Latin America and the Caribbean

Macro Poverty Outlook

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

Annual Meetings 2022

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

Latin America and the Caribbean

Annual Meetings 2022

Argentina
The Bahamas
Barbados
Belize
Bolivia
Brazil
Chile
Colombia
Costa Rica
Dominica
Dominican Republic
Ecuador
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Saint Lucia
Saint Vincent and the Grenadines
Suriname
Uruguay

ARGENTINA

Table 1	2021
Population, million	45.8
GDP, current US$ billion	486.4
GDP per capita, current US$	10622.9
International poverty rate ($2.15)[a]	1.1
Lower middle-income poverty rate ($3.65)[a]	3.5
Upper middle-income poverty rate ($6.85)[a]	14.1
Gini index[a]	42.3
School enrollment, primary (% gross)[b]	109.5
Life expectancy at birth, years[b]	76.8
Total GHG emissions (mtCO2e)	412.2

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

Following the strong recovery after a three-year recession, economic activity is projected to expand at a slower pace as economic imbalances slow growth and foreign reserve accumulation, despite historically high terms of trade. High inflation continues to deter progress in poverty reduction. Complementing macroeconomic stabilization, anchored in an IMF program, with reforms that bolster investment and facilitate formal private sector job creation would strengthen growth and shared prosperity.

Key conditions and challenges

Argentina is struggling with large macroeconomic imbalances, which are slowing the pace of economic growth. Economic activity recovered quickly from the COVID crisis and returned to pre-pandemic levels in 2021. However, output is still two percent below its previous cyclical peak and growth has slowed since early 2022. Budgetary rigidities and discretionary transfers contribute to fiscal deficits and their monetization, fueling inflation. Tight capital controls are leading to large gaps between official and alternative FX markets, preventing the Central Bank from accumulating international reserves, despite historically high terms of trade. Capital controls and policy uncertainty delay exports and curb imports needed to support growth beyond the recovery.

While employment increased steadily to above pre-pandemic levels, job quality is low as most new jobs are own-account and informal. Poverty incidence continues above pre-pandemic levels as high inflation counteracts the effects of the relatively positive performance of the labor market. Despite lower unemployment over the last year, economic opportunities for youth are limited—particularly among young women with low levels of education.

Argentina is struggling to find new sources of growth since the end of the commodity super-cycle that led to an increase in real incomes, but which also triggered, in part, an unprecedented expansion of fiscal spending. As the commodity price boom waned, and despite a large increase in the tax burden, the country has been experiencing difficulties in financing public recurrent spending, which also caused a collapse of public investment. Closing large infrastructure gaps will be key to lifting Argentina's low growth potential although the financing of that investment, public or private, in the context of low-cost recovery from consumers will be challenging.

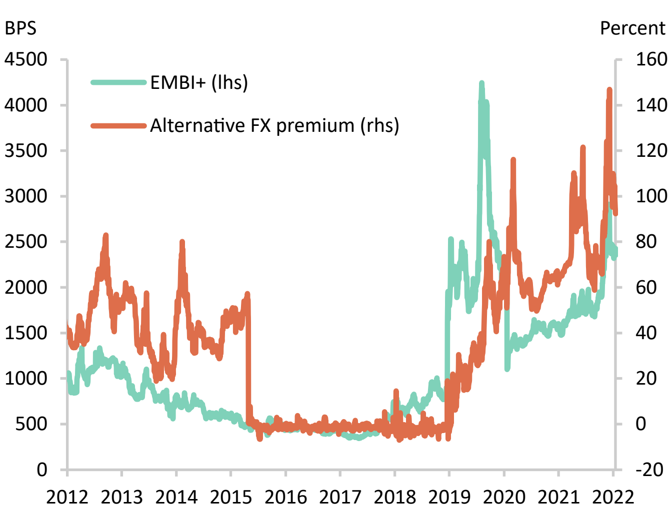
Several external shocks have lowered growth, while export diversification narrowed, and commodity dependence deepened. These shocks have been amplified by procyclical policies and by buffers too narrow to counterweight subsequent shocks. A strong and credible macro-fiscal policy program coupled with bold reforms to open the economy and incentivize private sector investment are needed to lead the economy beyond a cyclical recovery.

Recent developments

A broad-based cyclical expansion of economic activity continued into the first half of 2022. The end of the second quarter and the beginning of the third were marked by financial volatility, which have amplified macroeconomic imbalances.

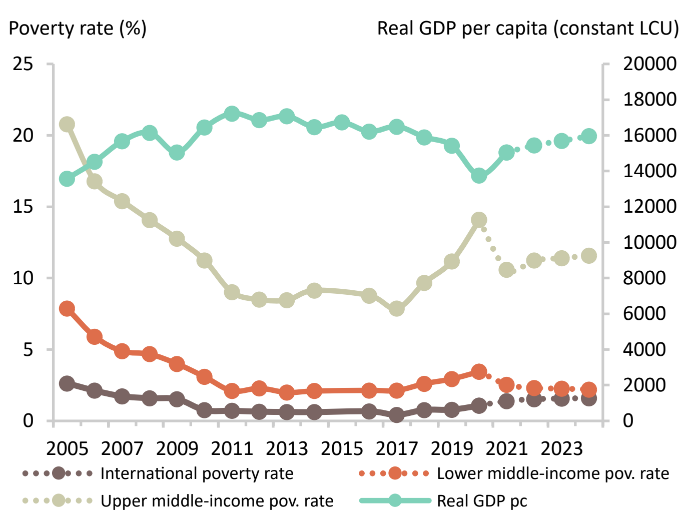
The gap between official and alternative exchange rates widened, driven by a renewed crisis in confidence regarding the rollover of domestic debt as maturities approached. A run against the peso followed, impeding foreign reserve accumulation.

FIGURE 1 Argentina / Sovereign risk premium and alternative exchange rate premium



Source: World Bank staff calculations based on Bloomberg and Ambito.

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



Source: World Bank. Notes: see Table 2.

Sovereign risk premium spiked to 2,905 bps by end-July, abating in August to above its post-debt restructuring level, following the appointment of the new Minister of Economy. A temporary subsidy scheme to incentivize soy exports to liquidate their stocks are now contributing to reserve accumulation. Net foreign reserves are estimated at US$3.5bn as of end-September, less than a month of imports.

Annual inflation accelerated to above 78 percent in August, the highest since 1992. The Central Bank reacted to inflation acceleration by raising the reference interest rate by 2,600 bps between June and September. However, moving to a positive real interest rate policy is proving challenging.

Fiscal policy remained expansionary in the first half of 2022, widening the fiscal deficit, while arrears have built up. The annual primary deficit climbed from 2.5 percent of GDP in the third quarter of 2021 to an estimated 3.3 percent of GDP in July 2022, driven by a broad-based real expansion of public spending. The Government stepped-up income support for the population most at risk (informal workers, beneficiaries of social transfers, and pensioners receiving the minimum pension) in May and June to mitigate the negative impact of inflation, reducing public investment and operating expenses in similar magnitude. The trade surplus turned into a deficit by the end of the first semester, owing to the large increase in the value of energy imports. By contrast, the non-energy trade surplus decreased only slightly in the past 12 months, as price increases have been offset by declines in export volumes.

Outlook

GDP is projected to grow by 4.2 percent in 2022 driven by consumption and public investment. Domestic imbalances and import restrictions will reduce the pace of the recovery for the remaining part of 2022 and limit growth for 2023 and 2024. In 2022, the poverty rate is projected at 11.2 percent of the population under the international poverty line of $6.85 per day, or [38 percent] using Argentinian poverty line.

GDP growth is projected to decelerate to 2 percent in 2023 and 2024, reaching its previous 2017 cyclical peak by mid-2023. Domestic demand will be constrained by a high inflationary environment. On the supply side, agricultural output in the 2022/23 agricultural cycle will be affected by current adverse climatic conditions. Lack of precipitation has already impacted wheat production and could also hit soy and corn. Gradual fiscal consolidation, including the projected reduction in energy subsidies, will help bring down deficit monetization. The current account will remain balanced. On the one hand, the expansion of economic activity will require growing imports. On the other hand, terms of trade are expected to improve on the margin while investments in energy efficiency will allow for a reduction in energy imports. Poverty reduction in the medium term will be challenging given slow growth and high inflation.

Downside risks remain sizeable. Given the low levels of reserves, a disorderly correction in the value of the peso could further fuel inflation. The possibility of social tensions cannot be excluded, given high poverty and inflation. A prolonged war in Ukraine could further increase inflation in developed economies (including Argentina), forcing additional interest rate hikes, which can have a negative impact on emerging markets. Moreover, more adverse climate shocks could further deteriorate agricultural production in 2023 and 2024. On the upside, delivering planned investments for the full operability of the gas pipeline "Nestor Kirchner" would allow for considerable savings in energy imports and efficiency, and for improvements in the current and fiscal accounts.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-2.0	-9.9	10.4	4.2	2.0	2.0
Private Consumption	-6.1	-13.7	10.0	6.6	2.0	2.1
Government Consumption	-6.4	-1.9	7.1	4.4	1.9	1.6
Gross Fixed Capital Investment	-16.0	-13.0	33.4	8.2	3.0	3.1
Exports, Goods and Services	9.8	-17.7	9.2	4.9	5.6	5.1
Imports, Goods and Services	-18.7	-18.5	22.0	15.8	5.1	5.4
Real GDP growth, at constant factor prices	-1.6	-10.0	10.0	4.2	2.0	2.0
Agriculture	21.4	-7.7	0.7	0.5	2.5	2.1
Industry	-4.7	-9.3	15.3	3.5	2.5	2.3
Services	-3.1	-10.6	9.0	5.0	1.8	1.8
Current Account Balance (% of GDP)	-0.9	0.8	1.4	-0.1	-0.2	-0.3
Net Foreign Direct Investment Inflow (% of GDP)	1.1	0.9	1.1	1.0	1.1	1.2
Fiscal Balance (% of GDP)[a]	-4.8	-8.4	-4.2	-4.2	-3.9	-3.3
Debt (% of GDP)[a]	99.6	107.5	87.9	78.0	75.8	73.2
Primary Balance (% of GDP)[a]	-0.5	-5.9	-2.3	-2.3	-1.9	-0.9
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.8	1.1	1.0	1.1	1.1	1.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	2.9	3.5	2.5	2.3	2.3	2.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	11.2	14.1	10.6	11.2	11.4	11.6
GHG emissions growth (mtCO2e)	-1.5	-1.6	5.0	2.2	1.4	1.6
Energy related GHG emissions (% of total)	41.2	40.0	42.2	42.9	43.2	43.4

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/ Fiscal data refer to the general government.
b/ Calculations based on SEDLAC harmonization, using 2011-EPHC-S2, 2012-EPHC-S2, and 2020-EPHC-S2. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using annualized elasticity (2011-2012) with pass-through = 0.7 based on GDP per capita in constant LCU.

THE BAHAMAS

Table 1	2021
Population, million	0.4
GDP, current US$ billion	11.2
GDP per capita, current US$	28233.2
School enrollment, primary (% gross)[a]	96.1
Life expectancy at birth, years[a]	74.1
Total GHG emissions (mtCO2e)	2.7

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

GDP is estimated to grow by 8 percent in 2022, as tourist arrivals to the islands rebounded due to vaccination efforts and easing travel restrictions, and construction picked up. Tourism may also benefit from the lower risk-advisory COVID-19 rating for the islands given by the Centers for Disease Control and Prevention in April 2022, although downside risks remain. The current account deficit remains high but has decreased to 18.1 percent of GDP. Fiscal accounts started to improve, and the government is expected to restore fiscal consolidation in the short term.

Key conditions and challenges

The Bahamas is a high-income service economy heavily dependent on tourism and financial services. Its GDP has grown on average at 1.4 percent in real terms. Nonetheless, the country's economic position remains vulnerable due to its small size, lack of economic diversification, and vulnerability to natural disasters. The Bahamas relies significantly on foreign investment, especially related to tourism. The services industry represents 85 percent of GDP and employs a significant portion of the country's workforce. The economy depends heavily on oil and goods imports.

Economic growth in recent decades has not benefitted all segments of the population equally. According to the 2013 Household Expenditure Survey, 12.8 percent of the population lived below the national poverty line. Moreover, inequality is well above the average of high-income economies, with a Gini index of 41.4.

While no official income poverty indicators have been produced since 2013, The Bahamas has exhibited improvements in other areas, such as education and life expectancy, as seen in the 2 percent increase in the Human Development Index (HDI) over the past two decades. The country's HDI is 0.814, above the Latin America and the Caribbean average of 0.766. With respect to its peers, The Bahamas has an HDI comparable to Barbados and Trinidad and Tobago.

Despite steady economic growth, the unemployment rate remains high. According to ILO estimates, the unemployment rate is expected to be 12.9 percent for people aged 15 or over in 2022, higher for women (13.1 percent) than for men (12.6 percent), and 9.7 percent for people aged 25 or over.

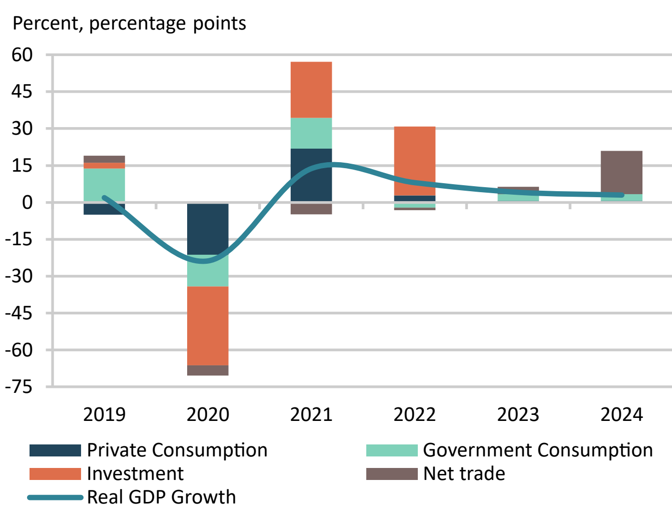
Vulnerability to climate change and global health risks jeopardize the country's development trajectory. Sea-level rise associated with increasing temperatures threatens The Bahamas' low-lying islands in addition to the severe impacts of natural disasters such as Hurricane Dorian in 2019.

The COVID-19 pandemic that led to a steep decline in tourism arrivals and the resulting job losses appears to be fading. However, the impact of the pandemic on vulnerable populations, such as low-income households, informal workers, and women may last. School closures are likely to have impacted learning, with potential longer-term impacts on human capital and potential earnings.

The Bahamas was removed from the Financial Action Task Force's grey list in December 2020, and the government continues to strengthen the Anti-Money Laundering regulations and supervision, including as related to crypto assets.

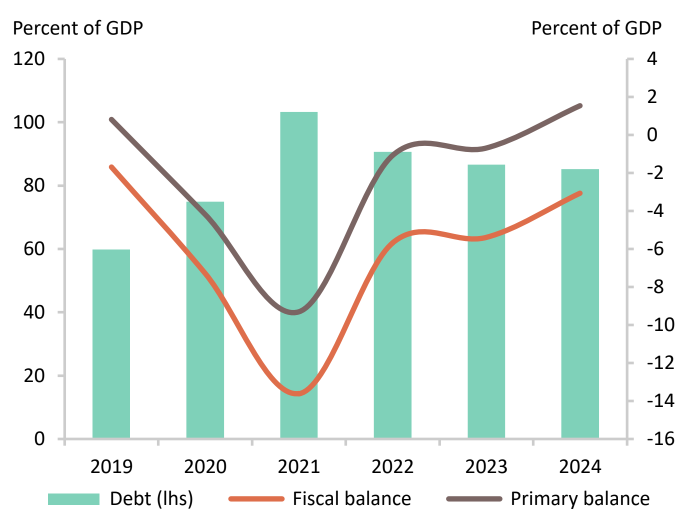
The COVID-19 pandemic laid bare the extent of gender, youth, and income inequality, and it also increased labor informality. Strong efforts to support vulnerable groups are needed going forward.

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



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

FIGURE 2 The Bahamas / Fiscal balance and public debt



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

Recent developments

GDP growth reached 13.7 percent in 2021 after the pandemic restrictions were eased. Tourists' arrivals increased from 23,619 in January 2021 to 312,208 in January 2022. However, they are still below the record inflow of 636,881 tourists in January 2019. Tourism-related FDI projects, together with post-hurricane rebuilding efforts have supported construction sector output.

Although the pandemic restrictions were eased and economic conditions improved, the unemployment rate, which increased to 13.3 percent in 2020, has not returned to the pre-pandemic level of 9.8 percent in 2017. ILO estimates suggest that unemployment will only fall to 12.9 percent in 2022.

Only 40 percent of the population was fully vaccinated by February 2022. The government launched free COVID-19 testing this year and announced the elimination of curfews and lockdowns, enhancing the prospects for economic recovery.

CPI inflation has been on the rise since 2021. The highest increases were registered in food, beverages, and clothing due to hikes in international oil and food prices The mitigation measures implemented by the government will slow the fiscal consolidation somewhat, but it will still proceed at a significant pace.

Public finances are entering a consolidation process after having worsened during the COVID-19 pandemic. The government's comprehensive response to the pandemic combined with the fall in revenues increased public debt to 103.3 percent of GDP in 2021. The government rolled back a significant portion of the pandemic-related fiscal support in 2021, which together with recovering economic activity, public financial management reforms, and improved tax collections, led to a significant reduction in the budget deficit.

