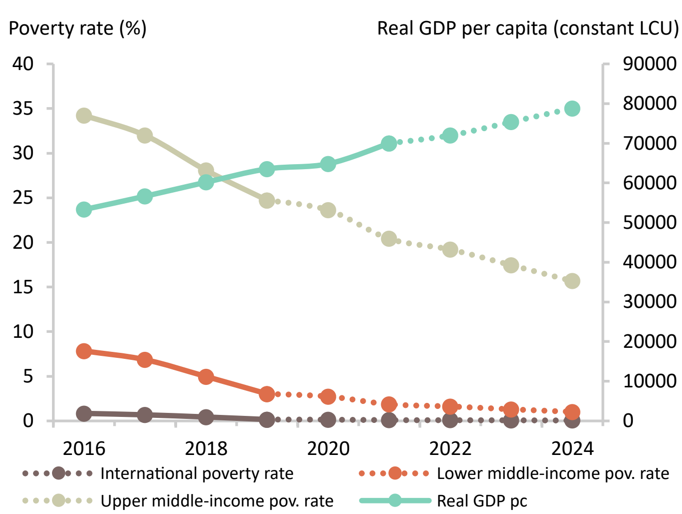
1/ Rogoff, K. and Y. Yang. 2020. "Peak China Housing." NBER Working Paper No. 27697, National Bureau of Economic Research, Cambridge, MA.

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



Sources: China's 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.

unemployment increased to 6.9 percent in April, though it subsequently declined. In the first half of 2022, urban residents reduced consumption, even as their disposable income marginally increased relative to January-June 2021. Over the same period, expenditure and income for rural households grew by around 4 percent, with income driven by strong growth of salaries and transfers, albeit slower than in the previous year.

The authorities have stepped up macroeconomic policy easing with higher public infrastructure spending, tax rebates, policy interest rate cuts, and relaxation in local purchase restrictions in the property sector. However, reduced social mobility and elevated economic uncertainty have continued to weigh on private consumption and investment, decreasing the effectiveness of policy stimulus.

Outlook

China's GDP growth is expected to slow sharply to 2.8 percent in 2022, reflecting the negative impact of the pandemic, continuing real estate woes, and weakening external demand. A modest rebound is expected in the second half of 2022, helped by the public infrastructure push and a moderate recovery in consumer spending. However, the normalization of domestic demand is expected to be gradual amid lingering softness in labor market conditions, subdued consumer sentiment, and a prolonged real estate downturn. External demand is also expected to weaken as global growth slows.

In contrast to other major economies, inflation in China is projected to remain moderate. Headline CPI inflation is expected to pick up modestly, mainly due to higher food prices resulting from declining domestic hog supply and unfavorable weather conditions. Core inflation is likely to remain subdued amid the moderate recovery in domestic demand.

The GDP growth slowdown means that poverty will continue to decline, albeit at a slower pace than last year. The poverty rate measured at $6.85/day per person (at 2017 PPP) is projected to fall to 19 percent in 2022. This implies 16 million fewer poor people this year, compared to an estimated fall in the number of the poor of 45 million in 2021. The share of the poor residing in urban areas is projected to continue to grow, reaching 41 percent in 2022.

Risks to China's growth outlook are tilted to the downside. The most prominent risks relate to the possibility of large-scale outbreaks of new, highly transmittable virus variants, which could lead to more prolonged disruptions in economic activity. Risks also emanate from the persistent stress in the real estate sector, which could result in larger-than-expected spillovers into the rest of the economy and financial markets. These could be triggered by stricter public health measures and spreading mortgage boycotts discouraging prospective buyers, which could further reduce available financing for real estate developers and weigh on sales and investment. Lower property prices could reduce consumer spending via their negative impact on household wealth.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.0	2.2	8.1	2.8	4.5	4.8
Private Consumption	6.5	-1.8	12.4	1.9	6.3	6.4
Government Consumption	6.0	3.2	4.0	4.9	4.8	4.2
Gross Fixed Capital Investment	5.3	3.2	2.3	1.4	3.8	4.3
Exports, Goods and Services	2.1	1.7	17.9	2.2	1.2	2.0
Imports, Goods and Services	-1.8	-1.4	10.7	-1.8	2.9	3.2
Real GDP growth, at constant factor prices	6.0	2.2	8.1	2.8	4.5	4.8
Agriculture	3.1	3.1	7.1	3.5	3.1	3.1
Industry	4.9	2.5	8.2	3.2	4.1	4.2
Services	7.2	1.9	8.2	2.5	5.0	5.5
Inflation (Consumer Price Index)	2.9	2.5	0.9	2.3	2.0	1.9
Current Account Balance (% of GDP)	0.7	1.7	1.8	1.6	1.0	0.7
Net Foreign Direct Investment Inflow (% of GDP)	0.4	0.7	1.2	0.7	0.6	0.5
Fiscal Balance (% of GDP)[a]	-4.6	-8.5	-4.4	-7.0	-5.4	-4.3
Debt (% of GDP)	38.5	45.4	47.1	51.4	53.7	54.7
Primary Balance (% of GDP)	-3.6	-7.5	-3.3	-5.9	-4.2	-3.0
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.1	0.1	0.1	0.1	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	3.0	2.7	1.9	1.6	1.3	1.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	24.7	23.6	20.4	19.2	17.5	15.7
GHG emissions growth (mtCO2e)	2.0	1.0	5.5	1.2	1.7	1.6
Energy related GHG emissions (% of total)	82.8	82.7	82.5	82.2	81.8	81.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
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 2019 provided by NBS. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
c/ Projections based on GDP growth estimates, using a neutral distribution assumption with pass through 0.85 to per capita household consumption.

FIJI

Table 1	2021
Population, million	0.9
GDP, current US$ billion	4.4
GDP per capita, current US$	4889.6
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	12.4
Upper middle-income poverty rate ($6.85)[a]	52.6
School enrollment, primary (% gross)[b]	112.7
Life expectancy at birth, years[b]	67.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2020).

The reopening of borders to tourists in December 2021 significantly boosted economic recovery. The economy is expected to recover to its pre-pandemic level by 2024, thanks to private spending and investment. The outlook is dependent on tourism activity, cyclones and floods, and contagion from the Ukraine war. Structural reforms are needed to accelerate growth and poverty reduction, and fiscal consolidation is critical to reduce the high level of public debt.

Key conditions and challenges

Fiji is a Pacific Island, upper middle-income country with more than 300 islands, of which one third are inhabited by about 900,000 people. Remoteness, natural disasters, and import dependency are significant constraints to development. From 2010 to 2018, Fiji's economy grew by 3.7 percent before slowing down in 2019. Tourism is the economic engine, accounting for almost 40 percent of GDP, 30 percent of employment, and is a primary source of foreign exchange earnings. Growth was also supported by increased household spending and substantial rehabilitation activities following natural catastrophes. Prior to the COVID-19 pandemic, Fiji had a poverty rate of 24.1 percent in 2019/2020 as defined by the national standards of living.

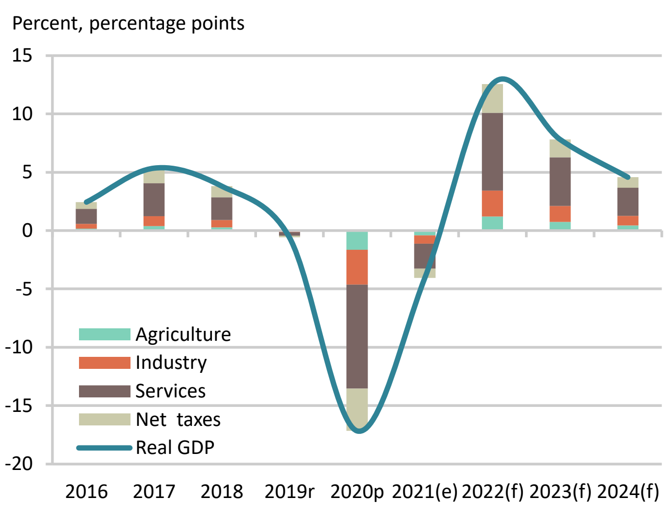
Real GDP contracted by 17.2 percent in 2020 and 4.1 percent in 2021, disrupting fiscal policy and amplifying pre-pandemic fiscal vulnerabilities that led to a spike in public debt. Fiji's adoption of the WHO best-practice standards and protocols, and its high COVID-19 vaccination rate resulted in the reopening of international borders in December 2021, which stimulated economic recovery. High dependence on tourism is a risk to sustained recovery and highlights the need for diversified sources of growth. Fuel, food, and fertilizer prices, comprising around 40 percent of imports, have increased due to the Ukraine war. High inflation affects domestic business and consumption, slows economic recovery, lowers real income, and arrests poverty reduction. The April 2022 World Bank MAC Debt Sustainability Analysis assessed Fiji with high debt vulnerabilities, but public debt is sustainable with fiscal consolidation, and near-term risks are heightened. Building climate resilience and fostering a favorable environment for private sector participation are key to unlocking the country's economic potential.

Recent developments

Over half of the (pre-pandemic) 2019 tourists have visited Fiji in H1-2022 with more expected in H2-2022. The economy is estimated to grow by 12.6 percent in 2022 underpinned by an expected 55 percent arrivals to pre-pandemic level. This double-digit recovery is primarily driven by services-related sectors such as accommodation, transport, wholesale, and finance and insurance. Projections indicate that economic recovery will reduce extreme poverty (US$2.15 in 2017 PPP) from 3.7 percent in 2021 to 2.4 percent in 2022. This is still above the pre-pandemic rate of 1.3 percent in 2019, which was also the latest estimate based on household survey data. Actual poverty reduction is dependent on the extent to which economic recovery leads to jobs for low-skilled workers and the effectiveness of government support to vulnerable households.

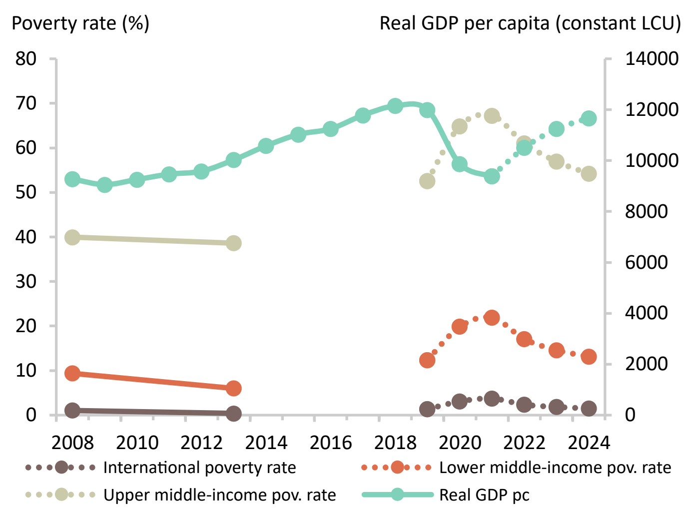
The current account deficit is estimated to decline to 12.4 percent of GDP in 2022,

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



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

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



Source: World Bank. Notes: see Table 2.

reflecting improved service balance. Reserves remained accommodative at 8.3 months of imports at end-August 2022. Headline inflation was 5.2 percent in July 2022 driven by higher food and energy prices. Inflation is expected to be 5 percent at end-2022 which will put pressure on growth and poverty reduction. Inflation mitigation measures in the FY23 Budget approved in July 2022 include cash assistance for children of low-income households, existing social welfare recipients, and tertiary students; a 10 percent reduction in bus fares; and reforms in tertiary scholarship and loan programs. The mitigation measures will be complemented by the phased increase of minimum wage from FJ$2.68 to FJ$4.00 by January 2023 announced in the FY22 Revised Budget. Monetary policy remains appropriately accommodative to support recovery, with overnight policy rate maintained at 0.25 percent since 2020.

The fiscal deficit is expected to be 10.7 percent of GDP in 2022 down from 11.2 percent in 2021. Key drivers of fiscal consolidation are revenue and tax policy reforms and reduced capital transfers to SOEs. Public debt to GDP is estimated at 85.7 percent in 2022.

Outlook

Growth in 2023 is projected at 7.8 percent from an expected 85 percent tourist arrivals to 2019 level and at 4.6 percent in 2024 assuming full tourism recovery to the pre-pandemic level. Key drivers of growth include services, industrial and primary sectors in line with the rebound in travel and tourism. Risks that could derail the growth outlook include a drawn-out Ukraine war, natural disasters and reemergence of a pandemic. Poverty is expected to follow a downward trend, although it is not anticipated to return to pre-pandemic levels by 2024. Inflation is expected to normalize by 2023. A prolonged war may exacerbate inflationary pressures, weaken the external balance, and affect tourism. The most vulnerable would be further disadvantaged as food comprises around 40 percent of their consumption basket.

The current account deficit is projected to narrow over the medium term from 12.4 percent of GDP in 2022 to 6.1 percent in 2024 due to higher tourism earnings and remittances. The imbalance will be largely financed through borrowing. Foreign reserves in the medium term is expected to soften to around 7.3 months of retained imports in 2024 from 8.5 months expected at the end of 2022 as Government external borrowing softens.

The fiscal deficit is projected to be 5.7 percent of GDP in 2023 and 3.1 percent in 2024, resulting in public debt to GDP reduction to 81.3 percent by 2024. The approved FY23 Budget realigned the corporate tax rate to 20 percent, and raised vehicle duties, including placing strict control on the wage bill and lowering operating subsidies and capital expenditure. Over the medium term, the Government is expected to continue with fiscal policy and administration reforms and PFM improvements. Public debt is expected to be sustainable depending on fiscal consolidation and recovery.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-0.6	-17.2	-4.1	12.6	7.8	4.6
Real GDP growth, at constant factor prices	0.3	-13.6	-2.5	12.6	7.8	4.6
Agriculture	4.5	3.3	1.4	7.4	4.5	4.0
Industry	-0.9	-10.3	-4.3	14.0	8.7	7.7
Services	0.0	-17.1	-2.6	13.1	8.1	3.7
Inflation (Consumer Price Index)	-0.9	-2.8	3.0	5.0	2.0	2.2
Current Account Balance (% of GDP)	-12.6	-12.9	-13.2	-12.4	-11.4	-6.1
Fiscal Balance (% of GDP)	-2.7	-12.8	-11.2	-10.7	-5.7	-3.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.3	3.1	3.7	2.4	1.8	1.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	12.4	19.9	21.9	17.1	14.6	13.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	52.6	64.9	67.2	61.0	56.9	54.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on EAPPOV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

INDONESIA

Table 1	2021
Population, million	276.4
GDP, current US$ billion	1186.1
GDP per capita, current US$	4291.8
International poverty rate ($2.15)[a]	3.5
Lower middle-income poverty rate ($3.65)[a]	22.4
Upper middle-income poverty rate ($6.85)[a]	60.6
Gini index[a]	37.3
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.9
Total GHG emissions (mtCO2e)	2017.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2020).

Recovering private consumption and investment helped sustain growth in 2022 despite global price pressures. Accordingly, poverty rates should return to pre-pandemic levels. Commodity windfalls sustained the current account surplus, easing external financing needs amidst tighter global financing conditions. Subsidy costs are increasing, prompting authorities to raise fuel prices. Indonesia is not immune to external risks. Rising cost-push inflation, geopolitical tensions, and tightening financing conditions represent downside risks to the recovery.

Key conditions and challenges

The accelerated reopening of the economy and windfalls from high commodity prices are providing significant tailwinds for boosting domestic demand, especially in the services and manufacturing sectors. Nevertheless, global trends of rising fuel and food prices continue to push inflation, which in July 2022 reached a seven-year high (4.9 percent you).

Rising commodity prices have helped sustain a trade surplus, lift international reserves, and partially offset energy subsidies through budgetary revenue windfalls. However, fuel consumption has also accelerated rapidly, which together with higher prices, contributed to growing subsidies. To relieve fiscal pressures, the authorities raised the retail price of fuel by 30 percent in September. Elevated commodity prices have also increased the financial pressures on energy SOEs as they continue to price below cost.

Monetary policy has tightened in an attempt to curb inflation. Bank Indonesia (BI) raised its policy rate by 75 basis points between August and September 2022. It has also used non-interest instruments to absorb excess liquidity. This includes a gradual increase in reserve requirements ratio from 5 to 9 percent between June and September and a gradual release of BI's government bonds ownership.

Employment continues its recovery, although not yet reaching pre-pandemic levels. However, a larger number of workers remain trapped in lower-quality work. Similarly, poverty is continuing its decline but inflationary pressures especially on food can deteriorate purchasing power, specifically for poorer households.

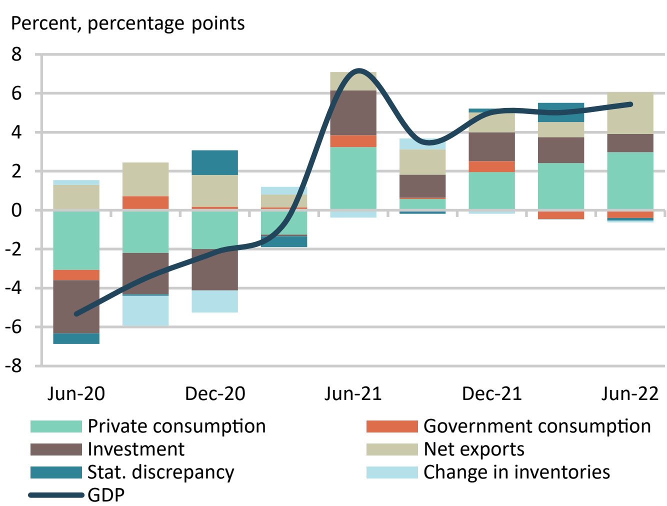
Recent developments

The economy is steadily recovering from COVID-19 despite challenging global conditions. The lifting of mobility restrictions and the release of pent-up demand have fueled a rise in private consumption and investment. The economy expanded by 5.2 percent yoy in H1-2022, up from 3.1 percent in H1-2021. Domestic demand has boosted manufacturing, wholesale and retail trade, as well as telecommunication sectors.