The external sector was particularly hard hit by the pandemic, as net travel receipts contribute most to the current account balance. The current account deficit has improved from 24.5 percent in 2020 to 23.1 percent in 2021. It was financed through borrowing from capital markets and IFIs as well as through decreasing international reserves, which decreased from 5.8 months of imports in 2020 to 4.8 in 2021.

Outlook

The economy is expected to grow by 8.0 percent in 2022, as tourism flows and construction projects continue to revert from the fall of the COVID-19 pandemic. The vaccination campaign will continue with international support. It is expected that growth will decline to 4.1 percent in 2023 when capital investment is also expected to decrease to its pre-pandemic levels. The inflation rate is projected to significantly increase to 5.7 percent in 2022, pushed by energy and oil prices, and to average around 4.3 percent in the medium-term. The primary and overall fiscal deficits are expected to improve in FY2022/23 to 1.1 percent of GDP and 5.7 percent of GDP, respectively. They are also expected to steadily improve in the following two years in response to the government's expenditure reduction efforts and the resumption of tax reforms. Public debt is projected to decrease once the economy is back on the growth path, as revenues rebound, and pandemic-related expenditures are wound down but will remain above 85 percent of GDP during 2023-24.

The current account deficit is expected to decrease to 18.1 percent of GDP in 2022, as tourism receipts expand. An improvement of the current account deficit is also expected for 2023 and 2024, with 14.1 percent of GDP and 11.1 percent of GDP, respectively. While the gross international reserves will maintain at 4.8 months of imports in 2022.

The economic growth outlook is subject to significant uncertainty related to the possibility of new travel restrictions, slower than expected growth in the U.S. economy, the global geopolitical shock, as well as the risk of natural disasters. Higher oil prices and imported inflation due to global geopolitical risks may trigger higher consumer prices with implications for the poorest. The government will continue to finance the rebuilding of public and private buildings to increase their resilience to natural disasters and to implement mitigation policies for climate change.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.9	-23.8	13.7	8.0	4.1	3.0
Real GDP growth, at constant factor prices	1.5	-18.8	9.2	8.0	4.1	3.0
Agriculture	-21.6	14.1	-31.7	-6.5	-7.0	-7.5
Industry	-1.2	-34.5	8.5	25.8	18.9	13.2
Services	2.1	-16.7	9.7	6.1	2.2	1.4
Inflation (Consumer Price Index)	2.5	0.0	2.9	5.7	5.3	3.3
Current Account Balance (% of GDP)	-2.6	-24.5	-23.1	-18.1	-14.1	-11.0
Net Foreign Direct Investment Inflow (% of GDP)	2.8	3.9	3.7	3.5	3.4	3.3
Fiscal Balance (% of GDP)[a]	-1.7	-7.3	-13.6	-5.7	-5.4	-3.1
Debt (% of GDP)[a]	59.8	75.0	103.3	90.7	86.6	85.2
Primary Balance (% of GDP)[a]	0.8	-4.2	-9.3	-1.1	-0.7	1.5
GHG emissions growth (mtCO2e)	1.6	-15.4	1.8	4.0	-6.8	-10.1
Energy related GHG emissions (% of total)	89.3	88.4	88.2	88.2	87.1	85.5

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

BARBADOS

Table 1	2021
Population, million	0.3
GDP, current US$ billion	4.7
GDP per capita, current US$	16358.9
School enrollment, primary (% gross)[a]	99.7
Life expectancy at birth, years[a]	79.3
Total GHG emissions (mtCO2e)	4.1

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

Barbados's economy is rebounding, benefiting from the recovery of international travel, and overcoming the negative impact of the eruption of the volcano La Soufriere and Hurricane Elsa in 2021. However, some challenges remain. Public debt remains high at 118 percent; the current account deficit is estimated to reach 10 percent of GDP. Unemployment, while decreasing, is still high at 9.8 percent. The pandemic delayed reforms made in the context of the Barbados Economic Recovery and Transformation (BERT) plan to sustain primary surpluses and reduce external vulnerabilities.

Key conditions and challenges

Although Barbados is a high-income service economy, the country's economic performance remains vulnerable due to its small size, its dependence on tourism, and the risks related to climate change. Services represent 72 percent of the GDP. In 2021, the losses from Hurricane Elsa and the eruption of the volcano La Soufriere offset the gains from the recovery in economic activity as COVID-19 subsided. While public debt decreased from 147 percent of GDP in 2020 to 118 percent of GDP in 2022, its high level remains a source of vulnerability.

The BERT plan, which included debt restructuring and was supported by the four-year IMF Extended Fund Facility that was completed in mid-2022, has contributed to restoring macroeconomic stability while safeguarding the financial and social sectors. The government has made a significant fiscal effort to gradually reduce the debt burden and assuming the ongoing reforms program and economic recovery remain on track, it is expected that public debt will reach 60 percent of GDP by FY 2035/36.

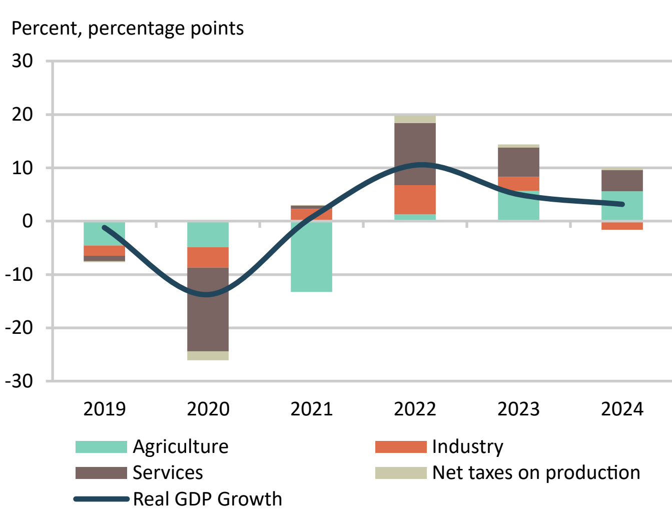
The Barbados COVID-19 Survey undertaken by the Inter-American Development Bank revealed severe consequences of the pandemic on welfare as average household total income and spending dropped by 20 percent and 29 percent respectively. More than one quarter of families (27.9 percent) had at least one member who lost their job between March and June 2020; the less well-off were hit particularly hard, as 39 percent of households classified as poor in the baseline survey of 2016/17 reported a family member becoming unemployed in the period. Notably, the share of middle-income households unable to meet their financial commitments (60 percent) was greater than the share of low-income households (43 percent) as of April 2020.

Poverty levels are likely to have decreased in comparison to the previous year, as GDP is expected to grow over 10 percent. There have been no official poverty estimates since 2017 when 17.2 percent of households and 25.7 percent of consumers were under the basic needs line. Nevertheless, the push of the economy will likely reach the bottom of the income distribution through employment growth. Non-monetary poverty dimensions, such as food security, indicate persistent deprivation during the pandemic. Hunger rates in Barbados rose from 5.8 percent in January 2020 to 6.9 percent in October 2020. Food insecurity is likely to be relieved by the gradual retake of tourism activities on the island, although with limited improvement due to the rise of inflation.

Recent developments

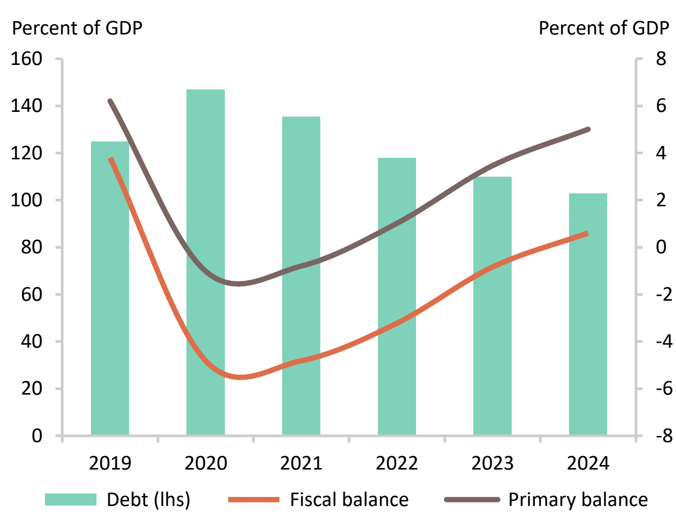
GDP growth has been accelerating in 2022, after a low 0.7 percent growth in 2021. In addition to natural disasters, two waves of COVID-19 cases hit Barbados in 2021, at end-August and end-December. The

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



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

FIGURE 2 Barbados / Fiscal balances and public debt



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

growth acceleration is in large part due to the ease of lockdown and travel restriction measures. However, stay-over-visitors are still far short of reaching pre-pandemic levels. While the number of stay-over-visitors increased from 6,448 in June 2021 to 27,528 in June 2022, it is still significantly lower than the 50,160 visitors in June 2019. As of September 2022, 53.7 percent of the population was fully vaccinated.

The improvement in economic conditions is likely to be increasing the demand for agricultural products after the agricultural sector decreased by 5.4 percent in 2019, where sugar cane and fishing activities were impacted, decreasing by 53 percent in 2019.

Employment and earnings were negatively affected by the pandemic. The unemployment rate stood at 10.4 percent in 2020 during the hit of the pandemic and remained unchanged in 2021. According to ILO estimates, a decrease of 9.8 percent is expected in 2022, still above pre-pandemic levels of 8.4 percent in 2018.

Inflation started to increase after the second half of 2021, largely fueled by global food and oil prices increases. The current account deficit has worsened from 7 percent of GDP in 2020 to 11.6 percent of GDP in 2021, pushed by the tourism recovery, expanded imports due to demand increases, higher fuel, and global food prices, and reduced receipts. Increasing fuel prices explain half the difference in the value of imports. Gross international reserves remain adequate and were equivalent to 8 months of imports in 2022.

The government started fiscal tightening following the large fiscal deficits of 2020 and 2021, by means of rolling back the pandemic-related fiscal support and implementing structural reforms.

Outlook

GDP growth is expected to reach 10.5 percent in 2022, as the tourism sector returns to pre-pandemic levels, and 5 percent in 2023. However, the outlook is subject to downside risks, including slowdown in tourism, which is highly dependent on the economic performance of advanced economies such as the USA, UK, and Canada. Lagging construction activity and renewed fiscal consolidation efforts are expected to moderate growth prospects. Fiscal consolidation supported by SOE reform and pension reform, envisioned in the most recent budget, will lead to a return to a primary surplus in FY 2022/23 and an overall fiscal surplus in FY 2024/25.

The inflation rate is projected to reach 9.9 percent in 2022, ebbing to around 6.8 percent in the medium-term. The increase in oil prices may pose significant challenges for the external accounts, although this will be in part compensated by a recovery in tourism receipts. The current account deficit for 2022 is projected to reach 10.0 percent of GDP and then narrow to 8.7 percent of GDP in 2023.

The robust growth in 2022 and 2023 will likely be accompanied by an improvement in living standards, although this is subject to significant uncertainty related to the possibility of lower-than-expected growth in the UK, USA, and Canada, and the risk of natural disasters. Higher oil prices and imported inflation risks may trigger higher consumer prices with implications for the poorest. Returning to pre-pandemic levels of employment and income will take longer and will heavily depend on the recovery of the tourism sector. Additional support for the most vulnerable will be necessary to attain the welfare levels observed over the last decade.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-1.3	-13.7	0.7	10.5	5.0	3.2
Real GDP growth, at constant factor prices	-1.2	-13.7	0.7	10.5	5.0	3.2
Agriculture	-4.5	-4.8	-13.2	1.3	5.7	5.6
Industry	-1.9	-3.9	2.3	5.5	2.7	-1.6
Services	-1.0	-15.7	0.6	11.7	5.4	4.0
Inflation (Consumer Price Index)	4.1	2.9	3.0	9.9	8.2	5.3
Current Account Balance (% of GDP)	-3.1	-7.0	-11.6	-10.0	-8.7	-7.4
Fiscal Balance (% of GDP)	3.8	-4.8	-4.8	-3.2	-0.8	0.6
Debt (% of GDP)	124.9	147.0	135.5	118.0	110.0	102.9
Primary Balance (% of GDP)	6.2	-1.0	-0.8	1.0	3.5	5.0
GHG emissions growth (mtCO2e)	1.0	-7.8	16.2	0.7	0.7	0.7
Energy related GHG emissions (% of total)	31.9	27.4	37.2	37.4	37.6	37.9

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

BELIZE

Table 1	2021
Population, million	0.4
GDP, current US$ billion	2.4
GDP per capita, current US$	5945.9
School enrollment, primary (% gross)[a]	107.7
Life expectancy at birth, years[a]	74.8
Total GHG emissions (mtCO2e)	7.0

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

Belize is experiencing a tourism-led recovery after entering the COVID-19 pandemic with high public debt and external vulnerabilities. Tourism-related construction increased investment and tourist arrivals, reversing some of the increase in poverty and unemployment. Growth is forecast to moderate over the medium-term and poverty is not expected to return to pre-pandemic levels until the tourism sector fully recovers. External financing needs and public debt remain elevated. Policy priorities focus on continued debt-reduction reforms, improvements to the business climate and infrastructure, and protection of the vulnerable.

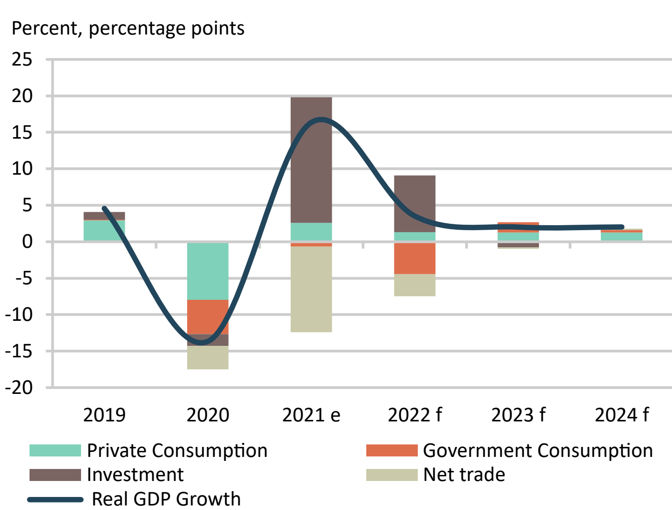
Key conditions and challenges

Tourism is the most important source of foreign exchange in Belize, followed by agricultural exports and, to a lesser extent, crude oil. Remittance inflows, which account for about 5 percent of GDP, is another major foreign exchange source that provides substantial support for consumption.
Real GDP per capita growth has been sluggish over the past decade, averaging -0.2 percent between 2009 and 2019. Inequality increased over the same period. A combination of inadequate fiscal policies and external shocks led to three debt restructurings between 2006 and 2021.
As a net importer of oil and gas, Belize is vulnerable to fluctuations in energy prices. Weak fiscal policies, high crime and violence, an unfriendly business climate, and an infrastructure deficit, lead to structurally high unemployment, a wide trade deficit, and a significant foreign debt burden. With a reserve cover under 5 months of imports, Belize is vulnerable to external shocks.
Official consumption poverty estimates from 2018 indicate that more than half of Belize's population (52 percent) is poor, 10 percent is extremely poor, and 10 percent is vulnerable. Women and Mayans are more likely to be self-employed and poor, indicating a structural difference in employment and poverty outcomes.
The social impact of the COVID-19 pandemic has been severe as a result of a reduction in tourism activity, as well as the indirect effects of containment and mitigation measures on manufacturing. A World Bank phone survey (HFPS) indicated that at the end of 2021, almost 40 percent of households continued to report lower incomes. School participation, already low compared to other countries in the region, was significantly affected. Belize was among the five countries in the region with the most intense closure of schools.
The EU Economic and Financial Affairs Council (ECOFIN) removed Belize from the EU grey list of non-cooperative tax jurisdictions; however, gaps in financial sector supervision remain. The government will continue to make incremental progress toward moving the country beyond minimum compliance with the Caribbean Financial Action Task Force oversight requirements.

Recent developments

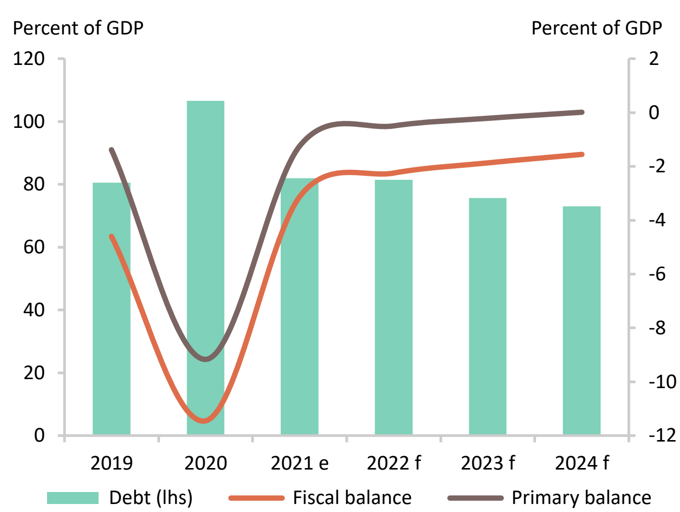
Belize's real GDP registered a 16.3 percent increase in 2021 fueled by a resumption in tourism and tourism-related investments. This was among the region's fastest growth rates, as Belize was one of the first tourist destinations to reopen to tourists in October 2020, and construction projects proceeded as planned. As such, overnight arrivals increased 51.9 percent in 2021 compared to 2020. Private investment projects include Stake Bank Island's offshore Port Coral cruise terminal and a port upgrade in Belize City to encourage cruise ship visits.