Poverty has declined albeit at a slower pace than during pre-pandemic years. In 2021, the international poverty rate stood at 3.6 percent, down from 3.8 percent in 2020. In addition to recovering domestic demand, the COVID-19 social assistance package played a notable role in protecting households from falling into poverty. With 72.2 percent of the population vaccinated, the government has scaled back the COVID-19 stimulus package and lifted mobility restrictions.

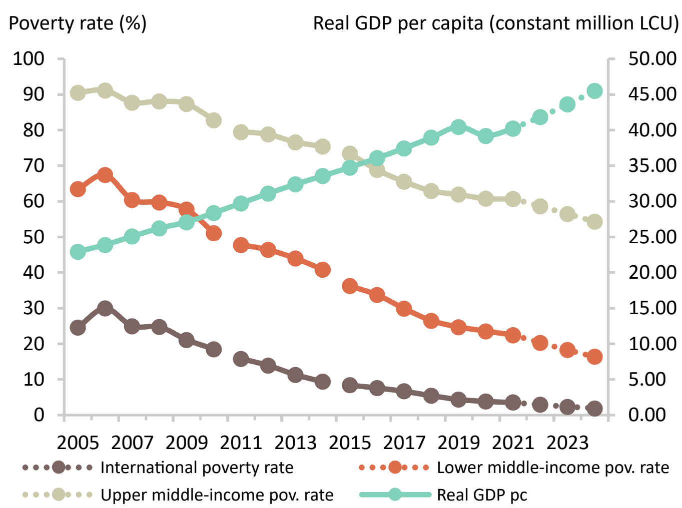
Inflationary pressures mount as global commodity prices soar. Year-to-date headline inflation reached 3.8 percent yoy, with food and transport contributing 37 percent of this increase. Rising core inflation reflects rising demand and a

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



Sources: National Statistics Agency and World Bank.

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



Source: World Bank. Notes: see Table 2.

narrowing output gap. These pressures are also observed in real sector indicators, though spending on food and energy helped partially cushion the pressure and sustain private consumption.

Commodity windfalls contributed to a current account surplus (1.1 percent of GDP in Q2). Export growth remained strong due to coal and base metal. However, the repatriation of company dividends, especially in the mining sector, widened the primary income deficit. The US Fed rate hike and the appreciating dollar contributed to portfolio outflows and a 4.0 percent cumulative depreciation of the rupiah year-to-date. Nevertheless, international reserves are adequate, covering 6.5 months of imports.

At 1.1 percent of GDP by July, budget spending on energy subsidies exceeded expectations, prompting authorities to raise fuel prices by 30 percent in early September. Subsidies are so far offset by commodity windfalls and tax receipts, which boosted revenues by 1.8 percent of GDP compared to the same period last year. As a result, Indonesia recorded a fiscal surplus of 0.5 percent of GDP by July 2022, easing pressure on budgetary financing needs. BI's purchase of government bonds in the domestic market halved to 0.3 percent of GDP by July 2022.

Outlook

Sound macroeconomic fundamentals, sticky commodity export prices, and structural reforms will support aggregate demand. GDP is projected to grow by 5.1 percent in 2022-23 and 5 percent in 2024. Contact-intensive sectors like services and tourism as well as manufacturing will also push the recovery and support job creation.

Inflation is expected to remain elevated at 4.3 percent in 2022 but ease in the subsequent years as commodity prices decelerate, despite a narrowing output gap. Rising inflation erodes households' purchasing power, especially with authorities' plans to allow a larger passthrough of international oil prices, which will impact private consumption in 2023-24.

The authorities are aiming to lower energy subsidies in 2023 assuming some easing of oil prices, a stable rupiah, and greater rationing of subsidized fuel consumption. The gasoline subsidy is not well targeted to the poor, as only 20 percent of the subsidized fuel is consumed by the bottom 40 percent of the population. Deepening the implementation of tax reforms initiated in 2021-22 and raising the tax effort would help mitigate those risks.

That said, a sound public debt position, adequate reserves, and a positive interest rate differential with the US, provide Indonesia with some buffer against tighter global conditions.

Poverty will continue falling as the recovery proceeds. The pace of the decline is estimated to accelerate to 0.6 pp/year in 2022-24, up from 0.4 pp in 2020-21 but still below the pre-pandemic pace (1 pp/year). Whether poverty reduction continues to recover depends on the degree to which the recovery is inclusive of the bottom 10 percent of the population. Meanwhile, strengthened efforts are needed to mitigate the pandemic's long-term scarring effects on productivity and inequality through the human capital channel. Furthermore, high food price inflation can limit poverty reduction if not mitigated by a targeted response through social protection programs.

Downside risks remain elevated. Global economic conditions continue to deteriorate amidst geopolitical uncertainty and stagflation concerns. Global financing conditions are tightening with many countries raising their policy interest rates. Global financial market uncertainties may trigger significant capital outflows and rupiah depreciation. Tightened monetary policy due to inflationary pressures could weaken credit and risk the growth trajectory.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.0	-2.1	3.7	5.1	5.1	5.0
Private Consumption	5.2	-2.7	2.0	4.9	4.9	5.0
Government Consumption	3.3	2.0	4.2	-1.6	0.2	1.1
Gross Fixed Capital Investment	4.5	-5.0	3.8	4.2	5.6	6.0
Exports, Goods and Services	-0.5	-8.1	24.0	17.0	11.0	8.9
Imports, Goods and Services	-7.1	-16.7	23.3	13.8	11.0	10.0
Real GDP growth, at constant factor prices	5.0	-1.6	3.3	5.2	5.1	5.0
Agriculture	3.6	1.8	1.8	3.8	3.9	3.9
Industry	3.8	-2.8	3.4	4.1	4.4	4.4
Services	6.4	-1.5	3.6	6.6	6.1	5.8
Inflation (Consumer Price Index)	2.8	2.0	1.6	4.3	4.0	3.9
Current Account Balance (% of GDP)	-2.7	-0.4	0.3	0.3	-0.2	-0.7
Net Foreign Direct Investment Inflow (% of GDP)	1.8	1.3	1.4	1.4	1.5	1.6
Fiscal Balance (% of GDP)	-2.2	-6.1	-4.6	-4.0	-3.0	-2.9
Debt (% of GDP)	30.2	39.3	40.7	42.1	42.1	42.0
Primary Balance (% of GDP)	-0.5	-4.1	-2.5	-1.9	-0.7	-0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	4.4	3.8	3.6	2.9	2.4	1.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	24.7	23.5	22.4	20.3	18.3	16.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	61.9	60.8	60.7	58.6	56.5	54.6
GHG emissions growth (mtCO2e)	15.8	1.0	1.9	-1.4	1.1	0.5
Energy related GHG emissions (% of total)	30.4	31.2	32.3	31.2	31.7	31.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on EAPPOV harmonization, using 2011-SUSENAS and 2021-SUSENAS. Actual data: 2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2011-2021) with pass-through = 1 based on GDP per capita in constant LCU.

LAO PDR

Table 1	2021
Population, million	7.4
GDP, current US$ billion	18.7
GDP per capita, current US$	2539.0
National Official Poverty Rate[a]	18.3
International poverty rate ($2.15)[a]	7.1
Lower middle-income poverty rate ($3.65)[a]	32.5
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	98.8
Life expectancy at birth, years[b]	68.2
Total GHG emissions (mtCO2e)	44.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ National Statistics Office. Most recent value (2018).
b/ Most recent WDI value (2020).

A sharp currency depreciation and unfavorable external conditions are undermining the economic recovery – mainly through surging inflation. These developments have amplified existing macroeconomic vulnerabilities that stem from the rapid accumulation of public debt and precarious foreign reserve levels. Purchasing power has been significantly eroded by rising fuel and food prices, contributing to poverty and food insecurity. A strong commitment to politically difficult reforms is fundamental to avert persistent economic instability and crises.

Key conditions and challenges

Macroeconomic instability increased in the first half of 2022, as the Lao kip weakened by nearly 60 percent against the US dollar and inflation reached 26 percent (year-on-year). This poses additional risks to an already fragile economy, particularly through its impact on public debt servicing, bank balance sheets, household purchasing power, and business costs. Meanwhile, a high and growing public debt burden exacerbates financial sector vulnerabilities, reduces fiscal space, and contributes to foreign exchange pressures. Public and publicly guaranteed debt (PPG) reached 89 percent of GDP at the end of 2021, one of the highest levels in the region – causing distress and raising concerns of debt overhang weighing on future growth. External debt service deferrals have provided short-term relief since 2020, but the outcome of the ongoing debt renegotiation with large bilateral creditors – crucial to restoring a sustainable debt trajectory – is still unknown.

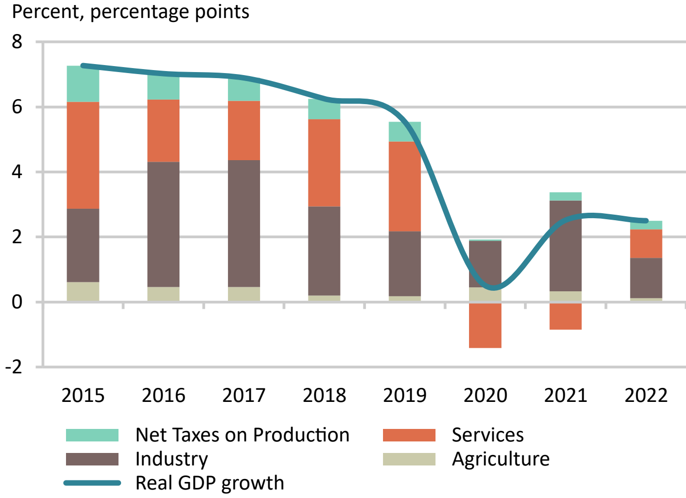
Domestic and external uncertainty continue to cloud the outlook. The reopening to international tourism, higher mineral prices, and the new Lao-China railway are supporting the economic recovery, but many challenges lay ahead. Structural imbalances and high global fuel prices will continue to put pressure on the kip and inflation, while growth-enhancing investments in human capital will remain constrained by limited revenue collection. A more subdued growth path for the global and regional economies will weaken external demand, while further price shocks could increase hardship for households and businesses. With challenging domestic conditions and a faltering global economy, the recovery is likely to remain subdued. In the absence of much-needed reforms, structural weaknesses will continue to deprive the economy of vital foreign exchange, tax revenue, and access to international finance.

Recent developments

The Lao kip depreciated sharply between March and June 2022, adding to the already significant weakening experienced in the second half of 2021. The official exchange rate depreciated by about 60 percent against the US dollar in the year to mid-June. This reflects considerable external liquidity constraints, partly due to underlying structural imbalances – despite substantial external debt repayment deferrals. Recent measures undertaken by the central bank, such as the issuance of a kip savings bond and the tightening of exchange controls, may have contributed to stabilizing the currency, but their impact might be temporary.

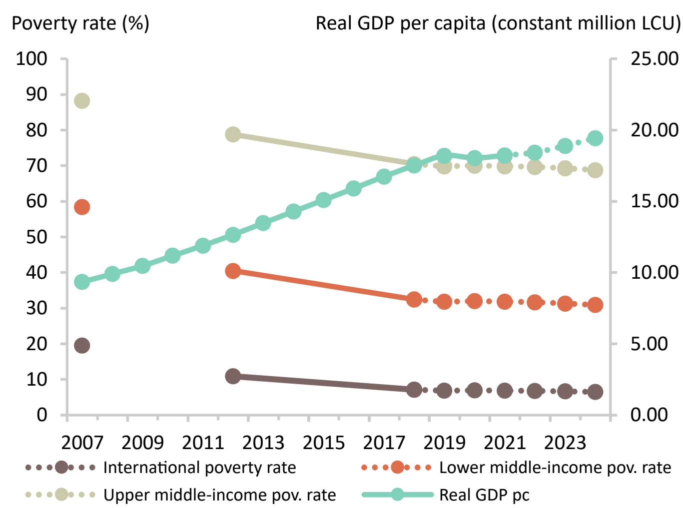
Inflation reached its highest level in over two decades – 26 percent in the year to July 2022 – owing to a weaker kip and rising global commodity prices, particularly fuel. Food and transport prices were the key categories contributing to overall inflation. The country also faced widespread

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. Note: see Table 2.

fuel shortages in May and June 2022, due to a combination of limited foreign currency (at the official rate) and price controls. Excise tax rates on fuel were halved for three months in May, while a credit line amounting to $200 million was expected to enable fuel imports until August.

Fiscal performance improved in the first half of 2022 due to higher domestic revenue and contained public investment spending. Sovereign credit rating downgrades since 2019 have weakened access to international capital markets, but in March the authorities managed to issue a bond in the Thai market. International travel restrictions were eased in May, paving the way for a reopening of international tourism, which is expected to be gradual in 2022. Debt payment deferrals and strong merchandise exports contributed to an improved current account deficit in early 2022. Foreign reserves remained at about $1.3 billion in March 2022.

Labor market indicators improved in April-May 2022, while most businesses have resumed operations. Poorer households are benefitting from a recovery in wage earnings and remittances. However, rising domestic prices are threatening living standards, particularly in the absence of social assistance. Nearly two-thirds of households have reduced education and health spending to cope with inflation. Most households responded to food inflation by reducing food consumption, switching to cheaper food, hunting, and gathering, or resorting to self-production. Progress in poverty reduction remained slow, with the poverty rate (measured at the lower-middle-income poverty line of $3.65 a day 2017 PPP) estimated to stagnate at around 31.7 percent in 2022.

Outlook

The GDP growth forecast for 2022 has been downgraded to 2.5 percent (from the previous 3.8 percent) because of the larger-than-expected currency depreciation and thus higher inflation, amid a deteriorating global economic environment and limited domestic reforms. The resumption of international tourism, higher mineral prices, and the new Lao-China railway will support economic activity in 2022, but the outlook is mostly shaped by negative domestic and external factors. The strong depreciation of the Lao kip has fueled inflation that is harming private consumption, while businesses are also struggling with higher costs. Depreciation pressures may reemerge later in the year since underlying structural weaknesses remain unaddressed. Fiscal space will remain limited to support the recovery, particularly in the absence of determined efforts to boost revenue collection. Rising imports, on the back of higher import prices, will likely offset positive export performance and thus limit reserve accumulation. Agriculture and other economic activities have been affected by severe fuel shortages and higher prices, while tourism-related services will only gradually improve.

Meanwhile, the global economy is being undermined by the protracted war in Ukraine, rising geopolitical tensions regarding Taiwan, and tighter macroeconomic policies (e.g., rising interest rates and withdrawal of Covid-related support measures). Moreover, weaker growth prospects in key trading and investment partners – namely China, due to its structural slowdown and zero-Covid policy – are also weighing down on the recovery. These developments affect Laos through several channels, including lower external demand, higher commodity prices, and further exchange rate depreciation pressures.

Employment levels and earnings are expected to gradually recover to pre-pandemic levels. However, high food and fuel prices are eroding purchasing power and placing many households at risk of falling into poverty. The slow progress in poverty reduction will likely continue. Poverty is expected to decline marginally to 31.3 percent in 2023.

Given the very precarious macroeconomic situation, a strong political commitment to ambitious reforms is essential to avert economic instability. The six critical measures are: (i) eliminating costly tax exemptions to raise public revenue; (ii) improving the governance of public and public-private investments; (iii) restructuring public debt through ongoing negotiations; (iv) strengthening financial sector stability through legal and regulatory tools; and (v) improving the business environment through effective regulatory reforms; and (vi) increasing direct support to the most affected households.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.5	0.5	2.5	2.5	3.8	4.2
Real GDP growth, at constant factor prices	5.5	0.5	2.5	2.5	3.8	4.2
Agriculture	1.2	3.2	2.3	0.8	2.4	2.6
Industry	5.6	4.0	7.6	3.2	3.7	3.4
Services	7.0	-3.5	-2.2	2.4	4.4	5.7
Inflation (Consumer Price Index)	3.3	5.1	3.8	19.0	7.2	6.1
Current Account Balance (% of GDP)	-12.1	-5.9	-2.9	-2.9	-4.6	-4.9
Fiscal Balance (% of GDP)	-3.3	-5.2	-1.3	-1.5	-2.0	-2.0
Debt (% of GDP)	59.0	62.3	77.9	94.9	96.4	97.7
Primary Balance (% of GDP)	-1.6	-3.7	0.0	0.5	0.7	0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	6.9	7.0	6.9	6.8	6.7	6.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	31.9	32.0	31.9	31.7	31.3	30.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	69.9	70.0	69.9	69.7	69.3	68.8
GHG emissions growth (mtCO2e)	6.3	2.1	3.4	3.4	4.2	4.5
Energy related GHG emissions (% of total)	48.2	48.9	50.1	51.3	52.8	54.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on EAPPOV harmonization, using 2012-LECS and 2018-LECS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2012-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

MALAYSIA

Table 1	2021
Population, million	32.8
GDP, current US$ billion	373.0
GDP per capita, current US$	11379.7
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.4
Upper middle-income poverty rate ($6.85)[a]	4.8
Gini index[a]	41.1
School enrollment, primary (% gross)[b]	103.9
Life expectancy at birth, years[b]	76.3
Total GHG emissions (mtCO2e)	388.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ Most recent WDI value (2020).

The economy is projected to expand by 6.4 percent in 2022 as economic activity picked up significant pace in the first half of the year. However, rising food and energy prices, sluggish external environment; and uncertainty around the next general elections pose downside risks. In addition, lower-income households remain vulnerable and will take a longer time to recover from the crisis.

Key conditions and challenges

The necessary fiscal support measures during the pandemic have further constrained the already limited fiscal space. Government revenue (2022: 14.3 percent of GDP) is expected to remain on a declining trend. Rigid expenditures (2022: 51 percent of total expenditures) are expected to increase further. There is a need to undertake fiscal consolidation and rebuild fiscal buffers once the output gap is restored by 2023-2024.

While the government allocated significant resources to assist vulnerable households, public support remains insufficient, with many of those in need remaining excluded. Coverage of government assistance slightly narrowed towards mid-2022. About one-in-six lower-income households (RM 4,000 or lower) were excluded from government assistance since November 2021 (3rd World Bank High-Frequency (HiFy) survey, April-May 2022). Improved targeting with an adequate level of benefits to vulnerable households is also needed to address pandemic-related scarring.

The pandemic has also cast a clearer light on disparities across geographic areas. The HiFy survey showed households in East Malaysia and Northern Peninsula regions experienced slower progress in regaining employment or income compared to those in other regions. Absolute poverty rates in lagging states are also higher than the national poverty rate. These findings underscore the importance of fostering an inclusive recovery.

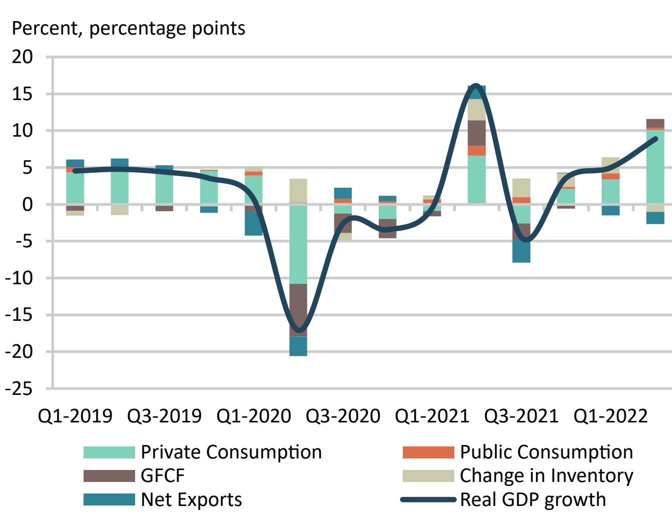
Recent developments

Higher-than-expected economic growth of 8.9 percent (YoY) was recorded in Q2 2022 (Q1 2022: 5.0 percent) as economic activity continued to normalize. Strengthening domestic demand was driven by improvements in the labor market. Additionally, measures such as the increase in minimum wage and withdrawals from the Employee Provident Fund supported domestic demand. Private consumption grew at 18.3 percent (Q1 2022: 5.5 percent) on increased spending on discretionary items such as restaurants and hotels, and recreational services. Investment grew at 5.8 percent (Q1 2022: 0.2 percent) in both private and public sectors. On the supply side, the services and manufacturing sectors continued to drive growth. On the external front, exports increased by 30.0 percent (1Q 2022: 22.0 percent), reflecting a broad-based expansion across products and higher commodity prices.

Labor market conditions continued to improve in 2Q 2022 with the unemployment rate declining further to 3.9 percent (Q1 2022: 4.1 percent). The HiFy survey showed a continued increase in the share of working individuals since late 2021. As of May 2022, 67 percent of adults were employed, approaching the pre-pandemic level of 69 percent.

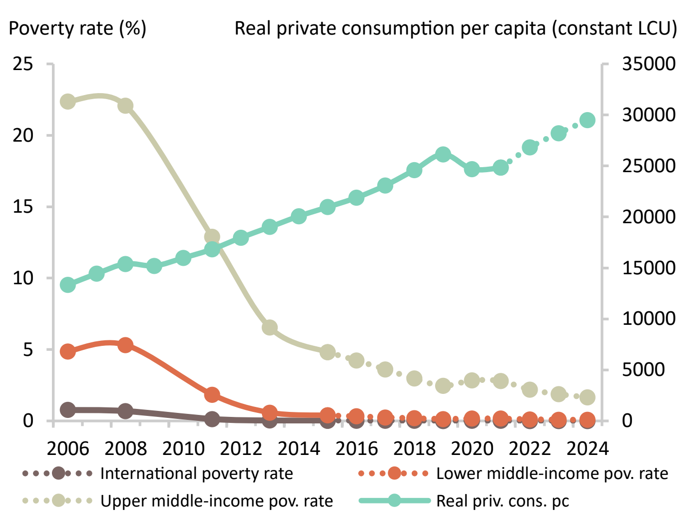
Inflation has been on an upward trend, increasing by 4.7 percent in August 2022

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.

(YoY) on higher food and transportation costs. Food prices rose by 7.2 percent on supply-related constraints, including higher prices of animal feedstocks, while transport prices increased by 5.2 percent. Nevertheless, various price controls and subsidies have helped to contain rising price pressures. Core inflation rose to 3.8 percent (July 2022: 3.4 percent). At the household level, HiFy findings show that surging food prices led to a worsening trend of food insecurity among the poor and vulnerable.

The central bank expects core inflation to be modest, with average inflation to remain moderate and within its 2022 projection of 2.2 -3.2 percent. It raised the overnight policy rate by 25 basis points consecutively in May, July, and September. As adverse economic conditions have abated, the central bank began reducing the degree of monetary accommodation. Meanwhile, the strengthening of the US dollar and rising risk aversion due to the Ukraine war led to the weakening of the ringgit. Between 1 January to 30 June 2022, the real effective exchange rate depreciated by 1.5 percent and is slightly undervalued relative to fundamentals.

Outlook

The economy is expected to recover in 2022, with growth projected at 6.4 percent. Economic growth will be supported by strong domestic demand, which is underpinned by continued improvements in labor market conditions. Tourism-related activities by domestic and international travelers are expected to see an uptake. In addition, the continuation of multi-year investment projects will likely provide additional support for economic growth. Nonetheless, downside risks particularly from the external front continue to prevail. This includes a slowdown in growth in advanced economies and China, unfavorable financial conditions, and continued supply chain disruptions. Disruption to Russia's energy exports, particularly natural gas, could be more severe than expected. On the domestic front, speculation over the next general elections could also raise investors' uncertainty in the near term.

The government has indicated that blanket fuel subsidies will remain in place in the near term, with plans toward a more targeted framework. In 2022, spending on fuel subsidies is estimated to amount to 2.3 percent of GDP (2021: 0.9 percent). Should energy prices increase further, this could lead to even higher spending on subsidies. The growing subsidy bill is expected to exacerbate the already tight fiscal space. The government could redirect spending on subsidies to direct cash transfers with the premise to have a greater impact on poverty and inequality.

While the economy is on the road to recovery, the HiFy survey showed that work stoppages among pre-pandemic lower-income workers stood at 25 percent in May 2022 compared to 15 percent among higher-income workers. Moreover, nearly 70 percent of lower-income households self-assessed themselves as having inadequate financial resources to meet their monthly basic needs, and more than 60 percent of these households reported having no savings. The slower return of poor and vulnerable households to work, and depletion of their financial resources, make their recovery more challenging. Overall poverty at the Upper Middle-Income Country new line is expected to fall at a slower pace.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.4	-5.5	3.1	6.4	4.2	3.9
Private Consumption	7.7	-4.2	1.9	9.1	6.5	5.7
Government Consumption	1.5	5.0	5.3	1.0	0.5	0.5
Gross Fixed Capital Investment	-2.1	-14.4	-0.9	5.2	2.6	2.7
Exports, Goods and Services	-1.0	-8.6	15.4	7.4	4.3	4.1
Imports, Goods and Services	-2.4	-7.9	17.7	8.3	5.1	4.8
Real GDP growth, at constant factor prices	4.5	-5.6	3.1	6.6	4.2	3.8
Agriculture	1.9	-2.4	-0.2	4.1	3.2	2.7
Industry	2.6	-6.1	5.6	4.1	3.7	3.6
Services	6.2	-5.8	1.8	8.8	4.7	4.2
Inflation (Consumer Price Index)	0.7	-1.1	2.5	2.7	2.0	1.9
Current Account Balance (% of GDP)	3.5	4.2	3.6	3.9	3.1	2.5
Net Foreign Direct Investment Inflow (% of GDP)	0.4	0.2	2.1	1.7	1.8	1.7
Fiscal Balance (% of GDP)	-3.4	-6.2	-6.5	-6.0	-5.4	-4.7
Debt (% of GDP)	52.4	62.0	63.5	65.1	66.2	67.1
Primary Balance (% of GDP)	-1.2	-3.7	-4.0	-3.6	-3.1	-2.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.1	0.2	0.2	0.1	0.1	0.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.5	2.8	2.8	2.2	1.9	1.7
GHG emissions growth (mtCO2e)	3.1	-3.7	1.8	4.1	2.7	2.5
Energy related GHG emissions (% of total)	60.4	59.0	59.6	60.8	61.5	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. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2011-2015) with pass-through = 0.7 based on private consumption per capita in constant LCU.

MONGOLIA

Table 1	2021
Population, million	3.3
GDP, current US$ billion	15.7
GDP per capita, current US$	4711.8
Lower middle-income poverty rate ($3.65)[a]	6.9
Upper middle-income poverty rate ($6.85)[a]	38.4
Gini index[a]	32.7
School enrollment, primary (% gross)[b]	103.4
Life expectancy at birth, years[b]	70.1
Total GHG emissions (mtCO2e)	62.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Economic growth is expected to remain modest at 2.4 percent this year, before accelerating to 6 percent in 2023-2024. While domestic COVID-19 restrictions have been lifted, protracted disruptions to cross-border trade with China have constrained the recovery and led to large external imbalances. Meanwhile, soaring import prices, supply bottlenecks, and a weaker currency have fueled inflation, which is eroding real incomes and household purchasing power, especially among the poor while weighing on private consumption.

Key conditions and challenges

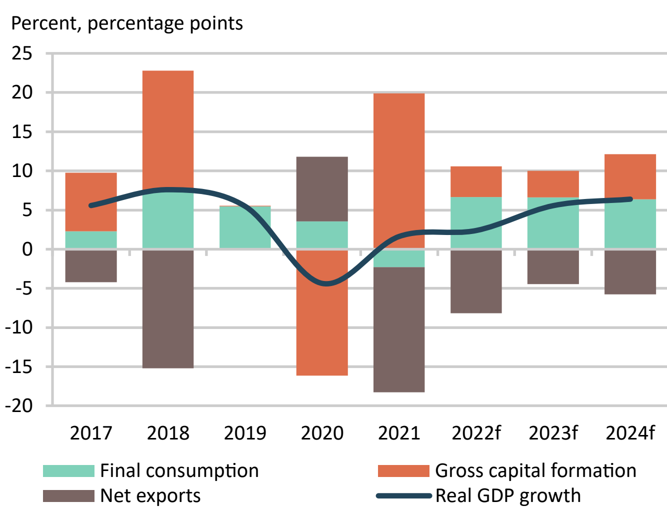
The combined impact of COVID-19, the war in Ukraine and lingering border frictions with China has resulted in slow growth and exacerbated fiscal and external imbalances. Even though the COVID-19 restrictions in the country have been removed, prolonged border frictions with China (resulting from China's zero COVID-19 policy) continue to curb commodity exports and to raise the cost of imports. The war in Ukraine further led to rising import prices, especially for food and energy while ensuring international sanctions have complicated the processing of cross-border payments for imported fuel products from Russia. Efforts to support growth with a major income stimulus program, higher pension outlays, increased capital expenditure, and subsidized loans resulted in the deterioration of fiscal sustainability and public debt. A large current account imbalance persists and interventions by the central bank to stabilize the currency have depleted foreign exchange reserves to roughly three months of import coverage. The refinancing of upcoming large external public debt service payments (including a large debt repayment by the Development Bank of Mongolia, DBM) will be challenging as investors risk aversion towards high debt countries is increasing and global interest rates are rising. Soaring domestic inflation represents a major challenge for monetary policy. To address these issues, the Bank of Mongolia (BoM) has started to tighten monetary policy but large quasi-fiscal activity in the banking sector continue to fuel credit growth and undermine monetary policy transmission. More exchange rate flexibility and better targeting of fiscal measures to the poor is warranted to improve the external and fiscal sustainability and rebuild policy space.

Recent developments

In 2022H1, economic growth reached 1.9 percent (y-o-y) (despite a contraction in early 2022), mainly driven by agriculture, trade and services sectors. Herd size recovered from last year's culling due to the spread of foot and mouth disease amid favorable weather conditions in spring and led to a growth of 11.3 percent in 2022H1 (y-o-y) in the sector. Moreover, the reopening of the economy following the removal of COVID-19 mobility restrictions continues to support domestic trade and services (except transportation). While operation of multiple border ports with China in recent months supported coal exports, border frictions and significant coal inventories continue to limit mining activities and transportation services associated with these exports.

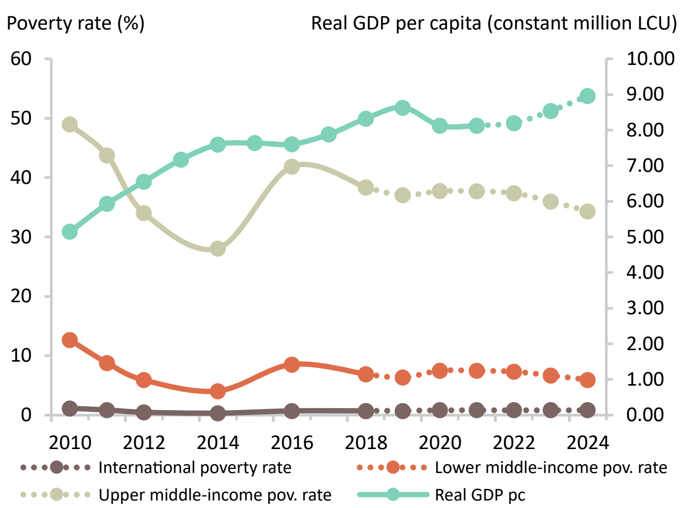
From the demand side, the continued income support program, labor market recovery and increasing wage incomes amid the reopening of the economy boosted private consumption in 2022H1 but momentum decelerated in 2022Q2

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.

as rising inflation weighed on real incomes. Gross capital formation rebounded strongly in 2022H1 and together with higher credit growth supported aggregate demand.

Inflation reached 15.7 percent (y-o-y) in July 2022, mostly due to rising food and energy prices, supply bottlenecks amid border closures and exchange rate depreciation. More than half of inflation is explained by rising price of imported items mainly food and fuel. Inflationary pressures are compounded by domestic demand pressures fueled partly by credit growth and accommodative fiscal policy.

Fiscal policy remains accommodative with increased capital expenditure, discretionary increase in pensions and continued welfare spending, including a rebate on social security insurance payments and extension of benefit increases of the untargeted but fiscally costly Child Money Program (CMP, 3.1 percent of GDP). The financing of the CMP has been shifted to the Future Heritage Fund (an intergenerational fiscal saving fund) which weakened long-term fiscal sustainability. A substantial increase in the import bill and weak exports led to a widening current account deficit and the erosion of gross international reserves from over 7 months (in mid-2021) to less than 3 months of imports as of July 2022.

Outlook

Economic growth is projected to remain modest at 2.4 percent in 2022, mainly due to the removal of COVID-19 restrictions and strong rebound in agriculture sector. However, the lingering border frictions with China, weaker global economic prospects, and elevated prices for imported food, fuel and fertilizers are expected to keep growth modest. While border frictions are expected to ease, lower prices for coal and copper will weigh on the export recovery. Domestic demand is expected to continue to recover driven by rising investment and household consumption. While the resumption of commodity exports will support revenue performance, the deficit is expected to widen in 2022 as capital expenditures catch up to the planned schedule and burden of the pension payments cumulate. Absent additional steps to contain fiscal spending, the fiscal deficit is expected to widen to 4.8 percent of GDP, further eroding fiscal buffers and increasing public debt, which is expected to reach by the end-2022 81.7 percent of GDP, excluding the People's Bank of China (PBOC)'s swap and the DBM's off budget debt.

Economic growth is forecast to accelerate to 6 percent on average over 2023-2024 mainly driven by increased mining output from the underground mining phase of Oyu Tolgoi which is expected to commence production in 2023. While the supply factors (mostly external) driving inflation may ease in 2023, the recovery of domestic demand in part driven by accommodative policies is expected to continue creating inflationary pressures.

The subdued economic recovery and significant food price inflation are slowing progress in poverty reduction. Rising food prices are particularly harmful to poor households since the bottom 20 percent of the population spend more than 40 percent of their consumption on food, compared to 25 percent in the top quintile. Overall, poverty measured at the poverty line for lower-middle income countries is expected to fall only marginally in 2022 and to return to the pre-COVID level in 2024. Given the limited fiscal space, better targeted social transfers for the poor and vulnerable could effectively advance poverty reduction.