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



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

FIGURE 2 Belize / Fiscal balances and public debt



Sources: Ministry of Finance and World Bank staff calculations.

Rising global commodity prices, supply-chain bottlenecks, and Belize's economic recovery all contributed to an increase in inflation, averaging 3.3 percent in 2021 and 5.6 percent in the first half of 2022. The peg of the Belize dollar to the US dollar has helped contain greater increases in inflation. The most affected are the poor and vulnerable, who spend a higher percentage of their household income on food. By the end of 2021, more than 50 percent of households reported running out of food, according to the WB HFPS survey.

The current account deficit (CAD) slightly narrowed to 7.9 percent of GDP in 2021. Total exports increased due to higher tourism receipts and imports increased for capital spending on tourism projects and public construction. Tourism projects were fueled by foreign direct investment which rose by 1.8 percentage points to 6.3 percent of GDP. By the end of 2021, international reserves were up by 20.7 percent to US$420 million (four months of total imports).

Belize reduced the principal amount of its external indebtedness by approximately US$250 million (or 12 percent of GDP) in 2021 through an innovative financial transaction with funding provided by The Nature Conservancy (TNC). This debt for climate swap was complemented by a major fiscal consolidation, sustained by a recovery of revenues and cuts in capital spending, transfer payments, and wages. These measures reduced the overall deficit from 11.5 percent of GDP to 3.1 percent of GDP, lowering debt by 24.6 percentage points to 82 percent of GDP in 2021. Despite these efforts, debt service costs remain high.

The unemployment rate was 9.2 percent in the fall of 2021, following a y-o-y decline of about 4.5 percentage points. Labor force participation also recovered 6.8 percentage points in 2021 since 2020. However, the post-pandemic recovery in labor market outcomes continues to be stronger for men than for women. The gender gap in labor force participation is almost 30 points, one of the largest in the Caribbean.

The recovery has been driven by lower-quality jobs, as signaled by the increase in informality and underemployment with respect to pre-pandemic times. Wages among underemployed workers are 30 percent lower. Much of the recovery in labor market outcomes is driven by the tourism, real estate, wholesale and retail sectors, and call centers.

Outlook

The Belizean economy is expected to grow by 3.5 percent in 2022, owing to an increase in tourism and tourism-related infrastructure projects. Following that, real GDP is expected to slow to 2 percent in 2023-24 as the government continues to reduce government spending and private investment slows as planned projects are completed.

Inflation is projected to average 6.3 percent in 2022, the highest level since 2008. However, commodity prices are expected to normalize and inflation to fall to 3 percent in the medium term. The rebounds in economic activity and employment are expected to lead to a decrease in poverty over the medium term. Labor market outcomes, and thus poverty rates, are not expected to return to pre-pandemic levels until the tourism sector fully recovers.

The CAD is projected to widen sharply to 15.4 percent of GDP as the rise in fuel prices increases the cost of imports, and as remittance inflows slow down. The CAD is forecast to improve to 9.1 percent of GDP as fuel prices stabilize over the medium-term, financed by private inflows, donations, and multilateral lending.

The fiscal deficit is expected to narrow and average 1.9 percent of GDP during 2022-24 as tax collections increase due to increased tourism and the government cuts back on spending. This will bring the public debt down to 73 percent of GDP by 2024.

Debt dynamics remain vulnerable to shocks to growth, interest rates, and the fiscal position, including natural disasters and climate change. Tighter monetary policy in the US, as well as fiscal constraints on government consumption and public investment in Belize, could prevent faster GDP growth. Other downside risks to growth include exposure to extreme climate-related shocks and social tensions.

TABLE 2 Belize / 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	-13.7	16.3	3.5	2.0	2.0
Private Consumption	4.7	-12.7	4.1	2.3	2.3	2.2
Government Consumption	0.5	-25.0	-4.1	-20.7	13.2	2.4
Gross Fixed Capital Investment	6.4	-9.6	95.6	20.1	-2.0	-0.1
Exports, Goods and Services	5.2	-29.7	3.7	5.0	3.6	3.4
Imports, Goods and Services	5.3	-23.0	27.0	9.2	2.9	2.0
Real GDP growth, at constant factor prices	4.4	-13.1	16.0	3.5	2.0	2.0
Agriculture	-3.5	1.8	15.8	-2.9	2.1	2.0
Industry	5.7	-2.9	10.0	3.1	-2.2	-0.4
Services	5.3	-17.4	17.6	4.6	3.0	2.6
Inflation (Consumer Price Index)	0.2	0.1	3.3	6.3	3.7	2.2
Current Account Balance (% of GDP)	-9.5	-8.0	-7.9	-15.4	-9.3	-8.9
Net Foreign Direct Investment Inflow (% of GDP)	4.7	4.5	6.3	4.8	4.9	4.9
Fiscal Balance (% of GDP)[a]	-4.6	-11.5	-3.1	-2.2	-1.9	-1.6
Debt (% of GDP)[a]	80.5	106.6	82.0	81.5	75.7	73.0
Primary Balance (% of GDP)[a]	-1.4	-9.2	-1.2	-0.4	-0.2	0.0
GHG emissions growth (mtCO2e)	1.6	1.0	0.6	0.3	0.3	0.4
Energy related GHG emissions (% of total)	9.3	10.0	10.6	11.2	11.9	12.5

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

BOLIVIA

Table 1	2021
Population, million	11.8
GDP, current US$ billion	40.4
GDP per capita, current US$	3414.9
International poverty rate ($2.15)[a]	3.1
Lower middle-income poverty rate ($3.65)[a]	6.2
Upper middle-income poverty rate ($6.85)[a]	17.0
Gini index[a]	43.6
School enrollment, primary (% gross)[b]	98.8
Life expectancy at birth, years[b]	71.8
Total GHG emissions (mtCO2e)	137.3

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

The economy continues recovering on tailwinds from high commodity prices. Growth and poverty reduction are expected to slow down in the medium term as increasing public debt and declining international reserves limit expansionary policies. Bolivia would benefit from improved macroeconomic management, public sector efficiency, and more private investment to foster growth and quality employment. Addressing human capital erosion due to the pandemic and building households' resilience are also critical for sustainable poverty reduction.

Key conditions and challenges

After years of loose fiscal, monetary, and financial policies and a pandemic-led recession, high public debt and low international reserves limit expansionary policies. Relying on commodity-driven growth, the government continues implementing a state-led development strategy, focused on import substitution, public investment, and sustaining a fixed exchange rate. Yet, limited access to global capital markets, declining gas production after years of under-investment, and increasing fuel and food subsidies constrain expansionary efforts and prompted the government to increasingly tap into pension funds and Central Bank financing.

A credible medium-term plan to address macroeconomic imbalances is critical to making the economy more resilient. Budgetary consolidation efforts could rely on improving spending efficiency while safeguarding social expenditure to sustain social gains and supporting the most vulnerable, who have not fully recovered from the pandemic yet. Public expenditure efficiency could be enhanced by rationalizing public investment, including in public enterprises, improving the progressivity of social spending, making public procurement more efficient, and strengthening the coordination among government levels.

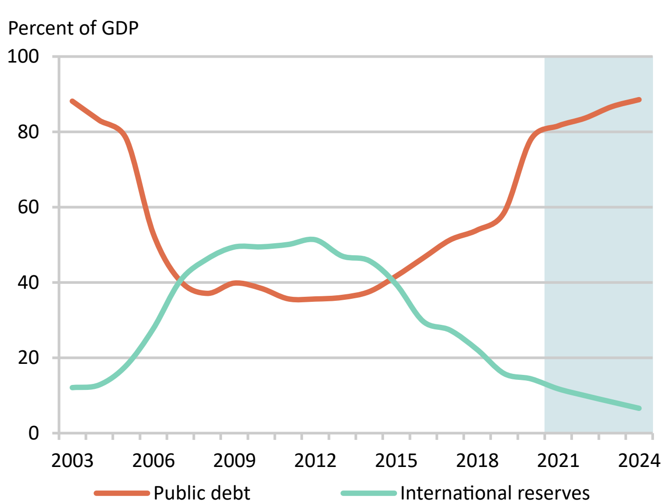
Fostering private and foreign investment could help to stabilize gas exports, diversify the economy, and ignite new sources of growth, creating the conditions for stronger and more inclusive formal employment. Bolivia's investment climate could be improved by reducing red tape, removing tax distortions, modernizing labor regulations, improving logistics, easing agricultural export restrictions, and fostering environmentally and socially sustainable mining, including lithium.

Recent developments

As the economy rebounded by 6.1 percent in 2021, poverty (measured at $6.85 PPP) fell from 17.0 percent in 2020 to 15.2 percent in 2021 despite the end of emergency transfers in early 2021. Leading indicators suggest the recovery continued in the first half of 2022, despite sporadic diesel shortages and social unrest on land tenure, the population census schedule, and domestic coca leaves commercialization. Urban unemployment fell from 5.8 percent in December 2021 to 4.7 percent in July 2022, returning to pre-pandemic levels. Yet, informality remained above pre-pandemic levels, mainly among youth and women.

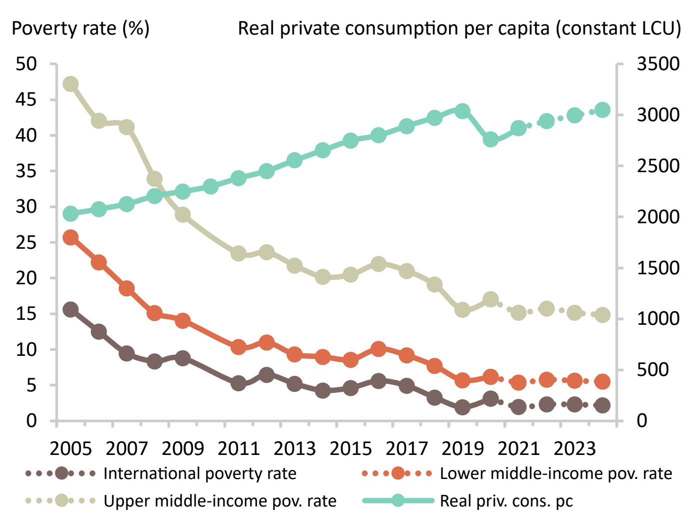
The 12-month rolling fiscal deficit fell from 9.3 percent of GDP in 2021 to 7.2 percent in June 2022 on the back of recovering taxes. The positive impact of high international oil prices and the negotiation of higher gas export prices to Argentina and Brazil on revenues were offset by declining export volumes and increasing fuel subsidies. With limited external funding, the deficit was financed mostly by pension funds and the Central Bank.

FIGURE 1 Bolivia / Public debt and international reserves



Sources: Central Bank of Bolivia and Ministry of Economy and Public Finance.

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



Source: World Bank. Notes: see Table 2.

Higher commodity prices and mining and soybean export volumes increased the trade surplus, despite declining gas export volumes and rising fuel imports. Notwithstanding this surplus and the repatriation of SOEs' foreign assets ruled by the Central Bank, international reserves fell from 5.3 to 3.9 months of imports between December 2021 and August 2022 due to informal capital outflows, dollar cash demand, and smuggling.

The money supply continues to grow on the back of domestic credit to the public and private sectors. Inflation remains the lowest in the region due to the fixed exchange rate, frozen fuel prices, smuggling from Argentina, and government intervention in food markets, including subsidies.

Outlook

Growth is expected to return to pre-pandemic levels at 4.1 percent in 2022 as the government is expected to maintain high public expenditure. The government refinanced 2022 and 2023 bonds in March 2022 and secured substantial budget support from regional development banks. However, lower external funding is expected to constrain fiscal spending in the upcoming years. Coupled with weak private investment, dampened public expenditure, mainly capital expenditure, is projected to reduce growth below 3.0 percent in the medium term. Moreover, with declining international reserves and substantial Government financing needs, credit to the private sector is expected to slow down.

Although new gas fields are expected to come on stream, the fiscal deficit will remain close to 7.5 percent of GDP in 2022. Increasing fuel and food subsidies are expected to offset the effect of higher tax and hydrocarbon revenues. Also, a recent arbitration decision on the 12-year nationalization process of a pension fund would result in a one-off outlay. Although hydrocarbon revenues are expected to decline in the medium term, the fiscal deficit would converge to 6.0 percent by 2024 as limited external funding constrains spending. Yet, without substantial reforms to further reduced the fiscal imbalance and foster growth, this consolidation is not expected to stabilize debt in the projections period.

The Government is expected to remain committed to preserving the fixed exchange rate, to avoid a disorderly currency adjustment. Although the Government has made some effort to attract foreign investment to hydrocarbon exploration and lithium development, delays and long maturity periods are expected to limit their impact in the projection period. However, capital outflows and smuggling will continue eroding international reserves, which, in conjunction with emerging inflationary pressures, would restrict expansionary monetary policies.

This situation would limit Bolivia's capacity to deal with downside risks, including declining commodity prices, tightening international financial conditions, and liabilities resulting from pending arbitration processes or natural disasters.

With the lift of the pandemic-related transfers, poverty is expected to slightly increase to 15.8 percent in 2022. Moreover, long-term pandemic effects, including human capital losses due to school closures and food insecurity, are likely to affect the poor and vulnerable the most, limiting upward intergenerational mobility.

TABLE 2 Bolivia / 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	-8.7	6.1	4.1	2.8	2.7
Private Consumption	3.7	-7.9	5.3	3.8	3.2	3.1
Government Consumption	3.8	-2.8	5.4	6.3	-0.6	-0.2
Gross Fixed Capital Investment	-3.5	-25.9	11.9	5.3	3.8	2.9
Exports, Goods and Services	-1.8	-18.8	15.4	4.2	3.2	3.2
Imports, Goods and Services	1.5	-25.0	15.7	5.2	3.2	2.9
Real GDP growth, at constant factor prices	2.4	-8.4	6.4	3.6	2.6	2.7
Agriculture	5.3	3.1	1.8	4.0	4.0	4.0
Industry	0.1	-11.8	9.6	2.9	2.5	2.5
Services	3.4	-9.3	5.8	4.0	2.2	2.4
Inflation (Consumer Price Index)	1.8	0.9	0.7	1.8	3.3	3.5
Current Account Balance (% of GDP)	-3.4	-0.4	2.0	2.3	1.1	0.5
Net Foreign Direct Investment Inflow (% of GDP)	-0.6	-2.8	1.2	1.7	1.7	1.7
Fiscal Balance (% of GDP)	-7.2	-12.7	-9.3	-7.6	-6.4	-6.0
Debt (% of GDP)	58.6	78.1	81.6	83.7	86.8	88.6
Primary Balance (% of GDP)	-5.8	-11.2	-7.9	-6.0	-4.6	-4.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.9	3.1	2.0	2.3	2.3	2.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.7	6.2	5.4	5.8	5.6	5.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	15.6	17.0	15.2	15.8	15.2	14.8
GHG emissions growth (mtCO2e)	7.0	-1.8	0.8	0.6	0.5	0.5
Energy related GHG emissions (% of total)	15.3	13.5	13.7	14.2	14.5	14.8

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 SEDLAC harmonization, using 2020-EH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.

BRAZIL

Table 1	2021
Population, million	213.8
GDP, current US$ billion	1608.8
GDP per capita, current US$	7523.9
International poverty rate ($2.15)[a]	1.9
Lower middle-income poverty rate ($3.65)[a]	5.3
Upper middle-income poverty rate ($6.85)[a]	18.7
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	112.0
Life expectancy at birth, years[b]	76.1
Total GHG emissions (mtCO2e)	2397.8

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

Despite significant headwinds, economic activity in 2022 is expected to reach a solid 2.5 percent, supported by fiscal measures and high commodity prices. Growth is expected to slow down in 2023 due to the lagged effect of monetary policy and a challenging external scenario. Increasing productivity and pursuing fiscal sustainability remain essential to long-term growth. After rising substantially in 2021, poverty is expected to decrease in 2022 in response to a stronger labor market, and level out following economic growth.

Key conditions and challenges

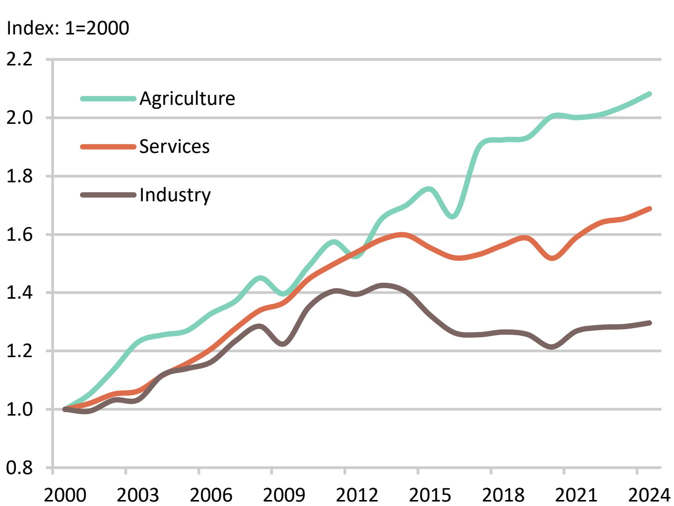
The death toll of the COVID-19 pandemic in Brazil has been among the highest globally. A rapid vaccine rollout after mid-2021 has supported a gradual return to normality, with a rebound in growth in 2021 (4.6 percent), especially in the services sector. Public debt has steadily increased over the years. A fiscal consolidation has started in 2021 with higher-than-expected revenues and the roll-back of covid expenses. The Brazilian Central Bank (BCB) initiated a steep and ongoing monetary policy contraction cycle in early March 2021 to counter soaring inflation and anchor expectations. In this context, poverty is estimated to have risen to 28.4 percent in 2021 (based on the recently published poverty line for upper-middle-income economies at $6.85 2017 PPP per person per day) related to the withdrawal of the emergency transfer program, higher inflation, and the slow labor market recovery last year. Over 15 percent of families suffered severe food insecurity, with higher levels in the rural areas.