The outlook is subject to downside risks, including further deterioration of the external and fiscal balances and additional inflationary pressures resulting from a prolonged war in Ukraine, continuous COVID-19 outbreaks in China, and a faster tightening of monetary policy in advanced economies.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.5	-4.4	1.6	2.4	5.5	6.4
Private Consumption	5.8	2.1	-5.9	8.9	7.9	7.3
Government Consumption	12.3	14.6	9.2	5.2	6.4	6.6
Gross Fixed Capital Investment	14.0	-21.1	17.7	18.5	17.8	16.9
Exports, Goods and Services	12.0	-5.3	-14.6	0.5	18.6	17.3
Imports, Goods and Services	8.6	-15.5	13.6	12.0	16.1	16.6
Real GDP growth, at constant factor prices	5.1	-3.9	0.4	2.4	5.5	6.4
Agriculture	5.2	5.8	-5.5	10.0	4.1	5.5
Industry	3.1	-4.4	-2.2	-3.8	7.9	6.1
Services	6.4	-6.5	3.9	3.7	4.7	6.8
Inflation (Consumer Price Index)	7.3	3.7	7.1	14.5	10.5	6.8
Current Account Balance (% of GDP)	-15.2	-4.3	-12.5	-15.5	-13.7	-11.6
Net Foreign Direct Investment Inflow (% of GDP)	16.4	12.2	12.9	13.3	13.4	12.0
Fiscal Balance (% of GDP)	1.4	-9.4	-3.1	-4.8	-4.8	-4.1
Debt (% of GDP)[a]	68.4	77.3	78.4	81.7	80.5	79.5
Primary Balance (% of GDP)	3.6	-6.8	-1.1	-2.3	-2.9	-2.3
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.7	0.8	0.8	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	6.3	7.5	7.5	7.3	6.7	5.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	37.0	37.7	37.7	37.4	36.0	34.3
GHG emissions growth (mtCO2e)	6.1	3.2	1.8	2.7	4.4	5.5
Energy related GHG emissions (% of total)	39.0	38.7	41.4	42.4	43.9	45.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Debt excludes contingent liabilities (DBM bond of 5% of GDP) and central bank's liability under the PBOC swap line (12% of GDP) by 2021.
b/ Calculations based on EAPPOV harmonization, using 2016-HSES and 2018-HSES. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
c/ Projection using annualized elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

MYANMAR

Table 1	2021
Population, million	54.8
GDP, current US$ billion	64.3
GDP per capita, current US$	1172.7
Lower middle-income poverty rate ($3.65)[a]	19.6
Upper middle-income poverty rate ($6.85)[a]	68.2
School enrollment, primary (% gross)[b]	112.3
Life expectancy at birth, years[b]	67.4
Total GHG emissions (mtCO2e)	239.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ Most recent WDI value (2020).

Following the estimated 18 percent contraction in FY2021, Myanmar's economy has remained weak, with output well below pre-pandemic levels. GDP growth of just 3 percent is projected in FY2022. Significant inflationary pressures, a worsening external position, and elevated levels of conflict are exacerbating supply- and demand-side constraints. Policy uncertainties and the reversal of previous reforms have inhibited trade and investment. Poverty is estimated to have doubled since 2019, undoing nearly a decade's worth of progress on poverty reduction.

Key conditions and challenges

Balance of payments pressures appear to have become acute in recent months, with the market value of the exchange rate as of end-August depreciating by 48 percent since the end of June. Since November 2021, the official reference exchange rate has been fixed at an overvalued level, which has led to shortages of US dollars at the official rate and a rapidly-rising spread in parallel markets. In combination with onerous import license requirements, these foreign currency shortages have had a significant impact on the domestic supply of fuel and other imported goods. At the same time, the imposition of conversion requirements on foreign currency earnings and bank balances has acted as a tax on exporters, squeezing already thin profit margins, reducing their competitiveness in international markets, and inhibiting necessary external adjustments.

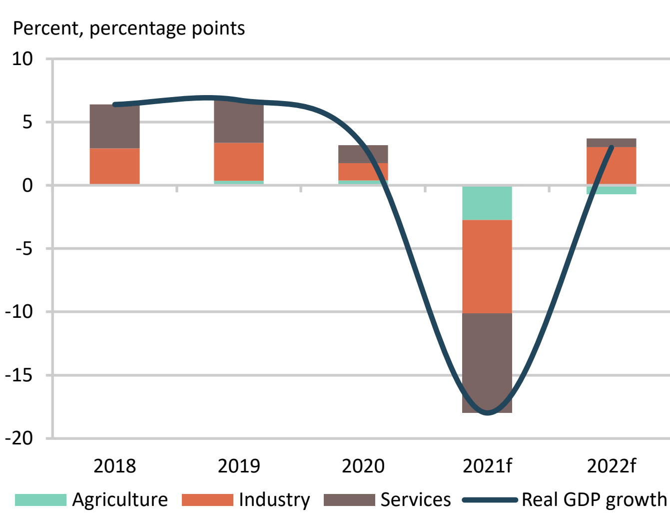
Available indicators suggest that the level of conflict remains high, impacting households and businesses across the country. One-fifth of all firms surveyed in May 2022 reported that conflict was their biggest operational challenge. This included 40 percent of all agricultural firms, highlighting the more pronounced impacts of conflict in rural areas. Logistics and transport disruptions have led to food shortages and exacerbated increases in retail prices, further straining real household incomes.

The latest available estimates indicate that poverty levels have doubled since March 2019. Inequality is estimated to have worsened, with those already poor falling into deeper destitution. In the absence of public sector support and dwindling real household incomes, a greater share of families resorted to cutbacks in consumption, increased borrowing, or drawdowns of savings. Strikingly, none of the surveyed households reported receiving any form of social assistance in May 2022; compared to 43 percent of households who had reported receiving cash assistance in October 2020. Public spending on critical health and education services has also declined, and less than 10 percent of the overall FY2023 budget was allocated to these two sectors, down from over 12 percent in the FY2020 and FY2021 budgets.

Recent developments

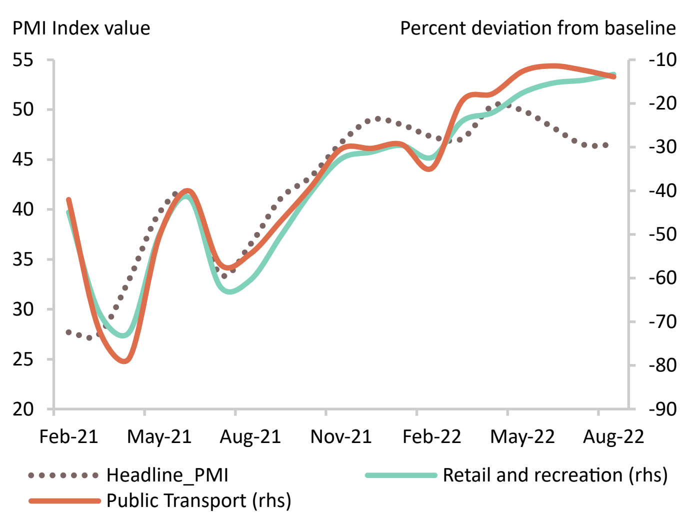
Although some parts of the economy have stabilized and even recovered over the past twelve months, overall the economy remains weak. Firms reported operating at a higher capacity in 2022 than in 2021, particularly in the manufacturing sector. The manufacturing Purchasing Managers' Index reached neutral levels in the first half of 2022 after a long period of contraction, though has subsequently declined. Construction activity looks to have picked up, as work on some projects restarted after a long pause last year. Economic activity has also been supported by a rise in mobility, with

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.

workplace mobility returning to pre-pandemic levels in June after substantial dips in 2021.

However, activity in sectors more reliant on domestic demand remains weak given reductions in real household incomes. Almost half of all main household workers reported receiving lower incomes in May compared to February 2022, largely attributable to declines in business and wage incomes. Female workers were more likely to experience income reductions than men. Recent World Bank household surveys show that labor from service industries has shifted into agriculture implying an overall decline in labor productivity and incomes.

Household incomes have been further eroded by sharply rising inflation, with the latest available data indicating that consumer price index (CPI) inflation accelerated to 17.8 percent (yoy) in April 2022, driven by large increases in the prices of food and fuel. Rising global oil prices and currency depreciation have led to pronounced increases in domestic fuel prices which have risen by around 82 percent at the beginning of 2022. This has in turn pushed up transport costs and increased the cost of running diesel generators to compensate for recurring electricity outages. Global price increases, kyat depreciation, supply chain disruptions, and the spillover effects of higher transport prices have resulted in price increases for a broader range of imported inputs. Rising costs have affected the operations of all businesses, squeezing profit margins.

Lower household incomes, higher food and fuel prices, and ongoing credit/liquidity constraints have also magnified the risks of food insecurity. The May 2022 household survey shows that rising food prices have disproportionately impacted poorer households: those in the bottom 20 percent of the consumption distribution were 50 percent more likely to be worried about food than those in the top 20 percent.

Outlook

Amid persistent domestic and external headwinds, the economy is expected to recover only modestly in FY2022, with real GDP projected to expand by 3 percent, following the estimated 18 percent contraction in FY2021. The manufacturing and construction sectors are expected to have driven most of the modest growth; agricultural production is hampered by higher input, prices, logistics constraints, and conflict. Overall, severe supply- and demand-side constraints continue to impact economic activity and have the potential to continue to constrain growth over the medium-term. This would imply that it may still be a number of years before Myanmar returns to pre-pandemic levels of output.

Inflation is projected to remain high given impacts from significant kyat depreciation, logistics constraints, and still-high global oil prices. The fiscal deficit is expected to remain elevated in the twelve months to September 2022. Both expenditure and revenue outturns worsened significantly in FY2021, and only a partial improvement in each is expected this year.

Downside risks are elevated. The external position appears to have deteriorated substantially in recent months, as evidenced by a sharp depreciation in the market exchange rate. If maintained over time, the abandonment of the managed float regime and the imposition of foreign exchange and trade restrictions would constrain exports and growth, worsen macroeconomic instability, and impair the efficient allocation of resources. An apparent return to relying on central bank financing to fund large budget deficits has the potential to intensify pressure on inflation and the exchange rate. Household survey respondents report elevated levels of anxiety and a growing sense of hopelessness, with significant concerns about household finances and not having enough to eat in the future.

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

	2017	2018	2019	2020	2021	2022e
Real GDP growth, at constant market prices	5.8	6.4	6.8	3.2	-18.0	3.0
Real GDP growth, at constant factor prices	5.8	6.4	6.8	3.2	-18.0	3.0
Agriculture	-1.5	0.1	1.6	1.7	-12.5	-3.0
Industry	8.7	8.3	8.4	3.8	-20.6	8.6
Services	8.1	8.7	8.3	3.4	-18.7	1.7
Inflation (Consumer Price Index)	4.7	5.9	8.5	5.8	3.6	15.0
Current Account Balance (% of GDP)	-3.1	-4.7	-0.2	-2.0	-1.4	-1.6
Fiscal Balance (% of GDP)[a]	-2.7	-2.9	-3.2	-7.0	-9.2	-7.5
Public Sector Debt (% of GDP)[a]	34.4	38.3	38.7	42.2	58.3	58.7
Primary Balance (% of GDP)[a]	-1.3	-1.4	-1.6	-5.3	-6.6	-4.8
GHG emissions growth (mtCO2e)	5.7	2.3	1.2	1.1	-2.5	2.4
Energy related GHG emissions (% of total)	14.7	14.8	16.2	16.6	14.6	15.7

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 (October 1st -September 30th).

NORTH PACIFIC ISLANDS

Table 1	2021
Population, million	
Federated States of Micronesia	0.12
Republic of the Marshall Islands	0.06
Palau	0.02
GDP, US$, billion	
Federated States of Micronesia	0.41
Republic of the Marshall Islands	0.24
Palau	0.22
GDP per capita, current US$	
Federated States of Micronesia	3499
Republic of the Marshall Islands	4336.8
Palau	12405

Sources: WDI, World Bank staff estimates.

COVID-19 led to recessions in the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), and Palau. Economic activity is expected to recover in Palau in FY22 but remains subdued in RMI and FSM, gaining momentum from FY23 onwards. Fiscal surpluses are projected for FSM and RMI, while Palau's fiscal deficit will remain sizable. Medium-term fiscal risks are substantial due to the scheduled expiry of Compact-related fiscal transfers from the US in 2023-24, highlighting the importance of structural reforms.

Key conditions and challenges

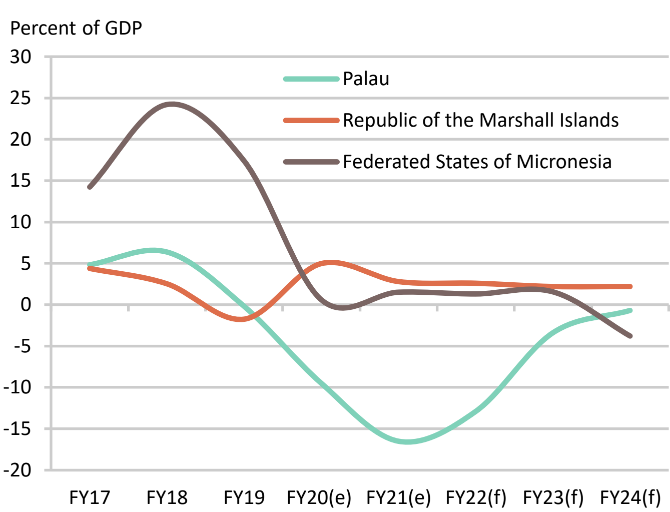
Recent COVID-19 outbreaks have stalled economic activity in the North Pacific by complicating border reopening plans in **FSM** and **RMI** and the tourism recovery in **Palau**. FSM opened its border on August 1, 2022, and RMI plans to reopen their borders to international travelers in October. Palau's border has been open for fully vaccinated international travelers since early 2022 and its eligible population is fully vaccinated. However, tourist arrivals are yet to recover with the monthly arrival in July at only 16 percent of pre-COVID levels. In the short term, the key challenges facing the North Pacific are: (1) The effective management of recent COVID outbreaks in FSM and RMI; (2) managing the spike in inflation without monetary policy and a fiscal policy that is determined by the availability of donor funds; (3) the continuation of vaccine rollout, to pave the way for full border reopening and gradual recovery of international arrivals; and (4) to support a sustainable and inclusive economic recovery while managing fiscal risks (particularly in 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 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. Given this risk, reform-based fiscal adjustments, such as domestic revenue mobilization and expenditure rationalization, are critical to cover fiscal gaps. Natural disasters and climate change also pose a threat to livelihoods. Finally, governments need to implement structural reforms to ensure sustainable economic recovery that supports the livelihood of the bottom 40 percent of households. However, the lack of recent household data makes it challenging to monitor development progress and impacts of shocks and limits the potential for evidence-based policy.

Recent developments

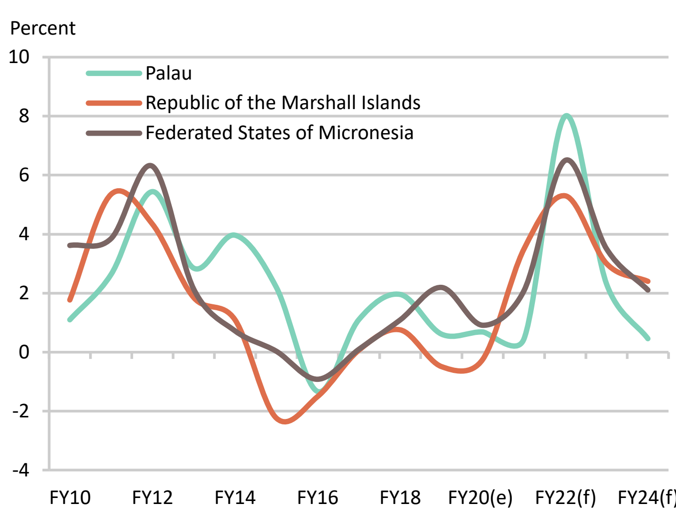
The economic impact of the pandemic drove **FSM** and **RMI** into the second year of consecutive recession in FY21. Output is estimated to have contracted by a further 3.2 percent in FSM and 2.5 percent in RMI in FY21. Ongoing strict border closures and related trade disruptions have curtailed construction 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. Grants, combined with substantial fiscal buffers in FSM, provided fiscal space for stimulus, which was rolled out during FY20 and FY21. FSM and RMI registered fiscal surpluses of 1.5 percent and 2.8 percent of GDP in FY21, respectively. Total public

FIGURE 1 North Pacific Islands / Overall fiscal balance (share of GDP)



Sources: National sources, EconMap, and World Bank projections.

FIGURE 2 North Pacific Islands / Inflation, average consumer prices



Sources: National sources, EconMap, IMF WEO, and World Bank projections.

debt in FSM in FY21 was 16.3 percent of GDP - a decline of 3 percent of GDP compared to FY20, primarily reflecting partial debt written off by US Rural Utilities Services. Debt, as share of GDP, continued to decline in the RMI despite the impacts of the pandemic, largely due to resilient fishing revenues and the substantial increase in development partner grants.

In **Palau**, the pandemic has severely impacted the economy. The tourism industry and its related business activities (around 40 percent of GDP) have been curtailed and trade flows are severely disrupted. GDP is estimated to have contracted further by 17.1 percent in FY21, after a more than 90 percent drop in tourist arrivals. The fiscal deficit widened to over 16 percent in FY21 driven by a decline in non-grant revenue, a rise in health spending, and relief measures for firms and households. This deficit has been financed by external borrowing, which is estimated to have raised general government debt to around 85 percent of GDP from around 39 percent in FY19.