To support growth, Brazil needs to address structural constraints and keep on the fiscal sustainability path. Productivity growth is stalled, due to a complex tax system, a cumbersome business environment that discourages entrepreneurship, slow and unequal human capital accumulation, ineffective sectoral state intervention policies, and low savings. Brazil also has one of the lowest infrastructure investment levels (1.71 percent of GDP) compared to its peers, partly because of the compression of public spending to accommodate higher current spending and increasing pension obligations. Deteriorated infrastructure can create acute production bottlenecks and, combined with legal uncertainty, contributes to lower private investment. Lastly, increasing deforestation in the Amazon is putting additional pressure on land-use emissions, the main source of GHG emissions in Brazil. Brazil should readdress its growth model to reduce deforestation in the Amazon and its other biomes, providing a global public good.

Recent developments

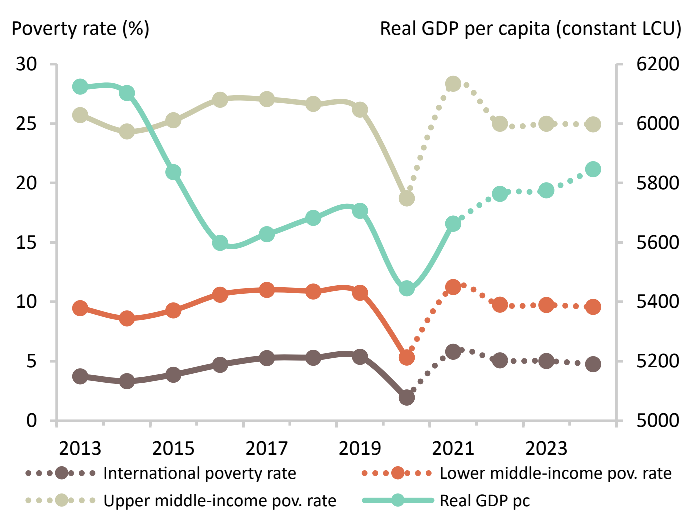
In the first half of 2022, GDP grew by 2.5 percent YoY, propelled by a continued recovery in consumer demand as COVID-19 restrictions eased, especially in the services sector, which saw a 4.1 percent YoY increase. Concurrently, the labor market continued to recover through 2022, including for women and youth. The unemployment rate fell to 9.1 percent by July 2022 (13.7 in July 2021). However, average wages declined in real terms given the high inflation, which stood at 8.7 percent in the 12 months to August. Despite the recent decline due to regulated prices, persistent inflation prompted a continuation in the monetary policy tightening cycle, as BCB rose the interest rate to 13.75 percent. The trade surplus declined 10.4 percent YoY in H1 2022 as import prices accelerated. The current account deficit increased

FIGURE 1 Brazil / Evolution of Brazil's GDP by sector



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

to 1.9 percent of GDP in the 12-month up to May 2022, fully financed by net FDI inflows (2.2 percent). The exchange rate appreciated 7.2 percent until August 2022, following the sovereign risk premium.

In 2022, the government continued using fiscal policy to support the vulnerable population and mitigate fuel prices inflation, including tax cuts and the extension of social cash transfers, which could cost up to 1 percent of GDP. Despite tax waivers and the increase in discretionary spending, the 12-month primary surplus of the public sector increased to 2.5 percent of GDP in the first half of 2022, as tax revenues sharply improved, growing 12.8 percent YoY in real terms. Also, public debt decreased to 77.6 percent of GDP in July 2022, as inflation tax allowed to pay down public debt. However, slow policy reform momentum and the erosion of the confidence in the federal spending rule due to elections-related increases in current expenditures translate into higher domestic financing costs for the public and private sectors.

Outlook

GDP growth is expected at 2.5 percent in 2022, slowing to 0.8 percent in 2023, before increasing to 1.8 percent in 2024 on the back of easing inflation, more accommodative monetary policy, higher global growth, and reduced uncertainty post elections. Investments are expected to decline in 2023 aligned with lower production growth. Inflation is projected to reach 9.7 percent (year average) and slow to 4.1 by 2024 due to the dissipation of the commodity price shock and as monetary policy takes effect. Poverty is expected to decrease in 2022 to 25.0 percent responding to the improvement of job opportunities and expanded coverage and benefits of the Auxilio Brasil program, but remain stagnant thereafter as economic growth decelerates.

A gradual fiscal consolidation based on the fiscal rule is expected to help maintain a primary balance surplus until 2024. However, the public debt to GDP ratio is expected to increase from 77.9 percent in 2022 to 80.9 percent by 2024 due to higher fiscal balances. The current account deficit is projected to reach 1.9 percent of GDP in the medium-term, as commodity prices and global demand normalize, fully financed by robust external capital inflows.

The scenario is subject to significant risks. Concerns remain about anemic potential growth and the pace of fiscal consolidation. The lagged effects of monetary tightening will dampen domestic demand, limiting access to credit and growth prospects in 2023. Lower nominal GDP growth and weak revenue can further constrain spending. On the external side, a global slowdown in economic activity and inflationary pressures can trigger exchange rate depreciations and exacerbate inflationary pressures, limiting investment and exports in Brazil, as monetary tightening in advanced economies results in increasing financing constraints for emerging markets. Nonetheless, low external debt and high international reserves provide solid buffers to weather external shocks.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.2	-3.9	4.6	2.5	0.8	1.8
Private Consumption	2.6	-5.4	3.6	3.5	2.0	2.5
Government Consumption	-0.5	-4.5	2.0	0.4	0.0	0.0
Gross Fixed Capital Investment	4.0	-0.5	17.2	-1.6	-4.5	1.1
Exports, Goods and Services	-2.6	-1.8	5.8	1.5	0.5	1.5
Imports, Goods and Services	1.3	-9.8	12.4	-1.5	-2.0	2.5
Real GDP growth, at constant factor prices	1.0	-3.5	4.3	2.5	0.8	1.8
Agriculture	0.4	3.8	-0.2	0.5	1.5	2.0
Industry	-0.7	-3.4	4.5	1.0	0.2	1.0
Services	1.5	-4.3	4.7	3.2	0.9	2.0
Inflation (Consumer Price Index)	3.7	3.2	8.3	9.7	5.7	4.1
Current Account Balance (% of GDP)	-3.5	-1.7	-1.7	-2.0	-1.4	-1.9
Net Foreign Direct Investment Inflow (% of GDP)	2.5	2.8	1.7	2.6	2.6	2.6
Fiscal Balance (% of GDP)	-5.9	-13.6	-4.4	-5.8	-6.9	-5.7
Debt (% of GDP)	74.4	88.6	80.3	77.9	79.4	80.9
Primary Balance (% of GDP)	-1.0	-9.5	0.7	1.1	0.1	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.4	1.9	5.8	5.1	5.0	4.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	10.8	5.3	11.3	9.8	9.7	9.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	26.2	18.7	28.4	25.0	25.0	24.9
GHG emissions growth (mtCO2e)	2.6	9.5	10.5	5.3	-7.0	-5.2
Energy related GHG emissions (% of total)	20.8	18.1	17.2	16.4	17.2	18.1

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 SEDLAC harmonization, using 2013-PNADC-E1, 2019-PNADC-E1, and 2020-PNADC-E5. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projections 2021/22 use microsimulation methodology. Projections 2022/24 use point-to-point elasticity (2013-2019) with pass-through = 0.7 based on GDP per capita in constant LCU.

CHILE

Table 1	2021
Population, million	19.2
GDP, current US$ billion	318.0
GDP per capita, current US$	16554.4
International poverty rate ($2.15)[a]	0.7
Lower middle-income poverty rate ($3.65)[a]	1.7
Upper middle-income poverty rate ($6.85)[a]	8.0
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	102.4
Life expectancy at birth, years[b]	80.3
Total GHG emissions (mtCO2e)	54.6

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

Growth is expected to slow sharply in 2022 and 2023 on a reversal of policy stimulus, domestic uncertainty, and external headwinds. Inflation is well above target, driven by domestic and external factors. Medium-term prospects will be shaped by the outcome of the constitutional process and the capacity to generate more inclusive, productivity-driven growth while preserving sound macroeconomic fundamentals.

Key conditions and challenges

Strong institutions, sound macroeconomic management, a conducive business environment, and the world's largest copper reserves led Chile to be the first country in Latin America to achieve high-income status. However, lingering economic and social challenges have become pressing after the 2019 protests and the Covid pandemic. Chile's economic growth is slowing, as substantial Covid-related policy stimulus is being unwound to relieve pressures on inflation and fiscal accounts. Tighter global financial conditions, weaker external demand, and deteriorating terms of trade have exacerbated the negative impact on growth and inflation.

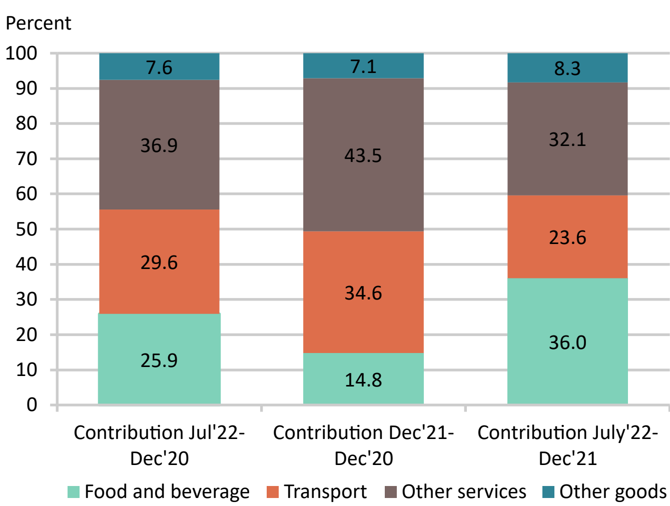
Amid short-term concerns, Chile is also seeking a new path to more equitable and inclusive long-term growth. In a referendum held in September, Chileans rejected a new constitution that contained significant departures from constitutional tradition. While the result sets boundaries for future changes to the political and economic framework, uncertainty will remain as a new constitutional reform roadmap is discussed. At the same time, the government is preparing an ambitious tax reform, aiming to raise revenue by 4.1 percent of GDP over 4 years to finance its policy priorities. A pension reform will also be presented in October. Both projects will face challenging legislative debates as the government does not have a majority in Congress.

Growth, which averaged just 2 percent in the six years before the pandemic, will be critical to maintaining social progress. Increasing productivity growth, which has been on a declining trend for decades, will be key to improving medium-term prospects. This would require efforts to reduce regulatory barriers, foster innovation, promote resource-use efficiency and competition, enhance education quality, and increase female labor participation.

Recent developments

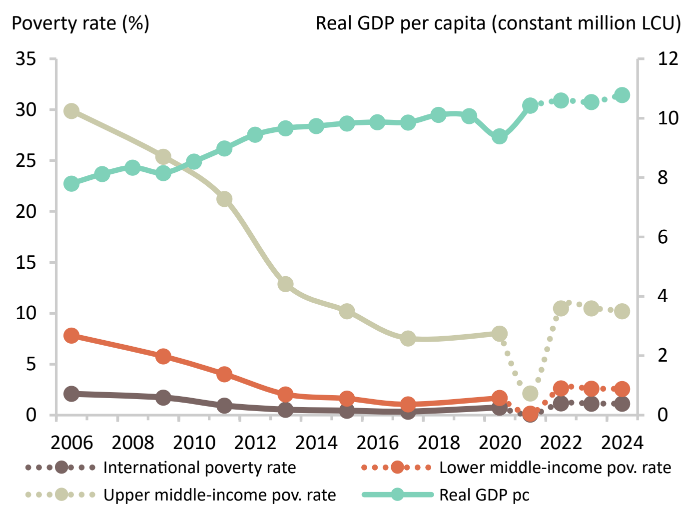
Real GDP growth peaked in the third quarter of 2021. After growing 11.7 percent y/y in 2021, the economy grew 6.4 percent y/y in the first half of 2022, and only 0.3 percent compared to the previous six months. The deceleration was driven by weak investment and consumption. Commerce, industry, agriculture, and mining sectors contributed negatively, but services remained relatively resilient. The job market continues to recover, with unemployment declining. Still, labor market indicators have not yet fully reached pre-pandemic levels, and women and low-skilled workers continue to experience the largest gaps. Inflation started to increase in mid-2021 and accelerated to 13.1 percent y/y in July 2022, the highest reading since 1994, driven by strong demand pressures amid an overheated economy. High energy prices and global supply shocks added new price pressures. Since the start of the war in

FIGURE 1 Chile / Contribution to inflation by components



Source: World Bank based on Central Bank of Chile.

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



Source: World Bank. Notes: see Table 2.

Ukraine, inflation drivers switched to a larger contribution from food prices (Figure 1). High inflation caused a drop in real wages, significantly impacting households' purchasing power, especially among the most vulnerable. The Central Bank hiked interest rates significantly from 0.5 to 10.75 percent in one year.

Fiscal consolidation efforts allowed the 12-month rolling public deficit to fall below 3 percent of GDP by June 2022. Spending fell 15.5 percent y/y in real terms in the first half of the year, starting to normalize after an extraordinary stimulus in 2021. Targeted measures have been implemented to support households affected by food and fuel price inflation, including cash transfers and subsidies adding up to 1.6 percent of GDP.

Chile`s current account accumulated a decades-high deficit, reaching – in 4 quarter rolling terms - 8.5 percent of GDP in June 2022, driven by continuously high imports and a deterioration in terms of trade. The financing of the past year`s deficit (USD 27 bn), shifted from FDI (only USD 0.5 bn in the period) to portfolio investment inflows (USD 20 bn) that resulted from the repatriation of pension fund assets and the issuance of external sovereign debt. Reserves remain at a solid 14 percent of GDP. The currency depreciated sharply since June, and the Central Bank announced an aggressive FX intervention which, together with some improvement in external conditions, led to a partial recovery of the peso. The credibility of the Central Bank's response was further bolstered by the signature of a new Flexible Credit Line with the IMF for USD 18.5 billion in August.

Outlook

Chile will likely register negative quarterly growth rates in the second half of 2022 and into 2023 as both fiscal and monetary policy have tightened. Domestic political uncertainty is also expected to weigh on investment, while external conditions would exacerbate the impact on growth. GDP is forecast to grow 1.8 percent in 2022 and to contract by 0.5 percent in 2023.

Inflation is projected to remain high in the second half of 2022, further fueled by the recent currency depreciation. Pressures are expected to wane in 2023, as macroeconomic imbalances are addressed, and the external shock subsides.

Temporary gains in poverty reduction due to massive cash transfers implemented in 2021 will recede in 2022. Amid economic slowdown, high inflation, and limited public transfers to support vulnerable households, poverty (US$6.85 a day) is projected to increase to 10.5 percent and the Gini index to 47.1 percent in 2022, remaining at these levels in 2023 without returning to pre-pandemic levels in the medium term. Poverty projections do not yet incorporate the tax and social reforms announced by the new Government still subject to debate in Congress.

The fiscal deficit is expected to drop to 0.8 percent in 2022. In the medium term, and if increased social spending is accompanied by commensurate increases in revenue mobilization, it should gradually converge towards the structural deficit target to stabilize the debt to GDP ratio slightly above 40 percent.

Risks to the outlook on the external front include persistent geopolitical tensions, global stagflation, and faster-than-expected interest rate hikes in developed markets. Local political developments will also be key, mainly regarding the constitutional process and social unrest.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.8	-6.0	11.7	1.8	-0.5	2.2
Private Consumption	0.7	-8.0	20.3	2.1	-2.3	1.9
Government Consumption	0.5	-4.0	10.3	-1.4	-0.5	2.2
Gross Fixed Capital Investment	4.7	-9.3	17.6	-0.5	-2.7	2.0
Exports, Goods and Services	-2.5	-1.1	-1.5	2.0	2.0	2.0
Imports, Goods and Services	-1.7	-12.7	31.3	-0.8	-4.0	1.0
Real GDP growth, at constant factor prices	0.9	-5.9	10.5	1.8	-0.5	2.2
Agriculture	-0.7	-1.6	2.4	2.0	2.0	2.0
Industry	-0.5	-3.5	5.8	1.1	0.9	1.5
Services	1.7	-7.3	13.4	2.1	-1.3	2.6
Inflation (Consumer Price Index)	2.3	3.0	4.5	11.1	6.8	3.4
Current Account Balance (% of GDP)	-5.2	-1.7	-6.4	-6.5	-4.1	-3.4
Net Foreign Direct Investment Inflow (% of GDP)	1.2	1.0	0.3	0.0	0.3	0.5
Fiscal Balance (% of GDP)	-2.7	-7.1	-7.5	-0.8	-2.6	-1.9
Debt (% of GDP)	28.2	32.5	36.1	38.4	40.6	41.9
Primary Balance (% of GDP)	-1.8	-6.2	-6.6	0.1	-1.5	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.3	0.7	0.1	1.1	1.1	1.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.0	1.7	0.2	2.6	2.6	2.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.4	8.0	2.1	10.5	10.5	10.2
GHG emissions growth (mtCO2e)	10.9	-10.8	10.7	2.0	-0.7	2.8
Energy related GHG emissions (% of total)	167.3	175.3	168.3	167.2	167.9	166.5

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 SEDLAC harmonization, using 2020-CASEN. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.