Outlook

The timing and shape of the economic recovery in the North Pacific depend significantly on how the domestic outbreaks of COVID-19 are managed. It will also depend on the duration and severity of the economic fallout of the war in Ukraine and its impact on the global economy, especially on inflation. In FY22, **FSM**'s economy is projected to contract by 0.5 percent, while **RMI**'s economy is expected to grow by a modest 1.5 percent. For both countries, the recent outbreaks of the virus will likely lead to a disruption in economic activities because of the inevitable movement restrictions that will be enacted. Rising inflation will likely slow the economic recovery. Certain sectors such as construction are likely to be hard hit as North Pacific countries depend on imports from the US, where the price of construction materials has risen by 8 percent in 2022. The **Palauan** economy is projected to grow by 6 percent, on the back of a gradual recovery of the tourist arrivals to around 20 percent of the pre-crisis level. However, inflation is projected to surge in FY22 by 8 percent due to higher food and fuel import prices which form a large share of household spending. Fiscal surpluses of 1.3 percent and 2.5 percent of GDP are projected in FSM and RMI, as fiscal stimulus is unwound while grants from donors are sustained. Another large deficit of 12.1 percent is projected in Palau, as non-grant revenues remain below pre-crisis levels.

Over the medium term, GDP is not expected to recover to pre-crisis levels until FY23 in RMI and FY24 in FSM. For Palau, GDP is projected to remain on a lower trajectory until tourist arrivals reach the pre-pandemic level in FY24. However, the strong resurgence of the virus globally or the emergence of new variants could necessitate a significant tightening of containment measures and complicate border reopening strategies, which can derail the recovery. Inflation is expected to subside over the medium-term in line with stabilizing global commodity prices. For all three countries, the negotiation with the U.S on Compact-related fiscal transfers is ongoing, and the terms and timing remain uncertain. Fiscal risks are tilted to the downside with potential reductions in grant revenues. Under current policies, the FSM will face a fiscal cliff in FY24 and a projected fiscal deficit of 4-5 percent of GDP from FY24 onwards. In RMI, the fiscal surplus is projected to decline from 5 percent of GDP in FY20 to 2.2 percent of GDP by FY24. Palau is projected to have a fiscal deficit of 3.4 percent of GDP in FY23 before a return to balance in FY24 due to an increase in tourism receipts and full implementation of the tax reform bill.

Poverty in the North Pacific is expected to have risen 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. The rebound in formal sector jobs in FY22 is expected to be slow. For Palau, the severe impacts on economic activity and jobs have led to increased vulnerability for a substantial number of households that predominantly work in the tourism sector. For FSM and RMI, many households rely on annual remittance inflows (approximately 6 percent and 13 percent of GDP, respectively) that is estimated to have dropped in FY21 and is expected to remain depressed in FY22 due to the impacts of the pandemic on US labor market conditions. There are only recent poverty estimates for RMI, where poverty is predicted to begin falling in FY22, but will remain above pre-crises levels through FY24. In FSM, the country with the highest poverty rate in the North Pacific, poverty reduction is likely to be slower, given the huge share of informal sector and lower rebound of economic growth in FY22.

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

	2019	2020e	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices						
Federated States of Micronesia	1.2	-1.8	-3.2	-0.5	3.0	2.5
Republic of the Marshall Islands	6.6	-2.2	-2.5	1.5	2.2	2.5
Palau	-1.9	-9.7	-17.1	6.0	18.2	4.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]						
Republic of the Marshall Islands	31.4	32.6	34.5	33.3	33.1	32.4

Sources: ECONMAP, IMF, and Worldbank.
Note: e = estimate; f = forecast. Values for each country correspond to their fiscal years ending September 30.
a/ Calculations based on EAPPOV harmonization, using 2019-HIES.
b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

PAPUA NEW GUINEA

Table 1	2021
Population, million	9.1
GDP, current US$ billion	26.3
GDP per capita, current US$	2881.1
National Poverty Rate[a]	39.9
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	116.0
Life expectancy at birth, years[b]	64.7
Total GHG emissions (mtCO2e)	64.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2009/10). National values.
b/ Most recent WDI value (2020).

After a modest rebound in 2021, the economy is accelerating in 2022, as both extractive and non-extractive sectors are expected to grow. High commodity prices contribute to higher current account surplus and to additional fiscal revenue, but also to elevated inflation that affected poor and near-poor households. The government managed to reduce the fiscal deficit in 2021 and is set to continue fiscal consolidation in the near future.

Key conditions and challenges

Whilst the economy has more than tripled in size since independence in 1975, real GDP per capita has increased by only 0.9 percent per year – a low growth rate in comparison to other lower middle-income resource exporters. Economic growth has been and continues to be subject to significant upward and downward swings, reflecting an acute vulnerability to international commodity price changes, and these swings tend to be magnified rather than dampened by the economic policies of successive governments. The inclusivity of recent growth performance has been limited by the relatively high capital intensity of the resource sector and the lower performance of the non-resource sector. The COVID-19 crisis has come on top of structural economic challenges. In 2020, this has led to an economic contraction, a sizable fiscal deficit, and higher unemployment, and these outcomes were only partially reversed in 2021.

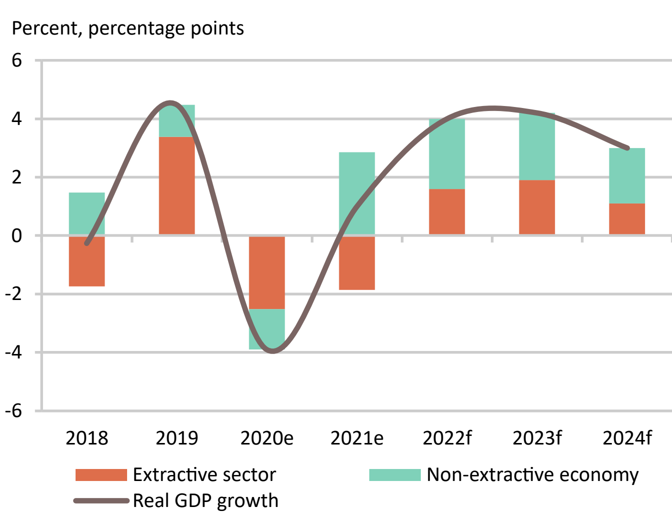
PNG has a highly dispersed and fragmented population, a low level of urbanization, significant gender disparities, high exposure to natural disasters, a high degree of resource dependence, and inter-communal violence in some regions. Weak governance severely constrains the ability to effectively manage this challenging context. Fragility-related risks are exacerbated by the socio-economic impact of exogenous shocks, such as earthquakes and COVID-19.

Socio-economic development is lagging for large sections of the population. The last available nationally representative household survey, from 2010, suggested that about 39 percent of the population was living below the US$2.15 per day (2017 PPP terms) poverty line and 74.2 percent of the population could be considered to be multidimensionally poor. According to phone surveys conducted by the World Bank in December 2021 and June 2022, less than five percent of households reported growth in household incomes and to make ends meet, most households had to use coping strategies such as spending from savings or receiving financial support from friends and family. More than a quarter of households experienced either moderate or severe food insecurity over the past twelve months.

Recent developments

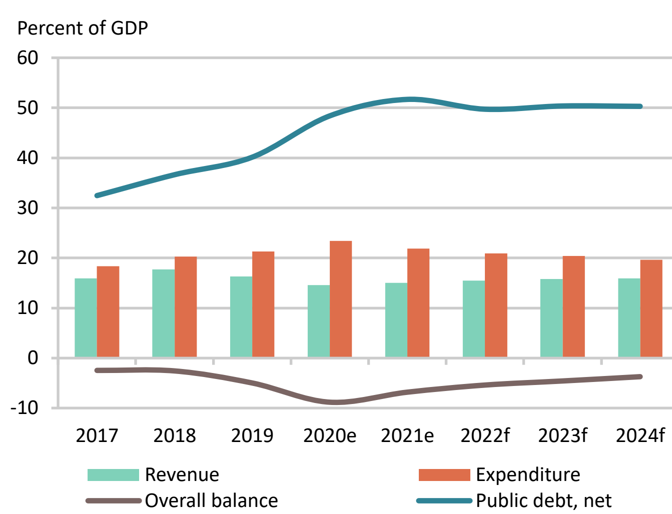
Following a sharp contraction in 2020, the economy is estimated to have recorded a 1 percent growth rate in 2021. Economic activity was mostly supported by a strong performance of the non-extractive sector. Agriculture was among the key contributors to economic recovery. More than half of respondents in the 2022 PNG 100 CEO Survey indicated that firm-level profitability exceeded their expectations in 2021. Positive dynamics in 2021 have translated into an optimistic growth outlook by business executives in 2022. Meanwhile, the extractive sector continued its weak performance in 2021 driven by disruptions to mining

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.

operations. The ongoing shutdown in the Porgera gold mine was a key driver along with disruptions to production in the OK Tedi copper mine and Lihir and Simberi gold mines.

The fiscal deficit in 2021 at 6.8 percent of GDP was smaller than 2020 and smaller than budgeted but was still substantial by historical standards. Total revenue increased modestly in 2021, supported by a sharp increase in grants. Following a sharp growth in expenditure in 2020, the government was able to contain expenditure in 2021 amid prevailing elevated inflation. Public debt exceeded 50 percent of GDP in 2021. According to the latest World Bank–IMF DSA, the country remains at high risk of debt distress. Conditional on the implementation of the authorities' plans for further fiscal consolidation, PNG's external and overall debt is judged as sustainable. Available data for the first half of 2022 suggests that revenue collections are strongly outperforming forecasts built into the 2022 budget.

Headline inflation has been on the rise since 2021Q3 and reached 6.9 percent in 2022Q1, as the core inflation edged up to 5.4 percent. The Bank of PNG raised the policy rate by 25 basis points to 3.25 percent in July 2022 for the first time since the pandemic started. Driven by a recovery of commodity prices, the current account surplus reversed the declining trend observed over the preceding five years.

The impact of COVID-19 on livelihoods of the poor and vulnerable households was severe, according to five rounds of a World Bank mobile phone survey conducted between June 2020 and June 2022. More than one-quarter of those working in January 2020 were estimated to have stopped working by December 2020, with no significant recovery across 2021. Preliminary analysis from the June 2022 survey shows growth in agricultural jobs compared to June 2021, but no recovery in household incomes.

Outlook

The outlook for 2022 remains positive, underpinned by recovery in the extractive sector, elevated commodity prices, and gradual recovery in economic activity. Despite low vaccination rates, the pandemic-related policy stringency index has gone down, leading to more activity across the country. Meanwhile, slower than expected economic growth could materialize mostly via lower demand for its exports and a sharp reduction in commodity prices. The lowest covid vaccination rates (3.8 percent in mid-August 2022) in the region also weigh on the growth outlook.

While the 2021 fiscal results were better than expected, achieving the government's ambitious fiscal targets over the medium term requires addressing current structural challenges. These include enhancing revenue mobilization and containing government sector wage bill. Following general elections, the new government is supported by a solid majority and has an 18-month grace period. This suggests good prospects of continued fiscal consolidation.

High food and energy prices prevailing in the international markets and inflationary pressures in the major trading partners imply that headline inflation will remain elevated in 2022 before settling down in 2023. Given the inflation in 2022, the real incomes of poor and near-poor households are likely to fall. The poverty impacts of the extractive sector growth would remain limited if associated employment growth does not include the poor.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.5	-3.5	1.0	4.0	4.2	3.0
Real GDP growth, at constant factor prices	4.5	-3.5	1.0	4.0	4.2	3.0
Agriculture	2.3	3.1	4.4	3.8	3.9	3.3
Industry	7.5	-8.4	-6.2	6.1	5.4	2.9
Services	2.5	-1.2	6.1	2.4	3.3	3.0
Inflation (Consumer Price Index)	3.7	4.9	5.1	7.3	5.3	4.9
Current Account Balance (% of GDP)	22.1	19.2	22.0	23.7	21.9	20.9
Net Foreign Direct Investment Inflow (% of GDP)	-2.3	-3.5	-1.4	-1.2	-1.1	-1.2
Fiscal Balance (% of GDP)	-5.0	-8.8	-6.8	-5.4	-4.6	-3.7
Debt (% of GDP)	40.2	48.4	52.3	50.3	50.8	50.6
Primary Balance (% of GDP)	-2.4	-6.2	-4.4	-3.4	-2.6	-1.8
GHG emissions growth (mtCO2e)	-0.2	0.5	0.6	0.6	0.5	0.5
Energy related GHG emissions (% of total)	11.9	11.9	11.8	11.6	11.5	11.3

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

PHILIPPINES

Table 1	2021
Population, million	111.0
GDP, current US$ billion	394.1
GDP per capita, current US$	3548.8
International poverty rate ($2.15)[a]	3.0
Lower middle-income poverty rate ($3.65)[a]	18.3
Upper middle-income poverty rate ($6.85)[a]	53.4
Gini index[a]	42.3
School enrollment, primary (% gross)[b]	98.3
Life expectancy at birth, years[b]	71.4
Total GHG emissions (mtCO2e)	215.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2020).

Favorable domestic conditions drove growth in the first half of 2022 amid a weak external environment. The economic reopening led to the return of strong domestic activities and improved labor outcomes. Rising inflation, however, contributes to the decision for tighter monetary policy, reduces household purchasing power, and challenges poverty reduction. The economic outlook is positive over the medium term, but subject to downside risks from external and domestic sources.

Key conditions and challenges

The economy faces significant challenges from external headwinds. These challenges stem from the spillovers from the ongoing war in Ukraine, elevated global inflation, tight global financing conditions, and growth slowdown for key trading partners – the U.S. and China. While domestic conditions have improved, disruptions to global food and fuel supplies raised inflation to 4.9 percent in the first eight months of 2022, breaching the 2-4 percent inflation target. Rising inflation, alongside the steep interest rate hikes by the U.S. Federal Reserve, has compelled the authorities to tighten monetary policy to re-anchor inflation expectations.

The new administration, which took office on June 30, 2022, will have to carefully navigate the immediate challenges resulting from an unfavorable external environment. In the short-term, careful management of the timing and pace of monetary policy adjustments will safeguard market confidence. Diversifying the sources of key food commodities through importation will help ensure local produce, where inadequate, is augmented by foreign supplies. The implementation of targeted social protection measures will mitigate the adverse impact of shocks on the poor and vulnerable population.

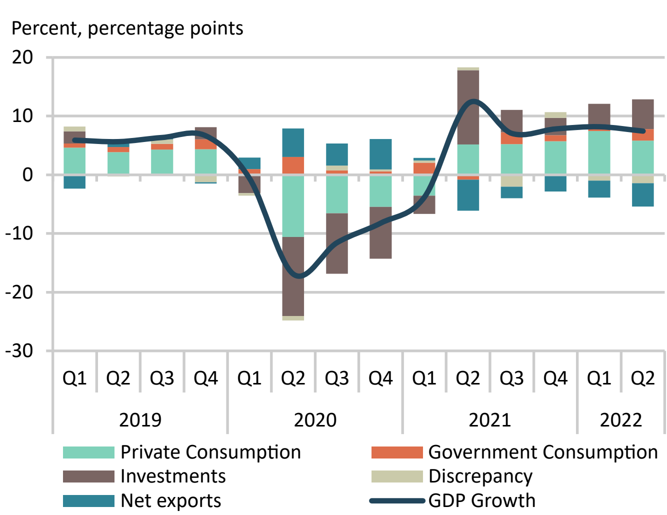
In the medium term, the government's fiscal consolidation agenda remains a key challenge as the authorities face tighter financing conditions while supporting economic growth. Achieving the 2.4 percentage point of GDP increase in tax revenues by 2028 will require the effective implementation of proposed tax policy and administration reforms. Amid a slowdown in public spending, reducing vulnerabilities from the scarring impact of the pandemic entails sustained human capital investments in health and education. The upcoming release of the Philippines Development Plan 2023-2028 will be a welcome development as the plan provides a clear roadmap to achieving the country's priorities for sustained and inclusive growth.

Recent developments

Economic growth slowed to 7.4 percent in Q2 2022 from 8.2 percent in Q1 2022 and 12.1 percent in Q2 2021, as external headwinds and rising inflation weighed on improving domestic conditions. The services sector fueled growth while industry moderated due to sluggish manufacturing activities. Agriculture barely grew due to low productivity and rising input costs. On the expenditure side, relaxed restrictions and election-related activities buoyed private consumption. However, on a seasonally-adjusted basis, private consumption declined by 2.7 percent quarter-on-quarter amid rising inflation. Capital formation was led by growth in construction and durable investments. External headwinds tempered net exports growth.

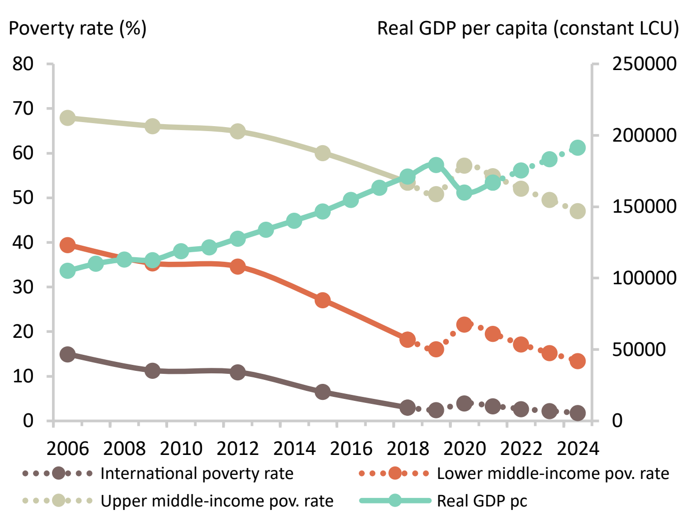
Robust imports led to strong dollar demand which contributed to the 8.2 percent

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



Source: Philippine Statistics Authority.

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



Source: World Bank. Notes: see Table 2.

year-on-year depreciation of the peso in the first eight months of the year. International reserves fell to 8.3 months of imports in end-August.

Headline inflation accelerated in the first eight months of 2022 due to rising commodity prices and a depreciating peso. The minimum wage and transport fare hikes also contributed to the price pressure. To address inflation, the authorities have tightened the key policy rate by a total of 175 basis points since the start of 2022, provided fuel and fertilizer subsidies, and disbursed cash transfers to poor households.

The fiscal balance posted a deficit of 6.5 percent of GDP in H1 2022 compared to 7.8 percent in H1 2021. Public revenues were driven by higher tax collections and a windfall from oil excise taxes from the rise in global oil prices. Meanwhile, public spending fell short by 3.0 percent of the government program. The elevated deficit led to an increase in central government debt to 62.1 percent in June 2022.

Mobility restrictions due to COVID-19 and its drag on growth increased national poverty incidence from 16.7 percent in 2018 to 18.1 percent in 2021. This translates to 19.9 million poor people, an increase of 2.3 million over the same period. The economically important regions of Metro Manila, Central Visayas, and Central Luzon had seen increases in poverty incidence.

Outlook

The economy is projected to grow at 6.5 percent in 2022 and 5.8 percent on average in 2023-24. Strong domestic conditions will compensate for the unfavorable external environment characterized by a global growth deceleration, high global inflation, and tighter global financing conditions. This year, the economic reopening will benefit the contact-intensive services sector, while industry growth moderates in line with weak manufacturing due to soft external demand. Agriculture will grow tepidly due to structural weakness and vulnerability to weather-related shocks. Meanwhile, sustained remittances and recovering jobs and incomes will release pent-up demand, but inflationary pressure may temper consumption growth. The public infrastructure push and improving business confidence will contribute to capital formation. Net exports will be weaker due to the subdued external environment. In 2023-24, growth is expected to moderate as pent-up demand fades, inflation stays elevated, and public investment slows amid the limited fiscal space.

With labor market indicators recovering, poverty incidence using the World Bank's poverty line for lower-middle income countries of US$3.65/day in 2017 PPP is projected to decrease to 17.1 percent in 2022. Current growth projections augur well for a further decrease in poverty through 2024. While economic growth is picking up, the threat of inflation can erode these gains. Since food and energy account for about 70 percent of household expenditures for the poor, the sharp price spikes will erode their purchasing power.

Risks to the outlook are titled to the downside. Externally, geopolitical tension including a prolonged war in Ukraine could heighten market uncertainty and temper investment prospects. A sharper-than-expected slowdown in advanced economies, the country's main exports destination, will dampen exports. Domestically, persistently high inflation could compel households to cut expenditures on health and education. Food security may be challenged amid low productivity in domestic agriculture. Climate-related disasters pose a risk to lives and livelihoods and may impose additional fiscal costs to the government.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.1	-9.5	5.7	6.5	5.8	5.8
Private Consumption	5.9	-8.0	4.2	8.0	5.9	5.9
Government Consumption	9.1	10.5	7.1	10.4	9.7	7.8
Gross Fixed Capital Investment	3.9	-27.3	9.9	13.0	12.2	12.4
Exports, Goods and Services	2.6	-16.1	8.0	7.0	9.1	10.0
Imports, Goods and Services	2.3	-21.6	13.0	15.2	13.5	13.3
Real GDP growth, at constant factor prices	6.1	-9.5	5.7	6.5	5.8	5.8
Agriculture	1.2	-0.2	-0.3	0.4	0.9	1.0
Industry	5.5	-13.1	8.5	6.5	6.1	6.0
Services	7.2	-9.1	5.4	7.5	6.4	6.4
Inflation (Consumer Price Index)	2.4	2.4	3.9	5.2	4.2	3.9
Current Account Balance (% of GDP)	-0.8	3.2	-1.8	-4.6	-3.9	-3.5
Net Foreign Direct Investment Inflow (% of GDP)	2.3	1.9	2.7	2.7	2.7	2.6
Fiscal Balance (% of GDP)	-3.4	-7.6	-8.6	-7.1	-5.7	-4.9
National Debt (% of GDP)	39.6	54.6	60.4	61.9	62.7	62.4
Primary Balance (% of GDP)	-1.5	-5.5	-6.4	-4.5	-3.2	-2.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.4	3.9	3.3	2.7	2.2	1.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	16.1	21.6	19.5	17.1	15.2	13.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	50.8	57.2	54.9	52.0	49.6	47.0
GHG emissions growth (mtCO2e)	3.2	-12.0	3.2	3.7	3.1	3.1
Energy related GHG emissions (% of total)	58.6	55.8	55.3	55.3	55.2	55.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on EAPPOV harmonization, using 2018-FIES. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 1 based on GDP per capita in constant LCU.

SOLOMON ISLANDS

Table 1	2021
Population, million	0.7
GDP, current US$ billion	1.6
GDP per capita, current US$	2312.3
National Basic Needs Poverty Rate[a]	12.7
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	73.1
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/ Most recent WDI value (2020).

The economy is expected to shrink by 4.5 percent in 2022, reflecting the ongoing COVID-19 pandemic, the impact of the 2021 civil unrest, and a negative terms of trade shock stemming from the war in Ukraine. The downturn is likely to increase poverty. Economic conditions are expected to improve in the medium-term, with risks to the outlook including a resurgence of the coronavirus, a return of social unrest, and climate-related disasters.

Key conditions and challenges

Solomon Islands is a country with 700,000 people dispersed across 90 inhabited islands. The country faces large economic, development, and governance challenges shaped by its geographical dispersion, remoteness to international markets, and vulnerability to natural disasters. In addition to the socio-geographic characteristics, capacity constraints as well as a fragile political landscape pose a continuous threat to sustainable development. These challenges make the planning, delivery, and management of infrastructure challenging, resulting in a large infrastructure gap. The need for economic diversification is urgent given an overreliance of the economy on the logging sector. The attempt by the government to find new sources of economic growth is constrained by several impediments, including limited human capital and an unfavorable business environment.

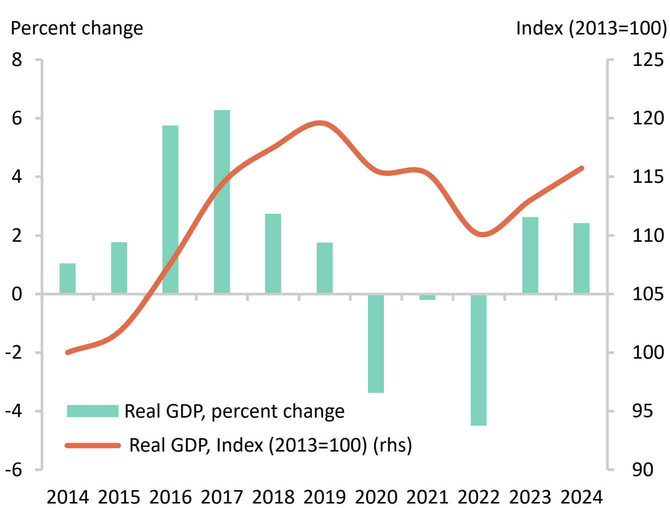
Development challenges have been further exacerbated by the COVID-19 pandemic which caused a sharp economic contraction and adversely affected livelihoods. According to a World Bank mobile phone survey collected during January-February 2022, there is no sign of employment recovery. Employment fell from 60 percent in July 2021 to below 40 percent, particularly in the informal and services sectors. Income from agriculture is set to decrease, which will disproportionally affect the poor. Furthermore, the survey indicates that food insecurity increased – with one out of seven households going without food for the entire day. These conditions are expected to increase poverty, which stood at 60 percent of the population according to the latest representative household survey conducted in 2012/13.

Recent developments

The economy was set to record modest growth in 2021, but the combination of a 3-day civil unrest in November 2021 and pandemic-related restrictions led to a contraction of 0.2 percent. The civil unrest disrupted key sectors, including retail and wholesale, construction, manufacturing, and public administration. Furthermore, COVID-19 restrictions impacted the economy in 2021, including in agriculture and logging activity. Log volumes dropped by 14 percent, while a lack of transportation caused agriculture production to perish before reaching consumers. A 2022 COVID-19 community outbreak and the lingering effects of the civil unrest have dampened economic activity in 2022, partially offset by a reopening of the borders on July 1, 2022.

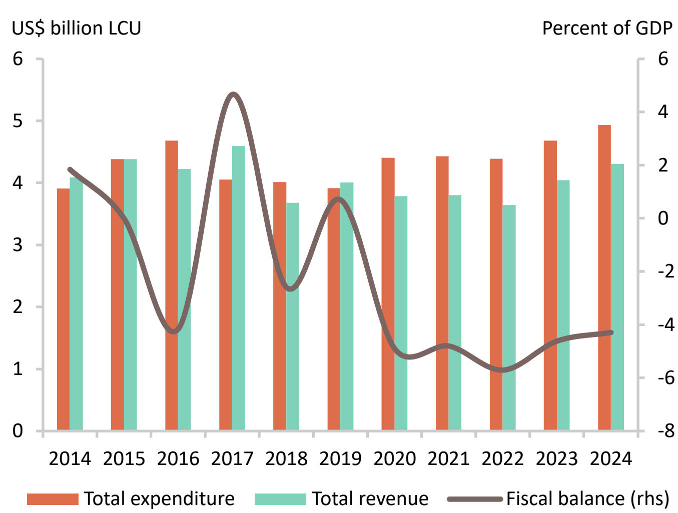
The external sector deteriorated in 2021. The trade deficit fell to 5.9 percent of GDP as logging exports fell and tourism receipts remained muted. As a result, current account deficit reached 5.5 percent of GDP in 2021. Furthermore, the war in Ukraine generated unfavorable terms of trade

FIGURE 1 Solomon Islands / Real GDP



Source: World Bank staff estimates.

FIGURE 2 Solomon Islands / Fiscal balance



Source: World Bank staff estimates.

shock in 2022, as Solomon Islands is a net importer of petroleum, oil, and gas of about 2.5 percent of GDP.

The fiscal deficit is estimated at 4.8 percent of GDP in 2021, due to the COVID-19 pandemic and the November civil unrest. Revenue collection in 2021 was nearly 2 percent of GDP lower compared to initial estimates. In December 2021 alone, the revenue loss due to the civil unrest is estimated at 0.6 percent of GDP. Despite austerity measures, the expenditure remained elevated in 2021, at 33.8 percent of GDP, reflecting recovery and reconstruction needs. For 2022, the deficit is expected to widen to 5.7 percent of GDP, to finance the COVID response and implement a large infrastructure pipeline.

Outlook

After 3 years of decline, economic conditions are expected to improve in the medium term. Economic growth is expected to reach 2.4 percent of GDP in 2024, up from -4.5 percent in 2022. Large infrastructure projects, investments related to the 2023 Pacific Games, and the replacement of lost capital during the civil unrest are anticipated to drive growth. Furthermore, the projected moderation in logging is expected to be offset by increased mining activity, including the reopening of the Gold Ridge mine, and a return of business tourism.

The current account deficit is expected to remain elevated over the medium-term, averaging 11.5 percent of GDP over the period 2022-2024, as the recovery in primary exports is more than offset by higher imports for infrastructure projects and civil unrest reconstruction. Foreign reserves are expected to gradually decline but would remain above the recommended reserve adequacy range of 7 months of imports.

The fiscal deficit is expected to average 4.9 percent of GDP over the period 2022-2024, to support economic recovery and medium-term growth. Total revenue is projected to recover – from 28 percent of GDP in 2022 to 29.4 percent of GDP in 2024, driven by an uptick in economic activity and sustained grant flows. To support an economic rebound and finance the large infrastructure pipeline, expenditures are expected to stay elevated, on average 33.8 percent of GDP over 2022-2024. The fiscal deficit will be financed mainly through external concessional lending. Public debt is estimated to reach 22.9 percent of GDP in 2022. According to the latest debt sustainability analysis[1], the country's risk of debt distress is considered moderate. With pronounced uncertainty around the economic outlook, continued debt sustainability will need to be anchored in a prudent fiscal policy along with a financing strategy that prioritizes grants and concessional borrowing.

Macroeconomic risks are tilted to the downside. COVID-19 remains a risk to the economic outlook. Despite a reopening of the borders on 1 July 2022, another wave of the pandemic may hinder economic recovery. Furthermore, a global economic slowdown amid geopolitical tensions and a tightening of monetary policy in advanced economies pose further risks to the outlook. As a net importer of food and fuel, higher commodity prices may put pressure on inflation, deteriorate the external balance and increase poverty. Under an unfavorable economic environment, the risks of additional episodes of civil unrest cannot be ruled out, which would endanger the economic recovery and potentially lead to additional job losses and the destruction of productive capital. Solomon Islands is also prone to natural disasters, which are likely to impose additional long-term fiscal costs on the Government and pose a risk to the medium-term outlook. A large natural disaster could also put stress on the financial sector. On the upside, a sooner-than-anticipated end to the health crisis, timely execution of major infrastructure projects, and a successful implementation of the tax reform agenda could boost the economic growth and contribute to fiscal consolidation.

1/ The latest joint IMF/World Bank Debt Sustainability Analysis (DSA) was published in January 2022. A new DSA is scheduled in the upcoming months, which will take into account recent macro-fiscal developments.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.8	-3.4	-0.2	-4.5	2.6	2.4
Real GDP growth, at constant factor prices	1.3	-3.4	-0.2	-3.9	2.5	2.4
Agriculture	-4.4	-2.3	1.0	-3.6	2.5	1.8
Industry	6.3	-7.7	-3.5	-4.3	2.4	2.4
Services	2.8	-2.7	0.1	-4.0	2.6	2.8
Inflation (Consumer Price Index)	1.6	3.0	-0.1	8.8	3.4	3.5
Current Account Balance (% of GDP)	-9.5	-1.6	-5.5	-10.6	-13.2	-10.7
Net Foreign Direct Investment Inflow (% of GDP)	1.8	0.4	1.7	1.8	1.8	1.8
Fiscal Balance (% of GDP)	0.7	-4.9	-4.8	-5.7	-4.6	-4.3
Debt (% of GDP)	8.3	14.0	20.6	22.9	26.3	28.7
Primary Balance (% of GDP)	0.9	-4.2	-4.5	-5.4	-4.0	-3.7
GHG emissions growth (mtCO2e)	0.0	0.0	0.0	0.1	0.1	0.1
Energy related GHG emissions (% of total)	0.9	0.9	0.9	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	2021
Population, million	
Samoa	0.20
Tonga	0.10
Vanuatu	0.31
GDP, US$, billion	
Samoa	0.84
Tonga	0.46
Vanuatu	0.95
GDP per capita, current US$	
Samoa	4216
Tonga	4669
Vanuatu	3045

Sources: WDI, Country authorities, and World Bank staff estimates.

The economies of Samoa, Tonga, and Vanuatu have been hit by multiple shocks, including natural disasters, the COVID-19 pandemic, and the war in Ukraine. Notably, Tonga was devastated by a volcanic eruption and tsunami. The pandemic continues to dampen economic activity as strict travel restrictions hit tourism-related activity with negative spillovers to the rest of the economy. Governments need to continue supporting the vulnerable and embark on structural reforms to support inclusive economic recovery.

Key conditions and challenges

Natural disasters and external shocks pose a constant threat to livelihoods, economic growth, and fiscal sustainability in the South Pacific. Enhancing resilience is crucial to supporting long-run growth and achieving sustainable improvements in living standards and poverty reduction. The economies continue to be battered by consecutive shocks, delaying economic recovery. This creates significant potential for scarring effects in the longer term, particularly in the tourism sector. Lost firms and jobs create adverse structural changes to the economy that are not reversed when aggregate demand recovers. The economic shocks and slow recovery greatly increase the risk of poverty, particularly as households deplete savings and assets to cope with lost incomes.

The main immediate challenge is to limit harm to the most vulnerable from rampant inflation. For Tonga, the priority is also on recovery from the recent tsunami. While the COVID vaccination rate is encouraging in Samoa and Tonga, Vanuatu needs to step up the vaccine rollout. The near-term challenge will be to strike an appropriate balance between catalyzing a sustainable and inclusive economic recovery and maintaining macroeconomic balance in the face of several competing pressures. With limited fiscal space, governments need to prioritize strategic measures that lay the foundation for economic recovery, while also supporting livelihoods for the bottom 40 percent of households. Effective implementation of structural reforms will be critical to ensure a sustainable economic recovery.

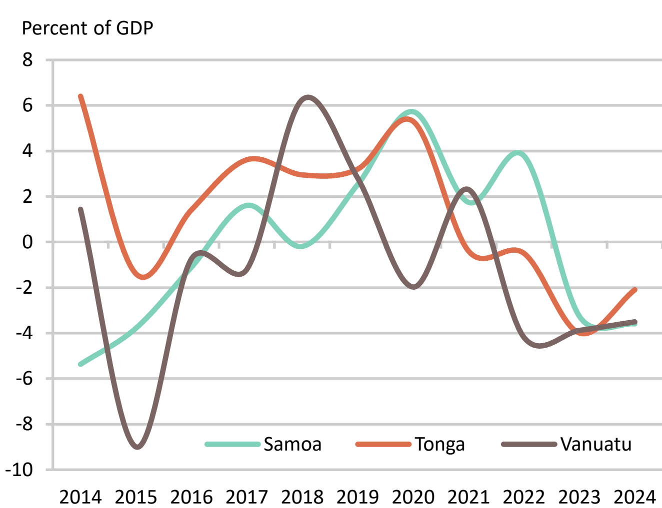
Recent developments

Border closures in response to the pandemic created economic downturns. Substantial donor funding cushioned the negative impact on fiscal and external balances. Inflation remained low prior to the war in Ukraine but has spiked in recent months.