COLOMBIA

Table 1	2021
Population, million	51.0
GDP, current US$ billion	314.3
GDP per capita, current US$	6155.9
International poverty rate ($2.15)[a]	10.8
Lower middle-income poverty rate ($3.65)[a]	21.1
Upper middle-income poverty rate ($6.85)[a]	44.2
Gini index[a]	54.2
School enrollment, primary (% gross)[b]	112.7
Life expectancy at birth, years[b]	77.5
Total GHG emissions (mtCO2e)	284.6

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

GDP grew 10.6 percent in the first half of 2022 and is projected to grow 7.1 percent in 2022, helping improve fiscal balances. Signs of overheating emerged, growth is expected to slow down and inflation to remain high in 2023. Key risks stem from higher-than-expected inflation, adverse changes in international financial market conditions, and high-for-long current account deficit. A decline in the poverty rate is projected to be slowed by a rising cost of living.

Key conditions and challenges

The economy has been growing vibrantly since 2021, and the macroeconomic policy framework remains strong, with an upgraded fiscal rule, a credible inflation targeting regime, and a flexible exchange rate. This provides a good foundation to resolve structural vulnerabilities.

First, the rate of potential growth is insufficient to secure a convergence in income per capita in high-income countries. Low capabilities of firms, institutional shortcomings, and inefficient markets for land, capital, and labor weigh on productivity. Low trade openness and reliance on commodity exports leave the economy vulnerable to external shocks.

Second, Colombia remains one of the most unequal countries in the world. While the 2021 economic rebound and the continuation of emergency transfers have helped reduce poverty, high inflation is undermining progress, and the recovery is not reaching all groups. Abating poverty durably and increasing resilience among the non-poor will require expanding the coverage of the social security system, reducing rigidities in automatic inclusion to social programs, making labor markets more efficient and inclusive, and improving the level and quality of education, health, and infrastructure.

Third, a still high (although declining) debt-to-GDP ratio reduces the space to safely increase spending. Reducing the debt-to-GDP ratio is a medium-term priority, even if this means reducing the deficit faster than the fiscal rule stipulates.

Finally, Colombia needs to prepare itself to confront climate change. This will require stepping up productivity and adoption of technology, reducing reliance on oil and coal, reverting deforestation, and greening the energy, infrastructure, and transport sectors.

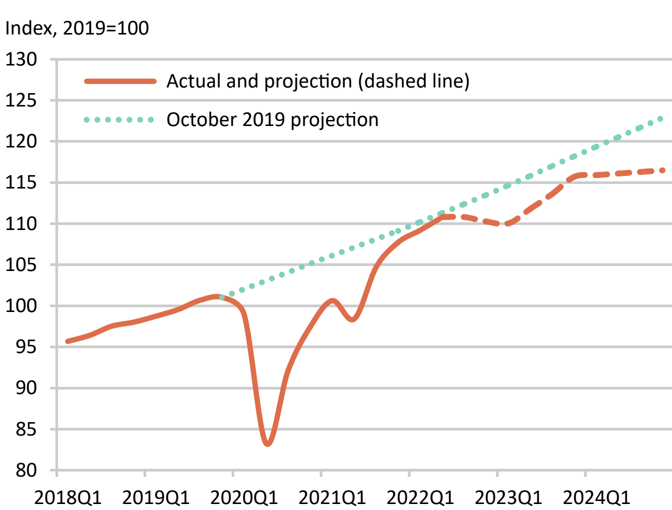
The tax reform sent to Congress in August tackles some of these issues: it raises revenue, increases the progressivity of the personal income tax, eliminates inefficient corporate tax benefits, increases carbon taxes, and introduces new health taxes. However, tax rates remain high for firms, expensive and regressive VAT exclusions and exemptions deprive the state of resources, and taxation and prices of carbon emissions remain low.

Recent developments

Supported by consumption, GDP grew 10.6 percent in H1 of 2022 (y-o-y), pushing GDP above the estimated potential. Commerce and manufacturing have been the most vibrant sectors, while mining and oil remained subdued, despite the increase in commodity prices.

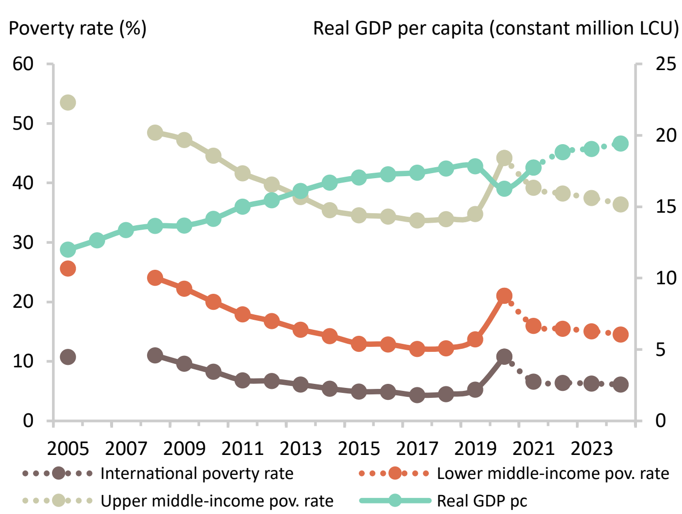
The labor market continued to recover. Unemployment declined and participation rates increased in Q2-2022 (y-to-y), but female unemployment remains 1.5 times higher than that of men. Buoyed by the economic recovery, real labor incomes have increased by about 15 percent for

FIGURE 1 Colombia / Real GDP, Actual and projection vs. October 2019 projection



Sources: DANE and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

formal and informal jobs in Q2-2022 (y-to-y). The increase benefitted the lower-skilled (9 percent), but higher-skilled workers have seen a stronger recovery (18 percent).

Strong domestic demand, the depreciation of the Colombian peso, indexation of wages and regulated prices, and price pressures from abroad pushed inflation to 10.2 percent, y-o-y, in August 2022. With end-year inflation expectations hovering around 6 percent, the Central Bank increased the monetary policy rate to 9 percent. To contain the pass-through of international prices, the government exempted selected agricultural products from import tariffs.

The current account deficit declined to 3 percent of annual GDP in June 2022, more slowly than anticipated. The volume of oil and coal exports has been lower and imports and distribution of dividends stronger than expected, partly offsetting record inflows of remittances and positive terms of trade shock. FDI and net portfolio inflows financed the current account deficit.

The central government's deficit declined to an estimated 2 percent of annual GDP in June, supported by buoyant taxes and oil revenues. The nominal increase in GDP and a reduction of the deficit helped decrease the debt-to-GDP ratio, offsetting the upward pressure from the currency depreciation.

With some 1.4 million people exiting poverty in 2021, the national poverty rate dropped to 39.3 percent, still above pre-pandemic levels. The middle class also rebounded, and income inequality declined. Nonetheless, 2.1 million of those who had fallen into poverty in 2020 are estimated to have remained poor in 2021. Moreover, the decline in poverty was uneven and did not reach afro-Colombians and indigenous people. Venezuelan migrants and victims of conflict saw an improvement but from a dire pre-pandemic poverty situation.

Outlook

The economy is projected to decelerate in the second half of 2022, setting annual growth at 7.1 percent, as the bout of repressed consumption comes to an end, monetary policy continues tightening, and external demand remains subdued. The economy is projected to grow 2.1 percent in 2023, supported by a recovery of private investment in the second half of the year.

With a slowdown in import growth, the current account deficit is projected to decrease in 2022 and over the medium term, but to remain high. FDI flows and borrowing are projected to provide financing.

The central government's fiscal deficit is projected to decline slightly faster than the limits set by the fiscal rule, as the effects of the fiscal reforms approved in September 2021 and presented in August 2022 kick in. The decline of the deficit at the subnational level would help reduce the general government deficit. The debt-to-GDP ratio is projected to keep declining over the medium term.

Poverty is expected to decline in 2022. as economic recovery improves incomes. However, inflation (particularly food inflation) is estimated to offset close to 5 percentage points of growth-led poverty reduction, mostly affecting those in rural areas and the extremely poor. Moreover, while food security had improved from mid- to end-2021, high food inflation has heightened concerns over food insecurity.

The profile of medium-term risk is tilted to the downside. Risks include: high domestic inflation inertia (with high-for-long interest rates) and/or higher international food and fuel inflation (disproportionately affecting the poor); tightening of financing conditions abroad (with increased capital mobility and depreciating pressure on the exchange rate); and high-for-long current account deficits, especially if commodity prices decline. The materialization of these risks could slow down growth, push the public debt-to-GDP ratio upward, and force an aggressive contraction of government spending, diminishing prospects for reducing poverty and inequality.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.2	-7.0	10.7	7.1	2.1	2.8
Private Consumption	4.1	-5.0	14.8	8.8	1.9	2.8
Government Consumption	5.3	-0.6	10.3	3.9	2.4	1.5
Gross Fixed Capital Investment	2.2	-23.3	11.2	12.5	4.5	4.1
Exports, Goods and Services	3.1	-22.7	14.8	15.7	5.9	4.6
Imports, Goods and Services	7.3	-20.5	28.7	18.3	4.4	3.7
Real GDP growth, at constant factor prices	3.1	-7.1	10.4	7.1	2.1	2.8
Agriculture	2.7	2.0	3.1	0.1	6.2	5.6
Industry	0.2	-14.2	9.7	8.2	2.0	2.2
Services	4.4	-4.9	11.5	7.4	1.8	2.7
Inflation (Consumer Price Index)	3.5	2.5	3.5	9.9	8.3	4.9
Current Account Balance (% of GDP)	-4.6	-3.5	-5.6	-5.4	-5.0	-4.7
Fiscal Balance (% of GDP)	-2.6	-7.2	-7.1	-6.5	-4.3	-3.0
Debt (% of GDP)	52.3	67.2	66.6	65.2	63.6	62.4
Primary Balance (% of GDP)	0.4	-4.3	-3.7	-2.7	-0.6	0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	5.3	10.8	6.6	6.4	6.3	6.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	13.7	21.1	16.0	15.5	15.1	14.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	34.8	44.2	39.2	38.2	37.5	36.4
GHG emissions growth (mtCO2e)	1.9	2.5	2.6	1.2	-1.3	-2.1
Energy related GHG emissions (% of total)	28.5	28.2	28.9	29.1	29.2	29.2

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 SEDLAC harmonization, using 2020-GEIH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.

COSTA RICA

Table 1	2021
Population, million	5.1
GDP, current US$ billion	64.4
GDP per capita, current US$	12536.2
International poverty rate ($2.15)[a]	2.2
Lower middle-income poverty rate ($3.65)[a]	6.0
Upper middle-income poverty rate ($6.85)[a]	19.8
Gini index[a]	49.3
School enrollment, primary (% gross)[b]	115.0
Life expectancy at birth, years[b]	80.5
Total GHG emissions (mtCO2e)	8.0

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

Costa Rica's strong rebound in 2021 and the recovery in tourism underpinned growth in the first half of 2022. However, weaker external demand, higher inflation, and tighter financing conditions are expected to reduce growth, employment, and real wages going forward. As a result, poverty is expected to remain stable in 2022. Pursuing fiscal consolidation through more efficient taxes and spending, while protecting those most affected by recent shocks is key for sustained growth and social progress.

Key conditions and challenges

An outward-oriented growth model, investment in human capital, and good governance allowed Costa Rica to double its income per capita in the last two decades and to consolidate its green trademark. The country upgraded its exports, increasing resilience to external shocks. Fiscal vulnerabilities, however, built up as spending increased while revenues stayed flat. In the decade before the pandemic, expanded access to education and the internet led to a decline in multidimensional poverty. However, monetary poverty reduction was limited, and inequality increased, as labor market outcomes for women and lower-educated workers did not improve. Poverty rates remained higher for historically disadvantaged groups such as single mothers, Afro-descendants, indigenous populations, and migrants.

The pandemic intensified fiscal and social challenges. Fiscal consolidation efforts, launched in 2018, were interrupted as revenues collapsed amid increasing expenditures as the government sought to mitigate the impact of the pandemic. The debt-to-GDP ratio increased from 56.1 percent in 2019 to 67.1 percent in 2020. Unemployment rates nearly doubled -surpassing 20 percent in mid-2020 - and poverty (US$6.85 poverty line) increased from 13.7 percent of the population in 2019 to 19.8 percent in 2020. Fiscal spending discipline and tax collection recovered in 2021 when GDP grew by 7.8 percent. Unemployment and poverty (US$6.85 poverty line) declined with the economic recovery, but both remained above pre-pandemic levels in 2021 (13.7 and 14.3 percent, respectively).

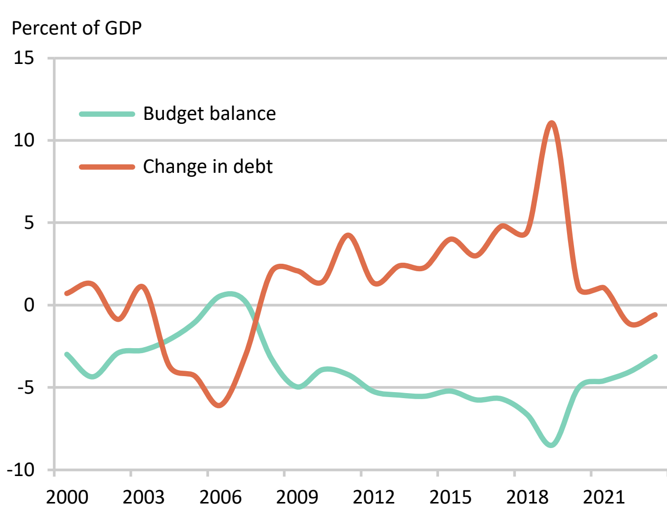
Costa Rica's immediate challenge is to fight inflation and persevere in fiscal consolidation while trying to minimize the impacts on growth and poverty. On growth and shared prosperity, the country needs to sustain reforms to improve education and labor market outcomes to reduce its dual-economy nature, while maintaining its green trademark. In parallel, it is important to ensure that the country's institutional setting is consistent with the implementation of these policy objectives and with a sustainable and effective delivery of social services.

Recent developments

In the first half of 2022, GDP grew 6.9 percent y-o-y. Tourism arrivals increased 62.2 percent by June 2022, boosting the services sector. Agriculture was affected by adverse weather, and the manufacturing and construction sectors started to slow down as adverse external conditions started to curb investment.

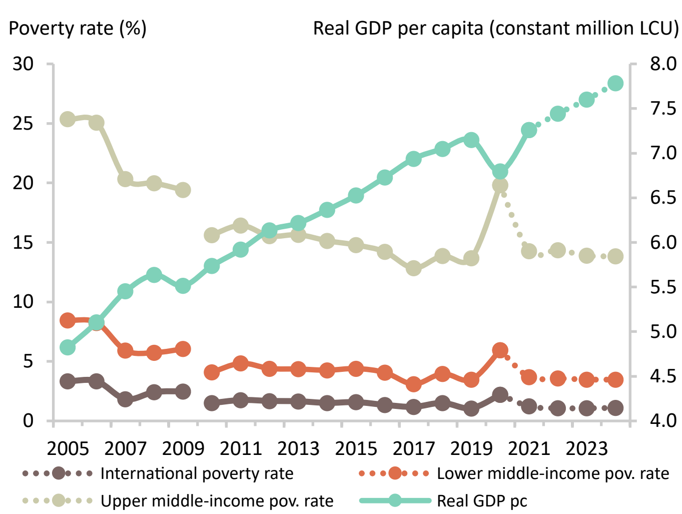
The current account deficit increased from -0.9 percent of GDP in the first half of 2021 to -2.3 percent of GDP in the same period of 2022. While the recovery of tourism increased the surplus of the services account, imports of goods significantly outpaced exports: 17.2 and 12.7 percent y-o-y, driven by

FIGURE 1 Costa Rica / Budget balance and change in bebt



Sources: Central Bank of Costa Rica and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

a sharp deterioration in terms of trade, with pressures from key imported products, such as fuels and fertilizers.

Higher international food and oil prices resulted in the highest inflation rate in 13 years - 10.1 percent (12 months until June 2022), above the inflation target. Those at the bottom of the income distribution were most affected as food and transport make up a higher share of their spending. To contain inflation, the BCCR has gradually increased the policy rate, reaching 7.5 percent in July of 2022 (up from 0.75 in December of 2021).

Public finances improved in the first quarter of 2022 with a primary surplus of 0.85 percent of GDP and a fiscal deficit of -0.2 percent of GDP, supported by increased tax collection, and contained spending. Responses to high prices, including new temporary emergency transfers and possible fuel price controls, have been consistent with the fiscal consolidation so far but should be monitored carefully.

Although the unemployment rate fell, the employment rate has only partially recovered from the pandemic. Primary sector employment remained below its pre-pandemic level, and real wages declined by 4.1 percent compared to February 2020. In the absence of emergency social assistance payments, poverty (US$6.85 threshold) is estimated to remain stable above the pre-pandemic level at 14.4 percent in 2022.

Outlook

Continued inflationary pressures and tighter external conditions will slow down the economy. Higher input prices and depressed external demand are expected to dampen growth in the manufacturing and construction sectors. Uncertainty and the effect of inflation on income will moderate consumption and private investment in 2022-2023. Growth is expected to moderate to 3.3 and 2.9 percent in 2022 and 2023, respectively, before rebounding in 2024 supported by Costa Rica's dynamic exporting sectors. The current account deficit is expected to widen to 4.3 percent of GDP in 2022 as a result of slower growth in Costa Rica's main trading partners and worse terms of trade, but it remains fully covered by net FDI.

As inflation stabilizes and labor market conditions improve driven by growth in the services sector, the poverty rate is expected to decline in 2023 and then stabilize at around 13.8 percent in 2024. Poverty could be further reduced with the implementation of targeted social assistance measures for historically disadvantaged groups and those living under the poverty threshold.

A small, open economy, Costa Rica is highly vulnerable to external shocks, including global inflationary pressures and tighter financing conditions; all of these increase food and energy costs and add financing pressures, increasing uncertainty of the economic outlook both at the macro and household level. Fiscal consolidation is expected to continue over the forecasting period, anchored in the fiscal rule and the IMF-supported program. Additional announced reforms, such as reduction of tax expenditures and reduced fragmentation of social programs, are critical to reinforce fiscal consolidation and create buffers against shocks while protecting the poor. Building consensus around reforms is key but will take time.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.4	-4.1	7.8	3.3	2.9	3.2
Private Consumption	1.7	-5.0	6.4	2.9	2.6	2.6
Government Consumption	5.9	0.6	1.4	0.7	0.6	0.8
Gross Fixed Capital Investment	-8.2	-1.7	8.7	3.7	3.5	4.9
Exports, Goods and Services	4.3	-10.9	15.9	7.8	4.7	5.9
Imports, Goods and Services	-2.3	-10.2	16.2	6.1	3.3	4.5
Real GDP growth, at constant factor prices	2.4	-4.1	7.8	3.3	2.9	3.2
Agriculture	-1.5	0.5	3.8	2.0	2.2	2.4
Industry	-0.3	1.0	10.2	3.1	2.4	3.0
Services	3.4	-5.7	7.3	3.5	3.2	3.3
Inflation (Consumer Price Index)	1.5	0.7	3.3	9.9	4.9	3.2
Current Account Balance (% of GDP)	-1.2	-1.1	-3.3	-4.3	-3.7	-3.5
Net Foreign Direct Investment Inflow (% of GDP)	4.2	2.6	4.8	3.9	3.9	4.1
Fiscal Balance (% of GDP)	-6.6	-8.5	-5.0	-4.6	-4.0	-3.1
Debt (% of GDP)	56.1	67.1	68.2	69.2	68.1	67.5
Primary Balance (% of GDP)	-2.6	-3.9	-0.3	0.5	0.9	1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.1	2.2	1.2	1.1	1.1	1.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.5	6.0	3.7	3.6	3.5	3.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	13.7	19.8	14.3	14.4	13.9	13.8
GHG emissions growth (mtCO2e)	0.0	-8.1	3.1	1.9	1.2	1.1
Energy related GHG emissions (% of total)	91.1	89.1	87.4	84.4	81.8	79.6

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 SEDLAC harmonization, using 2020-ENAHO. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.

DOMINICA

Table 1	2021
Population, million	0.1
GDP, current US$ billion	0.5
GDP per capita, current US$	7518.5
School enrollment, primary (% gross)[a]	102.3
Life expectancy at birth, years[a]	76.6
Total GHG emissions (mtCO2e)	0.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2002).

Dominica's economy continues to rebound following the abrupt stop in tourism in 2020 and the removal of COVID-19 containment measures. Nonetheless, poverty is expected to remain elevated compared to pre-COVID-19 levels. Fiscal financing needs remain high, highlighting the need for strengthened fiscal management and resilience. Risk of debt distress remains high. Medium-term growth prospects appear favorable, although considerable uncertainty remains.

Key conditions and challenges

Dominica is a small island developing state highly vulnerable to climate change, natural disasters, and external economic shocks. Dominica's economy continues to be affected by the COVID-19 pandemic, and rising food and fuel prices. Tourism, which accounted for 25 percent of GDP pre-COVID, is returning but global economic conditions and a resurgence of COVID variants have hampered recovery.

The pandemic has had negative impacts on employment that were at best partially offset by social assistance programs. A recent World Bank/UNDP phone survey (June 2021) indicated that 17 percent of those working before the pandemic were no longer working after the pandemic, and there was a notable decrease in formal employment (jobs in public and private enterprises) in favor of an increase in informal work and self-employment. Job losses were markedly more common for women (23 percent) than for men (12 percent). Women reported a more pronounced increase in time spent on services at home and supporting children with school during the pandemic. Only a limited share of respondents (10 percent) reported receiving monetary or in-kind income from the government in response to the pandemic. As such, the active transfers programs, instituted by the Government, and continued reconstruction spending post-Hurricane Maria are unlikely to have fully offset the impacts on poverty.

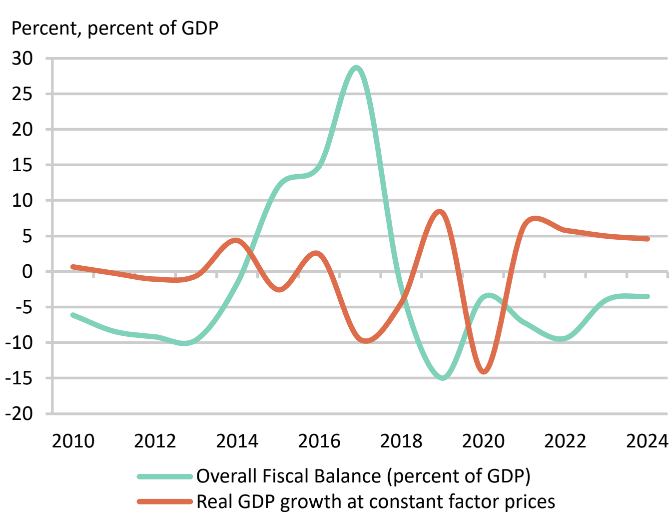
Dominica is highly vulnerable to extreme weather events and external shocks. It came under terrible strain after Hurricane Maria hit the island in 2017. Fiscal pressures were further exacerbated by the COVID-19 pandemic and debt levels have risen. The Government has taken measures to consolidate spending and reduce debt, however, significant challenges remain given the pandemic and a highly ambitious public investment pipeline, which includes a new international airport and geothermal energy investments. The airport and the development of geothermal energy production are potentially significant long-term drivers of growth. Despite these large public investment projects, the fiscal path remains on track to meet fiscal rule targets set for 2024/25 as reconstruction and exceptional COVID-19 spending measures wrap up.

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

Recent developments

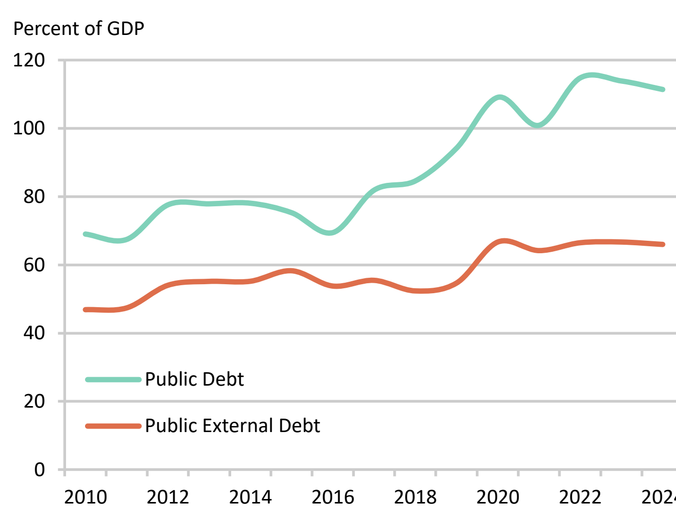
Growth rebounded modestly in 2021 on the relaxation of domestic COVID-19 containment measures and improving tourist arrivals. While the emergence of new COVID variants and global economic conditions have slowed the expected rebound

FIGURE 1 Dominica / Real GDP growth and fiscal balance



Sources: Government of Dominica and World Bank staff estimates.

FIGURE 2 Dominica / Public debt



Source: World Bank staff estimates.

in tourism, January to May 2022 tourism arrivals reached 34 percent of pre-COVID 2019 levels. Inflation remained modest in 2021 but increased over the first half of 2022 at just over 5.0 percent, driven largely by fuel and energy prices, and to a lesser extent by food prices.

Household income from tourism-related occupations remains depressed, women have been hit especially hard given their high participation in the services and informal sectors. However, agriculture has rebounded post-Hurricane Maria and has helped limit the overall impact on poverty.

Fiscal and debt metrics remain challenging with an overall fiscal deficit of 7.2 percent of GDP in FY2021 (July 2020 -June 2021) and 9.4 percent expected in FY2022 (recently completed) as a result of decreased revenues, increased COVID-related expenditures, and an ambitious public investment pipeline. Public debt levels are expected to peak at near 115 percent in 2022 and decline thereafter.

Outlook

Growth is forecast to accelerate to 5.8 percent in 2022 as tourism and the domestic economy further rebound from the pandemic. Short to medium-term GDP growth remains largely driven by a resumption in tourist arrivals. Growth will also be aided by a robust public investment program, including new hotel developments and housing construction using Citizen-by-Investment revenues. Geothermal developments and an international airport bode well for future growth prospects, as does Dominica's commitment to becoming a fully climate-resilient economy. These large public investment projects will require careful management, prioritization, and implementation in order to ensure fiscal and debt sustainability.

CPI inflation is expected to approach 5 percent in 2022 but to return to around 2 percent by 2024. The government has taken several measures to cushion the impact of rising food and fuel prices, including the provision of conditional cash transfers to vulnerable households and increased support to agricultural producers.

The current account deficit is forecast to narrow as tourism receipts increase. Financial sector vulnerabilities will require close monitoring given implicit contingent fiscal liabilities arising from the large credit union and insurance sectors. These sectors have yet to fully recover from Hurricane Maria (Sept 2017), and the impacts of the COVID-19 pandemic continue to be felt on balance sheets.

Increased growth, reduced post-disaster losses, and low inflation are all expected to contribute to a reduction in poverty rates in the medium term. There is an urgent need for updated poverty data and better documentation that describes the extent to which social protection measures reach those most in need. A population and housing census started in June 2022 and is expected to be delivered by December 2022. The CPA is expected to be completed after the national census. This data can guide policy and assistance programs to help households cushion the effect of economic shocks.

Risks from natural disasters and the impact of climate change remain, including rising sea levels. Risks also arise from the financial sector, and fiscal and public debt vulnerabilities.

Forecasts are subject to considerable downside risk given rising food and fuel prices, the economic impact of global geopolitical developments, and the ever-present risk of natural disasters.

TABLE 2 Dominica / 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	-16.6	6.5	5.8	5.0	4.6
Real GDP growth, at constant factor prices	8.3	-14.1	6.5	5.8	5.0	4.6
Agriculture	21.6	3.2	25.3	4.2	-7.8	-0.9
Industry	0.7	-31.5	3.8	8.6	1.6	-7.3
Services	8.8	-11.9	4.0	5.6	8.1	7.8
Inflation (Consumer Price Index)	1.5	-0.7	1.5	5.5	4.2	2.0
Current Account Balance (% of GDP)	-34.4	-29.3	-32.8	-41.3	-37.3	-38.5
Fiscal Balance (% of GDP)[a]	-15.0	-3.6	-7.2	-9.4	-4.0	-3.5
Debt (% of GDP)[a]	78.1	109.1	111.1	114.8	113.9	111.4
Primary Balance (% of GDP)[a]	-13.0	-1.0	-5.0	-7.4	-1.7	-1.2
GHG emissions growth (mtCO2e)	0.1	-10.4	16.0	7.3	0.1	0.1
Energy related GHG emissions (% of total)	72.9	76.6	81.8	85.0	86.9	88.9

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

DOMINICAN REPUBLIC

Table 1	2021
Population, million	10.5
GDP, current US$ billion	94.3
GDP per capita, current US$	8939.7
International poverty rate ($2.15)[a]	1.1
Lower middle-income poverty rate ($3.65)[a]	5.3
Upper middle-income poverty rate ($6.85)[a]	23.8
Gini index[a]	39.6
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	74.3
Total GHG emissions (mtCO2e)	41.4

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

The Dominican economy grew 5.6 percent during the first half of 2022, fueled by tourism, which benefitted from a strong government campaign. Nevertheless, the fiscal deficit is expected to widen in 2022 due to higher subsidies to counteract food and energy price surges. Rising inflation prompted the Central Bank to hike the monetary policy rate to 7.75 percent in July 2022. Poverty is expected to continue to decline in 2022 relative to 2020 but remain above pre-crisis levels.

Key conditions and challenges

The Dominican Republic (DR) has been one of the fastest-growing economies in Latin America and the Caribbean. The economy expanded by an average of 5.3 percent in 2000 - 2019, as foreign direct investment (FDI) inflows, averaging about 4 percent of GDP over the last two decades, transformed the economy, and fueled tourism, services, manufacturing, construction, and mining. Growth has been supported by domestic demand and favorable external conditions. Prudent monetary and fiscal policy has contributed to macroeconomic stability. The country's external position remains strong as the external deficit remains fully financed by FDI and remittances, but the DR's participation in global value chains remains low and exports have declined from 35 to 21 percent of GDP from 2000 to 2021.

Fostering long-term growth will require structural reforms in support of increased productivity, including through higher investment in innovation, fomenting economic clusters, and improved public services, in particular skills and education. However, public investment declined from 3.9 to 2.8 percent of GDP between 2010 and 2021.

Public debt increased during the pandemic and remains above pre-pandemic levels. The interest bill absorbed one-fifth of tax revenues in 2021, crowding out public investments. Improvements in the quality of domestic resource mobilization and spending efficiency and effectiveness are necessary to ensure adequate provision of public services. This is particularly relevant as a significant share of the labor force is excluded from the formal economy.

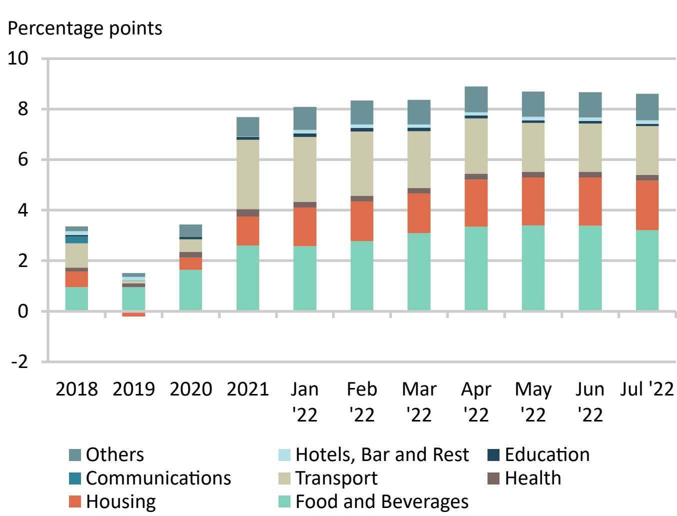
Recent developments

Real GDP grew 5.6 percent during the first half of the year (2022H1), driven by services. The hotels, bars, and restaurants sector grew 34.3 percent in 2022H1, supported by an active government vaccination campaign, resulting in 6.02 million people fully vaccinated as of August 15, 2022, equivalent to 56 percent of the total population. Expansionary fiscal policy also contributed to growth, while monetary tightening attenuated inflationary pressures.

However, income growth has been diluted by price inflation, which reached 9.4 percent in July 2022, outside the Central Bank's target range of 4±1 percent, prompting the Central Bank to increase its monetary policy rate six times between December 2021 and August 2022.

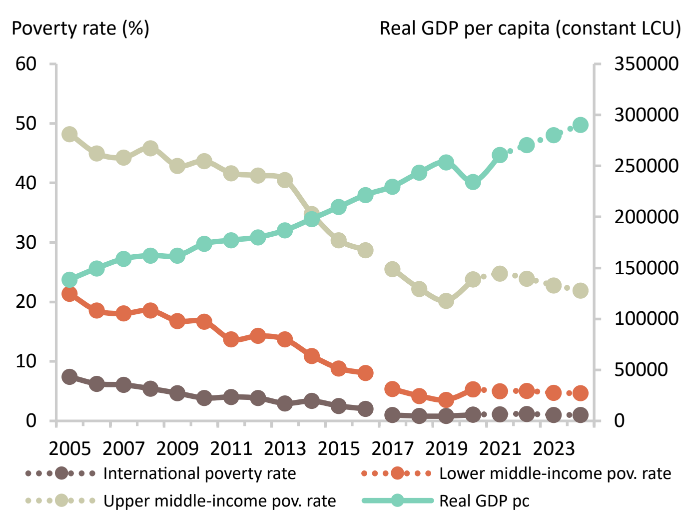
The cost of the family basket increased 23.2 percent in July 2022, compared to pre-pandemic levels, with the poorest quintiles most affected. In 2022Q1, the employment rate remained 1.7 percentage points below pre-pandemic levels and informality was 3 percentage points higher than pre-pandemic levels. For all these reasons, poverty (defined as living with less than US$6.85 per day) is expected

FIGURE 1 Dominican Republic / Consumer price inflation, contribution by item



Source: Central Bank of Dominican Republic.