The **Samoan** economy recorded a historical-high recession in FY21. Border closure resulted in a sharp contraction of tourism and related industries, and hindered construction activity. Despite policy support and robust remittances, real GDP contracted by 7.1 percent. Inflation tanked to a historical low of -3.0 percent amid the economic slowdown but has been soaring in recent months. Poverty, measured against national standards of living, is likely to have risen from the latest pre-pandemic rate of 22.7 percent (2018), with urban areas affected more due to the higher concentration of jobs in the services sector. Substantial development partner grants, spending under-execution, and favorable tax revenue outturn, reflecting improved tax compliance helped attain a fiscal surplus of 2.2 percent of GDP. The current account recorded a substantial deficit (14.3 percent of GDP) as tourism receipts came to a standstill.

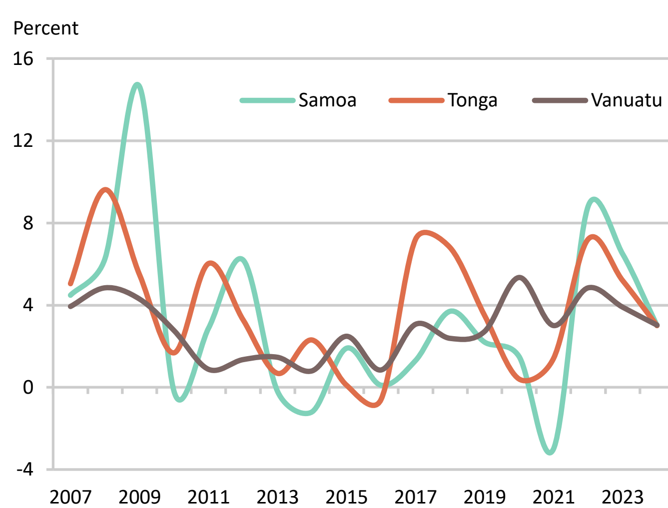
The **Tongan** economy is estimated to have contracted by 2.7 percent in FY21, due to the impacts of COVID-19 and TC Harold—a

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Inflation



Sources: National sources and World Bank projections.

category 5 cyclone that struck the country in April 2020. These shocks resulted in a slowdown in the tourism, retail, and agriculture sectors. However, a severe contraction was avoided due to the fiscal stimulus implementation, ramp-up of reconstruction activities from TC Gita (2018) and TC Harold, and buoyant remittance inflows. Inflation remained low at 1.4 percent due to the economic slowdown and depressed import prices but has been increasing recently. A marginal fiscal deficit of 0.4 percent of GDP was recorded, supported by high grants and better-than-expected domestic revenue collections. Robust remittances and lower service imports helped attain a current account surplus of 5.3 percent of GDP.

In **Vanuatu**, following a deep recession in 2020, economic growth is estimated to have recovered to 0.5 percent in 2021, with around 40 percent of the population living below the lower-middle-income poverty line (US$3.65 per day in 2017 PPP terms). The recovery was underpinned by an uptick in industrial production, rising agricultural output, and the fiscal stimulus implementation. Inflation averaged 3 percent in 2021, within the Reserve Bank of Vanuatu's target rate of 0-4 percent. Stronger than expected revenue collections and development partner grants helped record a fiscal surplus of 2.3 percent of GDP. The current account recorded a deficit of 1.9 percent of GDP, predominantly driven by subdued tourism receipts and high demand for imported machinery and transport equipment.

Outlook

The materialization of downside risks, primarily associated with the war in Ukraine and the deepening global economic slowdown is expected to suppress the pace of economic recovery. Vanuatu re-opened its borders in July 2022, followed by Samoa and Tonga a month later. While tourism has prospects to show some resilience post-border reopening, external headwinds may have implications on the sector's recovery. Inflation is projected to spike in FY22 driven by higher commodity prices and supply chain constraints resulting from the war in Ukraine and gradually fall from FY23. Downside risks to inflation include a protracted war in Ukraine that further elevates commodity prices and other external shocks. Poverty rates across the three countries will gradually decline as economic activity picks up and jobs become available but will remain higher than pre-pandemic levels until full economic recovery is achieved.

In **Samoa**, the economy is projected to contract further by 5 percent in FY22, driven by the continued border closure and the domestic COVID outbreak in March 2022. Nonetheless, a gradual recovery is projected from FY23 onwards with growth averaging 3.3 percent in FY23-24. The rebound is expected to be driven by a gradual resumption of tourist activity, spillovers to other sectors, and ramping up of capital projects. Inflation is estimated at 8.8 percent in FY22 as supply-related shocks to commodity prices continue. A modest average fiscal deficit of 1 percent of GDP is projected from FY22-24, supported by a gradual withdrawal of fiscal stimulus and the economic recovery. With the slow recovery in tourism, the current account deficit is projected to remain elevated in FY22 before narrowing over the medium term.

In **Tonga**, the economy is expected to contract by 1.6 percent in FY22, reflecting the impact of the recent tsunami on agricultural production, the commercial sector, and tourism, aggravating the COVID-related impact. Meanwhile, food insecurity has become more severe—particularly among poorer households—as indicated by the first round of the World Bank high-frequency phone surveys, collected from April to May 2022. Growth is expected to rebound to 3.3 percent in FY23 and FY24 driven by reconstruction activity, recovery in agriculture, and a gradual pick up in tourism receipts. Inflation is expected to rise to 7.2 percent in FY22 due to higher fuel and food prices amid supply chain constraints, COVID-19 restrictions, and the tsunami, before subsiding from FY23. The fiscal and current account deficits are projected to remain elevated in FY23-24 as reconstruction activities and recovery efforts continue, before narrowing over the medium term.

In **Vanuatu**, a return to pre-COVID levels of economic activity is expected over the medium term, with growth averaging 3.2 percent over 2022-2025. The near-term outlook is largely dependent on the evolution of the pandemic and the vaccine roll-out. The recovery is expected to be led by the tourism sector and full implementation of reconstruction efforts. Inflation is expected to reach nearly 5 percent in FY22 amid elevated global commodity prices but subside thereafter. Poverty will remain high at around 40 percent until 2024. The fiscal deficit is expected to average 3.8 percent of GDP during 2022-2025 reflecting the expansionary stance to support economic recovery. The current account deficit is expected to widen in the medium term, reflecting large import needs and a timid recovery of travel receipts.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices						
Samoa	4.5	-3.1	-7.1	-5.0	2.0	4.5
Tonga	0.7	0.5	-2.7	-1.6	3.3	3.2
Vanuatu	3.2	-5.4	0.5	2.2	3.4	3.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]						
Vanuatu	34.5	39.4	40.2	40.5	39.9	39.3

Sources: World Bank and IMF.
Note: e = estimate; f = forecast. Financial years for Samoa and Tonga are July-June, for Vanuatu it is January-December.
a/ Calculations based on EAPPOV harmonization, using 2019-NSDP.
b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

THAILAND

Table 1	2021
Population, million	70.0
GDP, current US$ billion	505.9
GDP per capita, current US$	7232.9
Upper middle-income poverty rate ($6.85)[a]	13.2
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	102.2
Life expectancy at birth, years[b]	77.3
Total GHG emissions (mtCO2e)	392.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2020).

The economic recovery accelerated in 2022H1 supported by a stronger-than-expected rebound in private consumption and tourism, which offset weak goods export. However, among the major ASEAN economies, Thailand's recovery has proven to be the slowest and inflation the highest. Surging inflation is expected to dampen private spending once pent-up demand fades. An unfavorable global economic and geopolitical environment will weigh on external demand. Poverty is projected to decline as household income increases but high prices of essential commodities and elevated debt continue to pose major risks.

Key conditions and challenges

The economy is on a recovery path, projected to reach pre-COVID levels by end-2022. The relaxation of travel policies in many countries has given a boost to an incipient tourism recovery. Private consumption has strengthened with mobility approaching pre-COVID levels following the relaxation of containment measures, suggesting the economy to be more resilient than expected. However, the recovery has lagged behind other major ASEAN economies which reached pre-COVID levels by early 2022.

Inflation has surged ahead of major ASEAN economies due to the country's high energy dependency, putting household livelihoods at risk. As household debt remains elevated (90 percent of GDP), interest rate hikes are expected to place a greater burden on the poor who tend to bear higher debt service as a share of income and hold less liquidity buffers. Private consumption will be undermined especially after pent-up demand runs its course.

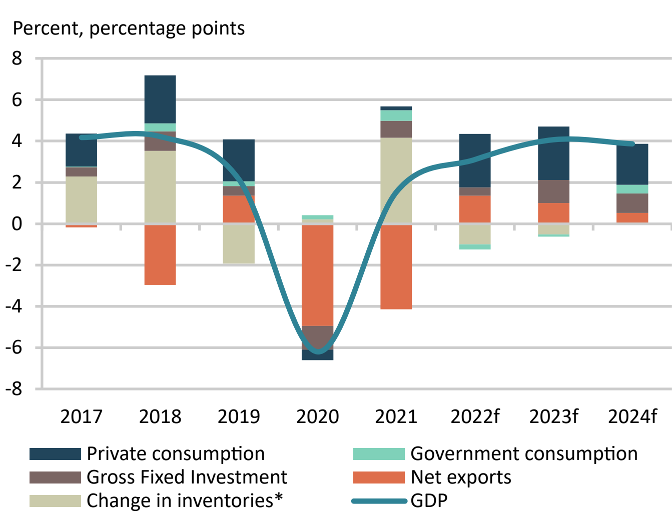
The calibration of fiscal policy to lessen the impact of the Ukraine-Russia war while maintaining fiscal consolidation is particularly important. At the current juncture, the government's response of price subsidies and cash transfers targeted at low-income households remain important tools that can help mitigate the welfare impact of rising prices and ensure food security among vulnerable groups, while allowing prices to gradually adjust. But as Thailand moves into the recovery phase, it will be important to make progress on fiscal consolidation while rebalancing public spending towards more efficient targeted support for households and public investment to help build back better and greener.

Recent developments

The economy expanded by 2.4 percent (yoy) in the first half of 2022 due to a strong boost in private consumption and an uptick in tourism, which offset weak goods exports. Inflation rose to 6.5 percent in the second quarter, reaching a 14-year high. Inflation has been driven mainly by supply-side factors. Domestic demand remained subdued and the output gap is expected to stay negative over the forecast horizon, despite the narrowing gap. The government continued to introduce fiscal measures to mitigate the impact of the rising costs of living and the pandemic, including energy subsidies. As a result, the central government fiscal deficit remained substantial at 7.0 percent of GDP in the first eight months of FY22 (Oct 2021-May 2021), compared with 8.5 percent of GDP in the same period last year. Public debt increased to 60.9 percent of GDP. The central bank raised the policy rate by 25 basis points to 0.75 percent for the first time since 2018 in August to tame inflation.

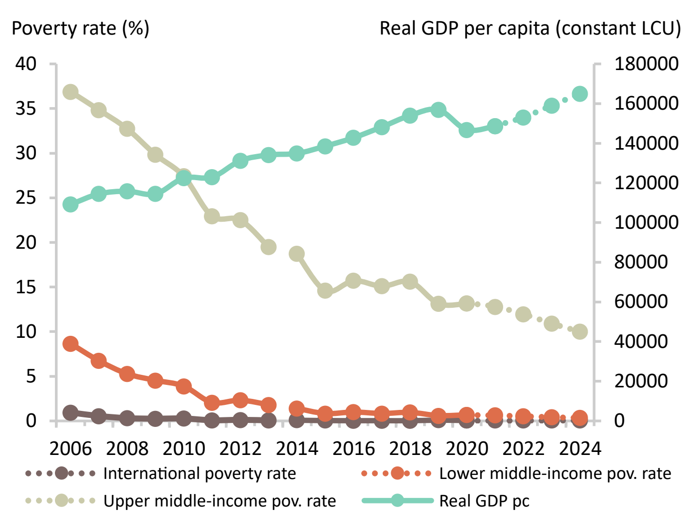
The external position remained weak due to the fallout from the Ukraine-Russia war. The current account deficit remained

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.

elevated at 4.3 percent of GDP in 2022H1 due to increased fuel imports, stronger-but-subdued tourism receipts, and weak goods exports. Tourist arrivals reached 1.6 million in the second quarter of 2022, reaching 17.6 percent of the same period in 2019. Goods export growth slowed in 2022Q2, as manufacturing export growth weakened due to the decline in demand for electronics and electrical appliances combined with supply chain disruptions in the automotive industry. However, agricultural goods exports continued to show strength. The Real Effective Exchange Rate (REER) depreciated 8 percent in the first 7 months of 2022, due to capital outflows following Fed tightening and concerns over a global economic slowdown.

The labor market recovery picked up as unemployment declined to 1.4 percent, largely returning to its pre-pandemic level driven by a recovery in services. Real household income grew 2.4 percent per year during 2019 – 2021, driven by incomes from social assistance and COVID-19 relief measures. The poverty headcount rate (based on the upper middle-income poverty line of 6.85 dollars a day, 2017 PPP) was estimated to have declined from 13.2 percent in 2020 to 12.8 percent in 2021. Despite overall improvements in household income, labor income stagnated, and rising consumer prices weighed negatively on household welfare.

Outlook

The economy is expected to expand by 3.1 percent in 2022, up from 1.5 percent in 2021. The upward revision reflects stronger private consumption and services exports due to the nascent tourism recovery. Growth is projected to accelerate to 4.1 percent on average in 2023-24 and help to close the lingering negative output gap. Growth will be supported by increased mobility and pent-up demand for durables and services. Tourist arrivals are projected to increase to 8.7 million arrivals in 2022, still only one-fourth of the pre-pandemic level. Arrivals are expected to accelerate thereafter and reach the pre-pandemic level by early 2025. Headline inflation is projected at 6.0 percent in 2022, before moderating to 3.4 percent in 2023.

Labor market employment is expected to return to pre-pandemic levels following the economic recovery. While rising commodity prices will continue to disproportionately affect poor and vulnerable households, the recently approved economic assistance measures worth 27.4 billion baht (0.2 percent of GDP) and an increase in the minimum wage by 5 percent are expected to alleviate these impacts. Thanks to the growth rebound and assistance measures, household income is expected to increase, and the poverty headcount rate is projected to decline to 12.0 percent in 2022. However, high dependence on social assistance to support household livelihoods amid long-stagnant labor income poses key challenges to sustainable development.

Despite the ongoing recovery, the pace of recovery remains uncertain and hinges on developments in China, the US, and the Euro Area, inflation, and the resumption of tourism. Headwinds to tourism persist due to remaining COVID concerns, China's travel restrictions, the slowing global economy, and the impact of the Ukraine-Russian war on travel costs. The uncertainty surrounding these shocks, together with the recent rise in public debt, have made it harder to reconcile the pressures for ongoing fiscal support with the need for fiscal consolidation.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.2	-6.2	1.5	3.1	4.1	3.9
Private Consumption	4.0	-1.0	0.3	4.8	4.7	3.6
Government Consumption	1.6	1.4	3.2	-1.6	-0.7	2.9
Gross Fixed Capital Investment	2.0	-4.8	3.4	1.6	4.6	3.8
Exports, Goods and Services	-3.0	-19.7	10.4	8.2	7.4	7.6
Imports, Goods and Services	-5.2	-14.1	17.9	6.0	5.9	7.0
Real GDP growth, at constant factor prices	2.2	-5.5	1.5	3.1	4.1	3.9
Agriculture	-0.5	-3.2	1.3	2.0	2.2	2.2
Industry	-0.7	-5.3	3.4	1.7	3.7	3.5
Services	4.2	-5.8	0.5	4.0	4.5	4.2
Inflation (Consumer Price Index)	0.7	-0.8	1.2	6.0	3.4	0.7
Current Account Balance (% of GDP)	7.0	4.2	-2.1	-3.3	-0.8	1.1
Net Foreign Direct Investment Inflow (% of GDP)	1.0	4.8	1.2	-0.5	-0.5	-0.5
Fiscal Balance (% of GDP)	0.4	-4.5	-6.9	-5.7	-2.8	-2.5
Debt (% of GDP)	40.9	50.2	57.7	62.5	61.5	60.6
Primary Balance (% of GDP)	1.5	-3.6	-5.7	-4.1	-1.1	-0.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.1	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.6	0.7	0.6	0.5	0.4	0.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	13.1	13.2	12.8	12.0	10.9	10.0
GHG emissions growth (mtCO2e)	0.0	-6.0	1.8	-0.6	1.9	2.9
Energy related GHG emissions (% of total)	61.3	59.5	60.1	59.4	59.7	60.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on EAPPOV harmonization, using 2014-SES, 2019-SES, and 2020-SES. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2014-2019) with pass-through = 1 based on GDP per capita in constant LCU.