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



Source: World Bank. Notes: see Table 2.

to remain above pre-pandemic levels in 2022. The vulnerable population increased from 39 to 42 percent during the pandemic and is expected to remain.

While tourism revenues in 2022H1 surpassed 2019 levels during the same period, import growth (primarily due to non-oil imports) exceeded merchandise export growth, widening the trade deficit. Remittance inflows for 2022 grew 38.4 percent during the first seven months, compared to pre-pandemic levels. These strong inflows support the income losses from the domestic labor market, primarily in the metropolitan area where 57 percent of the total remittances are concentrated.

The fiscal deficit widened due to the government's efforts to mitigate price increases through targeted subsidies for fuels, energy, transport, and basic food products, resulting in additional expenses of around 0.5 percent of GDP. These additional expenses were financed by a combination of higher-than-expected tax revenue collection, expenditure reallocations, and acquisition of debt.

As of June 2022, the return on equity index surpassed the pre-pandemic level of 21.9 percent compared to 17.8 percent in June 2019. Likewise, the liquidity ratio outperformed the pre-pandemic level of 22.9 percent compared to 19.6 percent, suggesting that the financial system remains stable.

Outlook

Following rapid expansion in 2021, growth is expected to revert to a potential of 5 percent, driven by tourism, remittances, and nearshoring opportunities. The implementation of structural reforms is expected to sustain growth potential in the medium-term, particularly reforms in energy, water, and public-private partnerships, coupled with efforts to increase the quality of human capital and attract FDI to higher value-added industries.

The poverty rate (US$6.85 PPP 2011 per day) is expected to continue declining in 2022 relative to 2020 but remain above pre-crisis levels at 24 percent. Meanwhile, inflation is not likely to return to the target range before mid-2023.

Ongoing government efforts are expected to counter mounting inflationary pressures, with the fiscal deficit projected to widen in 2022 due to higher subsidies, this has prompted a pause in the plan to increase electricity tariffs. Thereafter, an expected gradual phase-out of the subsidies to state-owned enterprises in the energy and water sector, together with improvements in tax administration, should contribute to a reduction of the fiscal deficit of around 2.4 percent of GDP in the medium term. The public debt-to-GDP ratio is projected to stabilize below 60 percent over the medium term.

The macroeconomic forecast faces both demand and supply risks. A faster-than-expected slowdown of the US economy could directly affect tourist arrivals, while an escalation of the war in Ukraine could indirectly affect the prices of key goods and services through increasing fuel prices. Likewise, climate change has intensified the exposure to natural disasters, which, given the country's low degree of financial protection against these risks, could substantially increase contingent fiscal liabilities.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.1	-6.7	12.3	5.0	5.0	5.0
Private Consumption	4.6	-3.4	6.6	5.0	5.1	5.1
Government Consumption	6.3	4.9	0.1	2.7	4.5	6.3
Gross Fixed Capital Investment	8.1	-12.1	22.1	4.4	3.9	4.0
Exports, Goods and Services	1.5	-30.3	36.2	15.9	7.9	7.3
Imports, Goods and Services	5.8	-14.6	24.7	11.1	6.0	6.0
Real GDP growth, at constant factor prices	4.8	-6.3	11.5	5.0	5.0	5.0
Agriculture	4.1	2.8	2.6	1.9	2.5	3.0
Industry	5.9	-6.7	16.5	4.0	4.5	5.0
Services	4.4	-7.1	10.0	6.0	5.5	5.2
Inflation (Consumer Price Index)	1.8	3.8	8.2	9.1	5.0	4.0
Current Account Balance (% of GDP)	-1.3	-1.7	-2.9	-4.1	-2.2	-2.1
Net Foreign Direct Investment Inflow (% of GDP)	3.4	3.2	3.3	3.2	3.2	3.2
Fiscal Balance (% of GDP)[a]	-2.2	-7.9	-2.9	-3.8	-2.9	-2.4
Debt (% of GDP)[b]	50.5	69.1	62.7	61.3	60.5	59.8
Primary Balance (% of GDP)[a]	0.6	-4.7	0.2	-0.8	0.0	0.5
International poverty rate ($2.15 in 2017 PPP)[c,d]	0.8	1.1	1.1	1.2	1.0	1.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	3.5	5.3	5.0	5.0	4.7	4.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	20.2	23.8	24.8	23.9	22.8	21.9
GHG emissions growth (mtCO2e)	5.6	-3.2	7.6	3.6	3.2	3.2
Energy related GHG emissions (% of total)	64.5	62.6	63.3	63.9	64.3	64.8

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/ Fiscal balances are shown for the non-financial public sector (i. e. excluding central bank quasi-fiscal balances).
b/ Consolidated public sector debt.
c/ Calculations based on SEDLAC harmonization, using 2020-ECNFT-Q03. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
d/ Projections using microsimulation methodology.

ECUADOR

Table 1	2021
Population, million	17.9
GDP, current US$ billion	106.2
GDP per capita, current US$	5934.9
International poverty rate ($2.15)[a]	6.5
Lower middle-income poverty rate ($3.65)[a]	14.4
Upper middle-income poverty rate ($6.85)[a]	34.6
Gini index[a]	47.3
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	77.2
Total GHG emissions (mtCO2e)	98.4

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

The windfall from oil revenues is reducing short-term pressures on fiscal accounts, but public sector efficiency is critical for fiscal sustainability. Despite this, the polarized political and social context continues to limit the room for policy maneuvers and may prevent Ecuador from achieving its growth potential. Growth-enhancing reforms would require consensus-building around critical measures and proposing options to mitigate their potential adverse side effects on poor and vulnerable people while building their resilience.

Key conditions and challenges

With a fully dollarized economy and limited buffers, Ecuador has only partly recovered from the pandemic-driven recession. To address the unsustainable imbalances generated in the commodity boom, the government is committed to cementing fiscal sustainability, propelling private investment, protecting the most vulnerable, and addressing climate change-related challenges.

In the last few years, the authorities reduced the fiscal deficit to cement confidence in dollarization. They also mobilized multilateral financing to prevent a disordered adjustment with devastating effects on poverty. They restructured debt with international bondholders in 2020 and implemented a successful vaccination in 2021. Yet, they have struggled to foster growth and employment post-pandemic. Moreover, as oil prices have increased, so have pressures to expand expenditure.

Despite higher oil prices, long-term fiscal sustainability requires rationalizing current expenditure. Public sector efficiency is critical for securing fiscal sustainability, building fiscal buffers, and ending fiscal procyclicality while supporting vulnerable people and improving access to quality services.

With a narrow policy margin to fuel domestic demand, Ecuador would benefit from fostering private investment and productivity by, for example, modernizing labor regulation, streamlining insolvency management, reducing market distortions, and fostering agriculture. Besides its job creation potential, more private investment may help Ecuador to exploit untapped mining resources in an environmentally and socially sustainable way, enhance non-conventional renewable energy supply, and improve infrastructure.

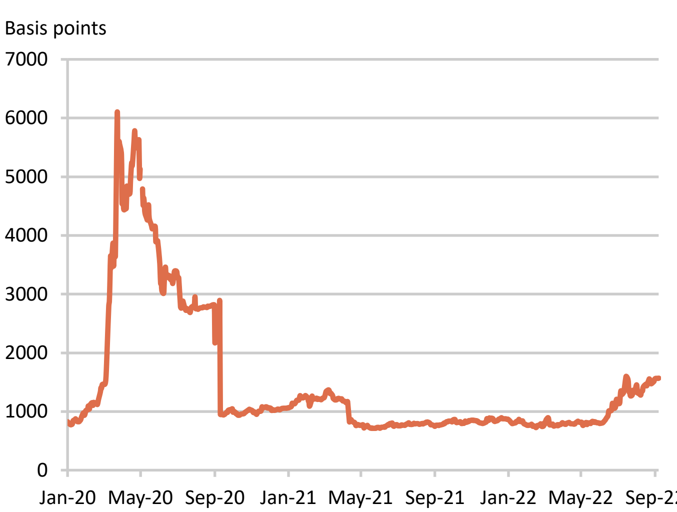
Addressing these challenges would require consensus around critical reforms in a fragmented National Assembly and a polarized society.

Recent developments

After the 2020 recession, GDP grew by 4.2 percent in 2021, thanks to a successful vaccination campaign, favorable external conditions, and expanding domestic credit. Poverty declined from 34.6 percent in 2020 to 31.7 percent in 2021, lifting almost half a million Ecuadorians above the $ 6.85-a-day 2017 PPP threshold. Vulnerable and middle-class populations also recovered, but the latter remained slightly below pre-pandemic levels.

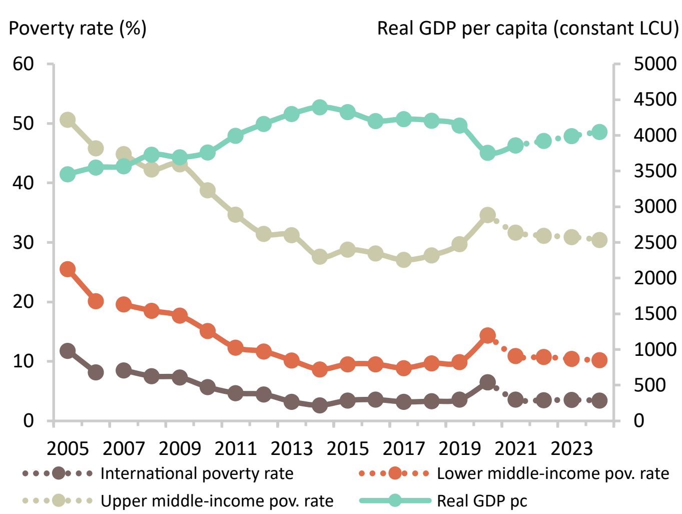
Growth eased to 3.8 percent y-o-y in the first quarter of 2022 due to slowing private consumption and surging imports. Recovery could further slow in the second quarter following an 18-day demonstration in June against high fuel prices, among other things. The social unrest paralyzed the country and increased EMBI from 800 basis points in early June to a peak of about 1,500 in early September.

FIGURE 1 Ecuador / Emerging Market Bond Index



Source: JP Morgan Chase.

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



Source: World Bank. Notes: see Table 2.

While employment reached pre-pandemic levels in June 2022 (64 percent), underemployment (24 vs. 20 percent) and informality (69 vs. 61 percent) remained above. Moreover, labor income remains 10 percent below pre-pandemic, affecting vulnerable people the most.

The 12-month rolling fiscal deficit dropped from 1.7 percent of GDP in December 2021 to 0.2 percent in May 2022. Higher oil revenues, tax measures passed in late 2021, and low public investment more than offset the expansion of current expenditure resulting from increasing interest payments and fuel subsidies. After freezing gasoline and fuel prices in late 2021, the authorities reduced them by US$0.15 per gallon in June 2022 to end social unrest.

The Russia-Ukraine war hit banana exports, but the trade surplus remained stable as climbing imports offset higher oil prices and mining exports. Together with multilateral funding, this surplus increased international reserves. Moreover, as banks continued using their excess liquidity to foster domestic credit, dollar inflows kept the money supply growing.

Annual inflation rose from 1.9 percent in December 2021 to 3.8 percent in August 2022 due to food and transport prices. Slow growth, dollarization, and controlled fuel prices have kept inflation relatively low compared to the rest of the region. Even though poor households were only mildly affected mostly due to being net food producers, vulnerable and middle-class populations suffered the most.

Outlook

Despite high oil prices, growth is projected to slow to 2.8 percent in 2022 due to ongoing consolidation and the recent social unrest. Moreover, after a modest rebound in 2023, growth is expected to stabilize near 2.8 percent from 2024 onwards. Given the need to maintain prudent fiscal management, social and political polarization can jeopardize investor confidence and growth-enhancing reforms.

Despite higher fuel subsidies, the fiscal deficit is projected to turn into a surplus from 2022 onwards due to improved oil revenues. The 2021 tax reform will also increase revenues through a mix of measures, including permanent changes to personal income tax brackets and exemptions. Similarly, the government is expected to continue improving efficiency to reduce expenditure and enhance service provision. The public sector is expected to accumulate savings, while fiscal surpluses and growth are projected to reduce public debt from 62 percent of GDP in 2021 to 55 percent by 2024.

The current account balance will increase in 2022 due to high oil and other commodity prices. Surging imports, however, will gradually reduce this surplus over the projection period. Despite low foreign investment, current account surpluses and external financing will expand the money supply and international reserves.

Despite the inflation spike in 2022 due to the Russia-Ukraine conflict, poverty is expected to fall to 30 percent in 2024 as improving labor conditions move households from the bottom of the income distribution into the vulnerable and middle-class categories.

Poverty and inequality reduction hinge on sustained GDP growth, which is exposed to various risks. In addition to its vulnerability to international oil price fluctuation and tightening financial conditions, Ecuador's prospects are exposed to natural disasters, like floods and earthquakes, new waves of social unrest, and political instability.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.0	-7.8	4.2	2.8	3.0	2.8
Private Consumption	0.3	-8.2	10.2	2.9	3.4	2.8
Government Consumption	-2.0	-5.1	-1.7	2.2	-0.8	-0.3
Gross Fixed Capital Investment	-3.3	-19.0	4.3	1.5	5.1	5.0
Exports, Goods and Services	3.6	-5.4	-0.1	5.1	2.9	2.7
Imports, Goods and Services	0.3	-13.8	13.2	3.8	3.1	2.8
Real GDP growth, at constant factor prices	0.3	-7.4	3.8	2.7	3.0	2.7
Agriculture	1.6	0.4	3.4	2.1	2.1	2.1
Industry	0.2	-10.0	0.5	3.8	2.9	2.6
Services	0.1	-7.2	5.8	2.2	3.3	2.9
Inflation (Consumer Price Index)	0.3	-0.3	0.1	3.3	2.2	1.7
Current Account Balance (% of GDP)	-0.1	2.7	2.8	2.7	2.5	2.0
Net Foreign Direct Investment Inflow (% of GDP)	0.9	1.1	0.6	1.3	1.4	1.4
Fiscal Balance (% of GDP)	-3.4	-7.1	-1.7	1.0	1.7	1.7
Debt (% of GDP)	51.4	60.9	62.2	60.8	57.3	55.0
Primary Balance (% of GDP)	-0.6	-4.2	-0.3	2.5	3.2	3.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.6	6.5	3.6	3.5	3.5	3.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	9.9	14.4	10.9	10.8	10.4	10.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	29.7	34.6	31.7	31.2	30.9	30.4
GHG emissions growth (mtCO2e)	-0.1	-2.9	2.7	0.7	0.3	0.2
Energy related GHG emissions (% of total)	36.5	34.9	35.8	36.1	36.1	36.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. 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 SEDLAC harmonization, using 2020-ENEMDU. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.

EL SALVADOR

Table 1	2021
Population, million	6.5
GDP, current US$ billion	28.7
GDP per capita, current US$	4408.2
International poverty rate ($2.15)[a]	1.4
Lower middle-income poverty rate ($3.65)[a]	6.6
Upper middle-income poverty rate ($6.85)[a]	28.8
Gini index[a]	38.8
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	73.5
Total GHG emissions (mtCO2e)	13.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2014); Life expectancy (2020).

GDP rebounded in 2021. As challenges are mounting, growth is projected to slow. The country is facing a delicate macroeconomic situation: high inflation, widening current account deficit; and large fiscal imbalances and public debt. Poverty declined after the pandemic but is still higher than prior to the pandemic. To accelerate growth, the country needs to address fiscal imbalances and improve fiscal management to recover market access. This needs to be complemented with productivity-enhancing reforms and deeper trade integration.

Key conditions and challenges

El Salvador is a small, dollarized economy, vulnerable to external shocks. It has one of the highest inflows of remittances in the world (26.9 percent of GDP). The country had one of the highest, though recently declining, homicide rates in the world. Despite modest economic growth, poverty declined before the COVID-19 crisis. From 2012 to 2019, moderate poverty decreased from 38.9 to 22.3 percent. This, however, was accompanied by an expansion of vulnerable people, from 43.6 to 48.2 percent.

The country is facing three short-term challenges: (i) fiscal imbalances, (ii) large financing needs; and (iii) inflation.

The fiscal response to COVID-19 was able to partially mitigate the impact of the crisis but left the country with high public debt. Policy choices, such as raising the minimum pension, added to the deficit and debt, which together with structural issues, such as pensions and vulnerability to climate change, are increasing uncertainty and fiscal risks.

The response to COVID-19 and higher commodity prices widened the CAD by expanding consumption, including of fuel, demand for which further increase as subsidies depressed domestic prices. BoP financing is becoming more difficult due to the external environment, lower remittance's growth, and the government's fiscal situation that makes private external borrowing practically unaffordable.

The banking sector's stability was not significantly affected by the COVID-19 crisis. Banks are profitable, have adequate levels of capital, and have low non-performing loans. According to some analysts, the introduction of Bitcoin as a legal tender has sparked concerns by investors and contributed to the increase of sovereign spreads.