TIMOR-LESTE

Table 1	2021
Population, million	1.3
GDP, current US$ billion	1.6
GDP per capita, current US$	1204.9
School enrollment, primary (% gross)[a]	112.5
Life expectancy at birth, years[a]	69.7
Total GHG emissions (mtCO2e)	6.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

After a large contraction in 2020, the economy is gradually recovering from several waves of COVID-19 outbreaks and from a severe natural disaster with cyclone Seroja in 2021. The non-oil economy is estimated to expand by 3.0 percent in 2022, underpinned by public spending and rebounding private consumption. The war in Ukraine and the associated higher commodity and food prices will affect inflation, the fiscal and external accounts. The outlook is subject to downside risks from external and domestic sources.

Key conditions and challenges

Timor-Leste is an oil and gas producer that saves its hydrocarbon revenues in a Petroleum Fund. The accumulated financial assets are worth around USD 17.8 billion, nearly 10 times the size of the non-oil economy. Large government spending has allowed the country to make significant strides in the development of infrastructure and basic services, although the efficiency of spending has been mixed. Timor-Leste government spending remained one of the highest in the world (82.6 percent of GDP in 2020) and has led to a large fiscal deficit of 25.6 percent of non-oil GDP in 2020.

The fundamental challenge facing the country is the transformation of its petroleum wealth into sustained and broad-based increases in living standards. With active oil fields nearly depleted, Timor-Leste's long-term risks to fiscal sustainability are increasing. The country faces the risks of a fiscal cliff as the Petroleum Fund is projected to be depleted by 2032 under current spending trajectories.

In addition to a fledgling private sector that depends on the demand created by public sector spending, Timor-Leste suffers from limited economic integration and high market concentration of its exports. Tourism is the main export on the services side, but its contribution is constrained by weak connectivity. The country is also vulnerable to natural hazards, including floods, landslides, earthquakes, and tsunamis.

Recent developments

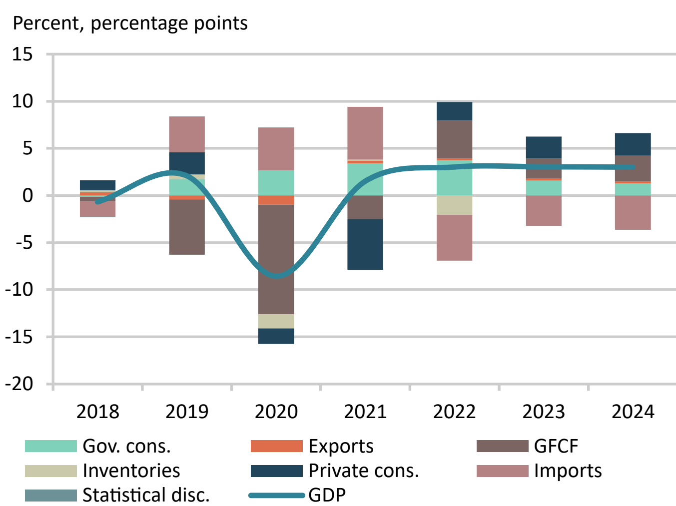
Strong progress with vaccination allowed the authorities to lift COVID-19-related restrictions at the end of November 2021 and social and economic life has largely returned to normal.

The economy is substantially exposed to the impacts of the war in Ukraine through commodity markets. Headline inflation rose to 8.0 percent year-on-year (YoY) in June 2022, driven by surging global food and energy prices and the increase in tax rates for alcoholic beverages and tobacco.

Despite the slow budget execution, Parliament approved a mid-year increase to the budget in May 2022. The revision was made to incorporate measures proposed during the Presidential election campaign and to deal with higher food and fuel prices. These include the Food Basket program; interventions aimed to support expectant mothers and children; and a fuel voucher scheme for national public transport operators, national maritime and air transport operators, and purchasers of fuel intended for agricultural and fishing activities.

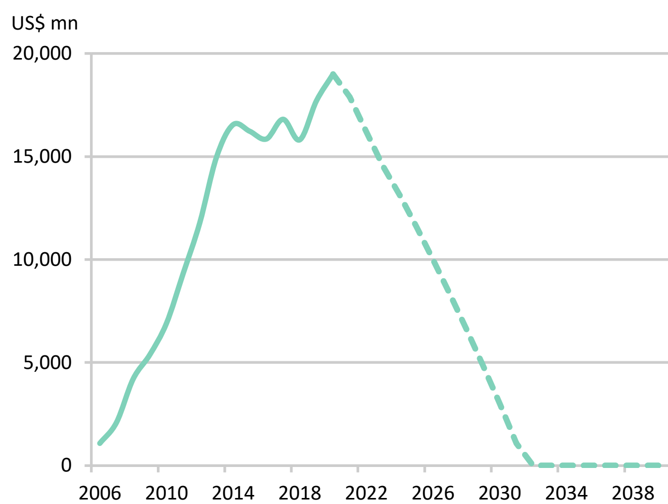
Lack of more recent data poses a challenge to fully understand the current poverty condition and a threat of inflation may set back any progress. The poverty rate at the national poverty line fell from 50.4 percent in 2007 to 41.8 percent in 2014. The latest poverty measurement was produced using the 2014 Timor-Leste Survey of Living Standards (TL-SLS) and the next one is

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 / Petroleum fund



Sources: Central Bank of Timor-Leste (BCTL) and World Bank staff estimates.

planned to be conducted only in 2023. A 2019 joint report by The National Council on Food Security, Sovereignty and Nutrition in Timor-Leste (KONSSANTIL), WFP, and FAO found that the majority of Timorese cannot afford a nutritious diet. Inflation induced by increasing global food and energy prices may set back any progress in poverty reduction.

Outlook

The non-oil economy is projected to expand by 3.0 percent in 2022, driven by a significant increase in government spending and rebounding private consumption. The fiscal deficit is projected to increase to close to 55 percent in 2022 as transfers and capital spending escalate. The Petroleum Fund is expected to fall in value at least until there are inflows from a new hydrocarbon production field or a structural reform of fiscal policy.

Uncertainties surrounding the baseline forecast remain large. Macroeconomic risks include further increases in global food and energy prices and COVID-19-related mobility restrictions. Exposure to natural disasters also makes it vulnerable to upward pressure on food prices. It is difficult, however, to track the impact of these risks at the household level due to very limited data. Domestic policy reform slippages can also lead to protracted macroeconomic imbalances.

Fiscal consolidation, Public Financial Management (PFM) and structural reforms could help lay the foundation for more diversified and resilient growth in the medium term. PFM reforms are a major priority because government expenditure will continue to drive the economy in the medium term. To preserve fiscal and external sustainability, expenditure rationalization and revenue mobilization should accompany PFM reforms.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.1	-8.6	1.5	3.0	3.0	3.0
Private Consumption	3.7	-2.5	-7.8	3.1	3.7	3.8
Government Consumption	3.2	4.9	5.3	5.7	2.3	1.9
Gross Fixed Capital Investment	-17.4	-42.5	-14.5	28.0	11.8	14.0
Exports, Goods and Services	-17.2	-51.1	29.3	12.2	13.8	14.0
Imports, Goods and Services	-6.5	-8.5	-10.5	10.3	6.4	7.0
Real GDP growth, at constant factor prices	2.0	-8.3	1.6	3.0	3.0	3.0
Agriculture	2.5	5.1	2.9	2.9	2.9	2.9
Industry	4.8	-28.5	2.4	2.4	2.4	2.4
Services	1.2	-7.1	1.1	3.2	3.2	3.2
Inflation (Consumer Price Index)	0.9	0.5	3.8	7.5	2.5	2.5
Current Account Balance (% of GDP)	4.7	-5.3	61.9	-5.7	-9.6	-12.8
Fiscal Balance (% of GDP)[a]	-29.9	-25.6	-45.3	-54.0	-53.8	-53.7
GHG emissions growth (mtCO2e)	1.5	-5.7	1.8	3.2	3.8	3.9
Energy related GHG emissions (% of total)	9.7	9.5	9.6	9.7	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.

VIETNAM

Table 1	2021
Population, million	98.2
GDP, current US$ billion	362.6
GDP per capita, current US$	3694.0
International poverty rate ($2.15)[a]	1.2
Lower middle-income poverty rate ($3.65)[a]	5.3
Upper middle-income poverty rate ($6.85)[a]	22.2
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	117.2
Life expectancy at birth, years[b]	75.5
Total GHG emissions (mtCO2e)	464.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ Most recent WDI value (2020).

Vietnam's economy is expected to grow by 7.2 percent in 2022, on the back of a strong rebound in domestic demand and continued solid performance by export-oriented manufacturing. Poverty is expected to decline from 3.7 in 2021 to 3.3 percent in 2022, based on the World Bank's LMIC poverty line ($3.65/day 2017PPP). However, the economy faces heightened downside risks associated with the economic slowdown of Vietnam's main trade partners, higher inflation, and heightened financial risks.

Key conditions and challenges

Vietnam's economy has rebounded strongly, but its recovery remains incomplete, with aggregate output remaining below pre-covid trends. In the near term, policymakers confront the difficult task of balancing the need for continued policy support to solidify the recovery in the context of weakening global environment with the need to contain emerging inflation and financial risks. In the medium to long term, achieving Vietnam's goal to become an upper-middle income economy will depend on transitioning to a productivity and innovation-led growth model based on a more efficient use of productive, human, and natural capital. This transition requires strengthened institutional capacity to pass and implement structural reforms aimed at building a more competitive and resilient economy.

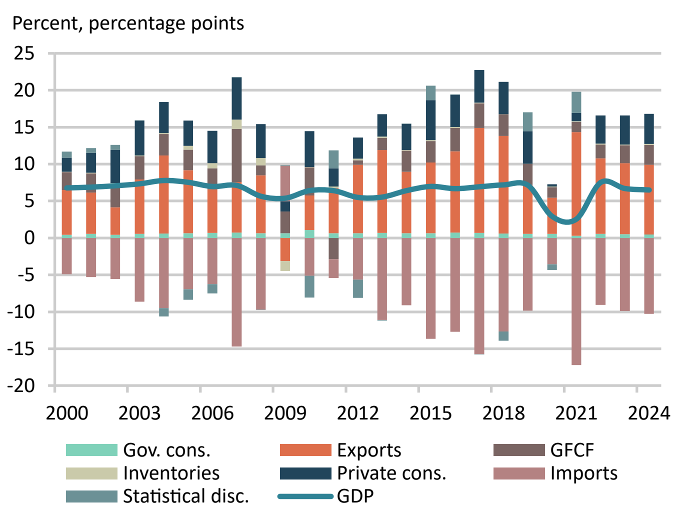
Recent developments

The economy rebounded strongly from COVID-19-related lockdowns in Q3-2021, expanding by 6.4 percent in H1-2022. The rebound was largely due to a recovery of exports and the release of pent-up demand following the removal of COVID-19-related mobility restrictions and, more recently, the gradual return of foreign tourists. The services sector grew by 6.6 percent in H1-2022, including a record high growth of 8.6 percent in Q2-2022. Industrial production (excluding construction) grew by 8.4 percent in H1-2022, fueled by resilient external demand. Inflation inched up to 3.1 percent (y/y) in July 2022, mainly driven by higher transport costs, which increased by 15.2 percent despite efforts by the authorities to contain price pressures through cuts in fuel excises.

Despite the economic rebound, firms and households report lingering impacts. A World Bank Business Pulse Survey conducted from January to March 2022 found that 92.6 percent of formal firms were back in business, but 56 percent reported lower sales during January-March 2022 than before the pandemic. While labor market conditions have continued to improve, labor force participation was 68.5 percent in Q2-2022 (below the pre-pandemic rate of 71.3 percent). Also, almost 20 percent of households reported their incomes were lower compared to the first seven months of this year than in the same period last year.

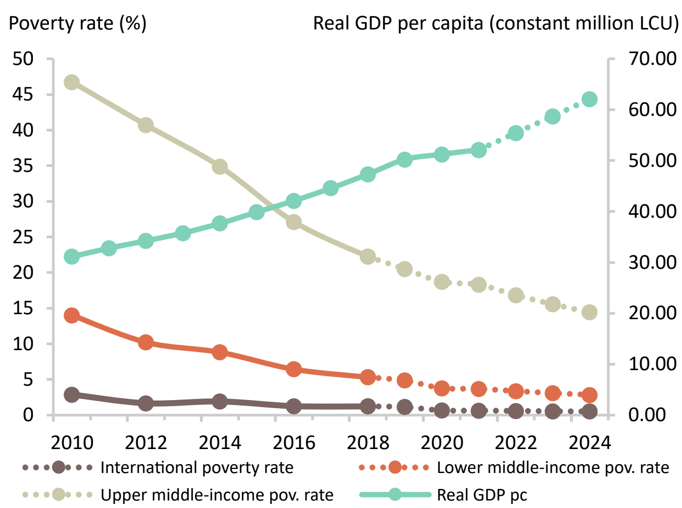
The external position remained solid in Q1-2022 despite a deteriorating current account. The current account registered a deficit of US$1.5 billion in Q1-2022. The deficit is driven by a deterioration of the balance of trade in goods and non-factor services (-US$1.5 billion) compared to Q1-2021, with goods trade affected by weaker terms of trade. The terms of trade fell by 3.1 percent in Q1-2022, exacerbating the 9.6 percent deterioration in H2-2021. On the other hand, the financial account balance registered a US$3.5 billion surplus in Q1-2022, on the back of strong net foreign direct investment (US$3.4 billion).

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: see Table 2.

Accommodative monetary policy ensured ample liquidity with credit growth reaching 16.9 percent in June 2022, significantly exceeding nominal GDP growth. However, the SBV rolled back the forbearance measures introduced in April 2020, an important step to recognize and resolve bad assets that may have accumulated during the crisis.

Despite the ample fiscal space available, the budget registered a US$9.6 billion surplus as of June 2022 due to under-execution of public investment and strong tax collection. The economic recovery support program (which amounts to 4.5 percent of GDP), adopted in January 2022, provides room for additional fiscal support but implementation has been slow. At 39.9 percent of GDP Vietnam's debt is sustainable and significantly below the 60 percent threshold set by the national assembly.

Outlook

Like other EAP countries (outside China), Vietnam's economy is projected to rebound in 2022, growing by 7.2 percent, driven in large part by low base effects after the lockdown-induced contraction last year, before reverting to trend growth over the medium term. Growth drivers are expected to pivot from external to domestic demand, and from manufacturing to services as exports to major markets (U.S, Euro area, and China) moderate. Inflation is projected to accelerate to 3.8 percent in 2022 and 4 percent in 2023 due to second-round effects of commodity price impacts, before subsiding to 3.3 percent in 2024. Public expenditures are expected to accelerate in H2-2022 and the fiscal deficit will reach 2.8 percent of GDP in 2022, providing some support to the economy. The deficit is projected to rise slightly to 3.2 percent of GDP as implementation of the 2022-2023 support program picks up.

After a period of stagnation during the COVID-19 crisis, the pace of poverty reduction is expected to pick up, with the poverty rate declining from 3.7 percent in 2021 to 3.3 percent in 2022, based on the World Bank's LMIC poverty line ($3.65/day 2017PPP).

The outlook is subject to heightened risks. External risks include persistent global inflation pressures and a sharper than expected economic slowdown of Vietnam's main trade partners (U.S, eurozone, and China), and continued disruptions in the GVCs. Internally, higher than expected inflation reported labor shortages in manufacturing areas, and heightened financial risks could affect growth prospects.

In the short term, given the economy is still recovering and inflation is in check, the current accommodative monetary stance remains appropriate while a more supportive fiscal stance would help to hedge against downside risks to growth. This translates into better execution of the budget and the 2022-2023 support program. The ongoing fragility of household balance sheets, especially among the poor warrants continued social assistance. However, if inflation accelerates above 4 percent and core inflation picks up, authorities should consider recalibrating monetary and fiscal policies. Heightened financial sector risks call for intensified prudential supervision, reporting, and provisioning on NPLs, and improved corporate insolvency and banking sector resolution frameworks.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	7.2	2.9	2.6	7.2	6.7	6.5
Private Consumption	7.4	0.5	2.0	6.5	6.8	7.0
Government Consumption	5.8	6.2	2.9	5.6	5.4	5.2
Gross Fixed Capital Investment	8.3	4.1	4.0	5.2	6.9	7.7
Exports, Goods and Services	6.7	5.0	14.0	8.9	8.5	8.2
Imports, Goods and Services	9.5	3.4	16.2	7.4	8.2	8.4
Real GDP growth, at constant factor prices	7.6	3.4	2.6	7.2	6.7	6.5
Agriculture	2.0	2.7	2.9	2.0	2.0	2.0
Industry	9.6	4.7	4.0	7.6	7.9	7.9
Services	7.5	2.6	1.2	8.3	6.8	6.3
Inflation (Consumer Price Index)	2.8	3.2	1.8	3.8	4.0	3.3
Current Account Balance (% of GDP)	3.7	3.7	-1.1	-0.1	0.4	0.3
Net Foreign Direct Investment Inflow (% of GDP)	4.7	4.5	4.2	4.2	4.3	4.3
Fiscal Balance (% of GDP)	-0.4	-2.9	-3.5	-2.8	-3.2	-2.0
Debt (% of GDP)	41.3	41.7	40.2	39.9	40.5	39.5
Primary Balance (% of GDP)	1.0	-1.6	-2.2	-1.6	-2.1	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.1	0.7	0.6	0.6	0.5	0.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.9	3.8	3.7	3.4	3.1	2.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.5	18.7	18.3	16.8	15.6	14.4
GHG emissions growth (mtCO2e)	13.3	2.9	2.9	6.2	5.7	5.6
Energy related GHG emissions (% of total)	65.2	64.9	64.4	64.7	64.7	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. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

Macro Poverty Outlook

10/2022

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