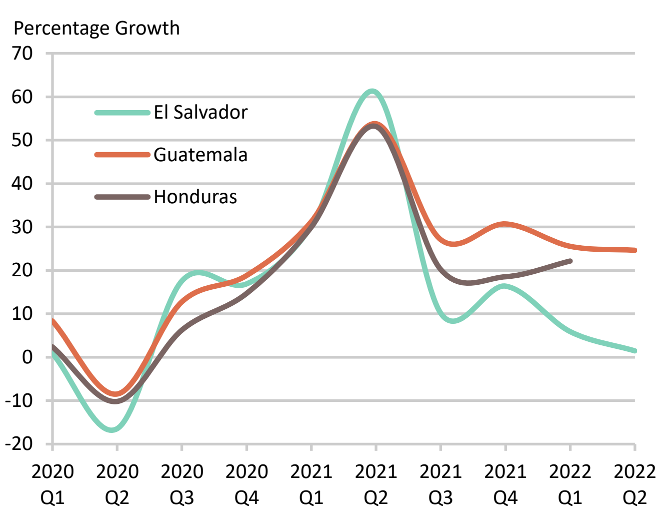
Inflation is growing due to supply disruptions, changes in consumption patterns, and commodities' prices. However, local factors such as increasing government consumption and subsidies are driving inflation.

Recent developments

After growing 10.2 percent in 2021, GDP growth slowed in the first quarter of 2022 (2.7 percent). Inflation (12-month average) jumped from 1.1 percent in July 2021 to 6.4 percent in July 2022, largely driven by overall food prices. Energy prices have been declining due to price caps and subsidies, which are increasing government expenditures by 1.1 percentage points of GDP.

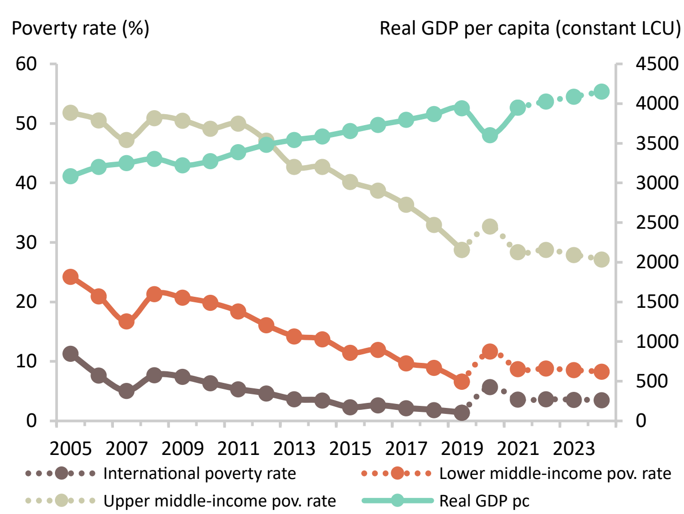
The fiscal deficit between January and July has gone from US$721.8 million in 2021 to US$258.8 million in 2022 due to high revenue growth (15.5 percent in the same period), led by increases in income tax (29 percent). Expenditures grew moderately – 4 percent – led by interest payments (7.9 percent). As a result, total public debt increased by 0.9 percent in nominal terms - mostly in domestic debt.

FIGURE 1 El Salvador / Quarter-on-quarter growth in remittances



Sources: Banco Central de Reserva de El Salvador, Banco Central de Honduras, and Banco Central de Guatemala.

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



Source: World Bank. Notes: see Table 2.

In an effort to reduce uncertainty, a debt buyback program was launched to repurchase Eurobonds maturing in 2023 and 2025. On September 21st, the authorities announced they had successfully completed the buyback operation, which yielded US$275 million in savings. Outstanding Eurobond debt maturing in January 2023 was reduced from US$800 million to US$ 667 million.

The current account went from a surplus of nearly 1 percent of GDP in 2020 to a deficit of more than 5 percent of GDP in 2021, on the back of higher consumption that increased imports by nearly 50 percent in 2021. The CAD continued to expand, driven by higher import of goods (27.2 percent growth in the first half of 2022, while exports grew 16.8 percent) and slower growth of remittances (3.5 percent growth in 1H22 vis-à-vis 26.8 percent in 2021). It is not clear yet why remittances' growth is slowing, while for other CA countries they are still growing strongly.

Moderate poverty declined from 32.7 to 28.4 percent of the population from 2020 to 2021, below 2019 (28.7 percent). The vulnerable population (between US$6.85 and US$14 per capita per day) shrunk from 41.1 in 2019 to 37.9 in 2020, bouncing back to 39.4 percent in 2021.

Outlook

GDP is projected to grow by 2.4 percent in 2022 and slow to 2 percent in 2023. The CAD is expected to widen in 2022 due to higher import prices and lower growth in remittances. It should come down slightly as commodities prices decline but should remain at elevated levels due to lower remittances growth and higher imports fueled by expansionary fiscal policy.

Inflation is expected to peak at 7 percent in 2022 and then come down gradually in the upcoming years. However, the permanence or removal of energy subsidies and tax cuts as well as a faster than expected expansion of demand in an electoral year are a risk to the forecast.

The fiscal deficit is expected to improve from 5 percent of GDP in 2021 to 4.5 percent in 2022 due to an increase in revenues coming from improvements in tax enforcement and moderation in expenditure growth. However, the strong revenue growth is not expected to last into 2023, while structural issues like automatic wage increases for civil servants and policy decisions such as an expansion of security forces will increase the fiscal deficit.

Public debt faces significant sustainability and refinancing risks as EMBIG spreads were near 2,438 basis points by September 23, 2022. The government has close to US$2.5 billion in domestic debt rollover in the next 12 months in addition to the Eurobond maturing in January 2023. The forecast assumes that financing in 2022 will come from increased borrowing from domestic markets and multilaterals. There are significant risks to the outlook, given the presidential election in 2024, a deterioration in the external environment, and high uncertainty regarding financing sources in 2023.

Consistent with GDP growth slowdown, the extreme poverty rate would increase in 2022 from 3.59 to 3.63 percent. In the next years, poverty reduction will slow down.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.4	-8.1	10.2	2.4	2.0	2.0
Private Consumption	1.7	-10.9	15.5	2.2	2.0	2.0
Government Consumption	0.6	9.9	7.1	2.0	1.0	1.0
Gross Fixed Capital Investment	6.7	-7.9	24.2	1.3	0.5	0.6
Exports, Goods and Services	8.5	-20.9	26.0	6.1	3.5	3.4
Imports, Goods and Services	4.5	-10.9	26.9	3.4	2.0	2.0
Real GDP growth, at constant factor prices	2.6	-8.2	9.6	2.4	2.0	2.0
Agriculture	0.9	-2.7	2.3	3.5	2.1	2.1
Industry	4.5	-9.7	9.1	2.2	2.2	2.3
Services	2.0	-8.0	10.4	2.4	1.9	1.9
Inflation (Consumer Price Index)	0.1	-0.4	3.5	7.0	4.0	2.5
Current Account Balance (% of GDP)	-0.4	0.8	-5.1	-6.1	-6.1	-5.7
Net Foreign Direct Investment Inflow (% of GDP)	2.4	1.1	1.1	2.3	2.2	2.1
Fiscal Balance (% of GDP)[a]	-3.0	-9.3	-5.0	-4.5	-4.9	-6.3
Debt (% of GDP)[b]	73.7	92.1	84.8	85.0	85.7	87.8
Primary Balance (% of GDP)[a]	0.7	-4.8	-0.4	-1.4	-1.3	-2.4
International poverty rate ($2.15 in 2017 PPP)[c,d]	1.4	5.7	3.6	3.6	3.6	3.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	6.6	11.7	8.7	8.8	8.5	8.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	28.8	32.7	28.4	28.8	27.9	27.1
GHG emissions growth (mtCO2e)	7.8	-5.9	3.1	-0.2	1.0	0.6
Energy related GHG emissions (% of total)	54.7	53.8	54.0	53.1	53.0	52.5

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/ Fiscal and Primary Balance correspond to the non-financial public sector.
b/ Debt is total public debt.
c/ Calculations based on SEDLAC harmonization, using 2019-EHPM. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
d/ Projections using microsimulation methodology.

GRENADA

Table 1	2021
Population, million	0.1
GDP, current US$ billion	1.1
GDP per capita, current US$	9910.4
School enrollment, primary (% gross)[a]	106.9
Life expectancy at birth, years[a]	72.4
Total GHG emissions (mtCO2e)	2.1

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

Grenada made significant progress in strengthening macro-fiscal stability and reducing poverty prior to 2019. However, the COVID-19-induced economic recession has reversed the trend, and Grenada's pre-existing vulnerabilities as a small state re-emerged, further compounded by inflationary pressures. The fiscal rule has been suspended for 2020-2022. A gradual exit of emergency measures, enhancing spending efficiency and prioritization, anchored by a timely return to the fiscal rule, are critical for sustainable and resilient medium-term growth.

Key conditions and challenges

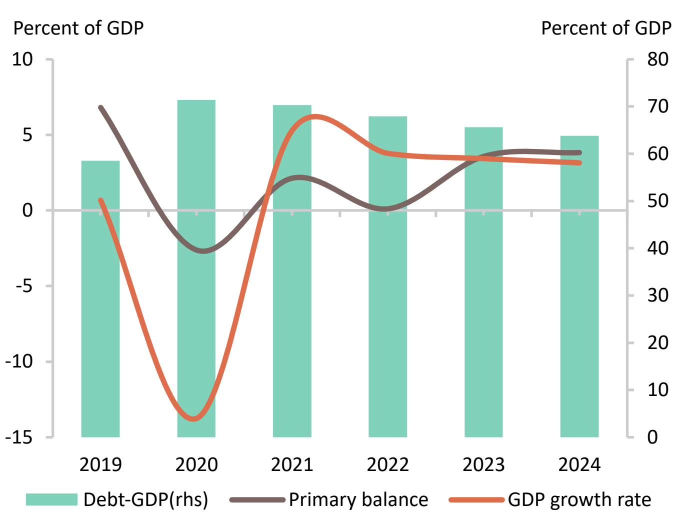
Before the pandemic, underpinned by a series of reforms, including the Fiscal Responsibility Act (FRA), Grenada had outperformed its regional peers, achieved higher growth and lower public debt, and made substantial progress in reducing poverty. Grenada started a series of structural reforms to strengthen fiscal sustainability and improve the business environment. The FRA adopted in 2015 provided a strong fiscal anchor and helps lowering public debt from 90 percent of GDP to 58.5 percent from 2015 to 2019. The accumulated fiscal space allowed for better resource allocation to cushion shocks, strengthen climate resilience, invest in human capital projects, and build essential infrastructure, which are critical to raising potential growth and reducing poverty. Real output growth in Grenada averaged 3.9 percent annually between 2015-2019, significantly outpacing the 2.4 percent average growth in the Organization of Eastern Caribbean States (OECS) region; this resulted in poverty rates going down from 37.1 percent in 2008 to 24.5 in 2018 (measured at national poverty lines).

However, vulnerabilities remain mainly due to the intrinsic characteristics of a small island developing state (SIDS), and the severe aggravation of these pre-existing challenges by the pandemic. As a SIDS, Grenada's economy and labor market rely heavily on tourism, a sector that is deeply affected by the global business cycle and natural disasters, accounting for the highest share of working women. Climate change and natural disasters have been the primary source of economic volatility, disproportionately affecting the poorest. The private sector and households have limited access to the financing market to cushion the external shocks and invest in new opportunities. The pandemic led to a sharp economic contraction of 13.8 percent in 2020 and had sizable negative impacts on poverty and equality. As a member of the Eastern Caribbean Currency Union with a fixed exchange rate, Grenada has largely relied on fiscal policy to respond to shocks; however, the pandemic increased public debt to above 70 percent of GDP in 2020 and further narrowed the fiscal space to mitigate economic volatilities and support resilient growth.

Recent developments

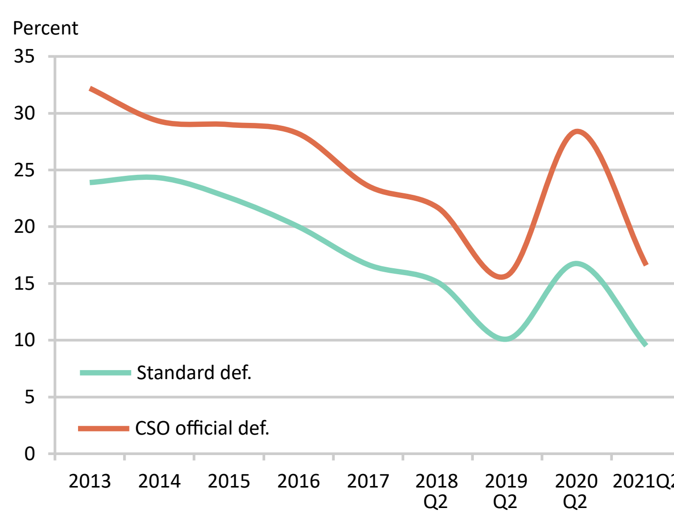
Economic activity and poverty are improving gradually from the deep contraction in 2020 but have not yet reached pre-pandemic levels. Construction projects, particularly those led by the public sector, drove the 2021 growth at 5.3 percent. Tourism picked up strongly in the second half of 2021 and total visitor spending grew by 8 percent from 2020 to 2021. Still, it remained far below the pre-pandemic level at only 30 percent of the 2019 value. Tourism data for 2022Q1 showed continued signs of solid recovery, with a 29 percent increase in total

FIGURE 1 Grenada / The evolution of main macro indicators



Source: World Bank, Macroeconomics and Fiscal Management Global Practice.
Note: e= estimate; f = forecast * The estimates for the primary balance for 2020 included the Grenlec related payment of EC$162 million.

FIGURE 2 Grenada / Unemployment rates



Sources: Labor Force Survey 2013-2021 and Central Statistical Office.

visitor spending from the previous quarter. Nevertheless, recovery is expected to be uneven, given the preexisting gaps between men and women.

Increased import demand from domestic activities offset the nascent recovery in tourism receipts and worsened the current account deficit to 24.4 percent of GDP in 2021. Remittances and Foreign direct investment remained robust and helped finance the external deficit, together with additional loans from multilateral and bilateral development partners and by withdrawing government deposits. Foreign reserves remained at sufficient levels in 2021, though they dropped to 4.5 months of imports from 5.1 months in 2020. Citizenship-by-Investment inflows more than doubled their 2019-level in 2021. Inflation rose to 2.2 percent in 2021 as economic activities started picking up while the pandemic continued the interruption to global supply chains.

Fiscal revenue recovered in 2021, although the extended fiscal measures offset the revenue improvement from resumed economic activities. Several new COVID-19 waves throughout 2021 led to the second fiscal package launched in September 2021, following the first one in 2020 and including extended support to the health sector; income support and unemployment benefits; and financing facilities for small businesses. To allow the temporary increase in fiscal spending in response to the crisis, the Government suspended the fiscal rule in 2020 and 2021. Though it remained below the 2015-19 average of 5.3 percent of GDP, the primary balance in 2021 managed to achieve a surplus of 2.1 percent, thanks to the fiscal consolidation efforts pre-pandemic and the partially recovered revenue. Public debt resumed a declining trend in 2021 and lowered to 70.3 percent of GDP.

Outlook

GDP is estimated to expand at 3.8 percent in 2022, driven by rebounding tourism and continued growth in public and private construction, though muted by the rising inflation. The 2022 recovery is expected to be hampered by the impacts of the war in Ukraine, which disrupted the global supply chain and increased import prices, especially for fuel and food. The consequential high inflation, estimated at 4.7 percent in 2022, raises traveling costs and erodes households' real income, delaying socio-economic recovery and threatening the food security of the most vulnerable groups. Despite the high inflation, household incomes are expected to increase, and poverty to reduce from 31.3 percent in 2020 to 27.1 percent in 2021. Over the medium term, a decrease in the impacts of the pandemic continued economic recovery, and lower inflation are expected to support jobs and increase real household incomes, leading to a decline in unemployment and poverty. However, economic activity and the job market will only recover to pre-pandemic levels by 2024.

The primary surplus is expected to narrow in 2022 before increasing to 3.6 percent of GDP in 2023, above the FRA-required target of 3.5 percent. A recent court ruling in favor of public officers' claims is expected to incur an EC$ 60 million one-off retrospective fiscal payment in 2022 and additional annual obligations onwards, which level remains uncertain. In addition, public spending will go up in 2022 given the measures to mitigate inflationary pressures from the war in Ukraine, including a reduction on the electricity non-fuel charge, a cap on gasoline and diesel prices, and a VAT exemption on five food items. Despite the additional spending, the primary balance is expected to maintain a small surplus due to the stronger-than-expected revenue collection as of June 2022. Public debt will fall to 67.9 percent in 2022, as a result of positive growth. After 2022 over the medium term, mitigation measure rollbacks and continued revenue recovery are expected to bring back the primary surplus to above 3.5 percent of GDP and reduce public debt at a faster pace.

Risks to the economic outlook are high. Global inflationary pressures will impede real income recovery, increase traveling costs, and further delay the full return of tourism. Potential natural disasters and slower-than-expected growth in major economies may drag down tourism, with significant impacts on growth. Pension-related obligations are expected to worsen the pension system's financial position and give rise to additional fiscal liabilities. A timely return to the FRA is critical to anchoring market expectations and rebuilding fiscal space for risk mitigation and economic recovery. Other institutional reforms will help reduce risks. These include: a comprehensive pension reform, strengthened oversight of state-owned enterprises, improved spending efficiency, a digitally-enhanced tax system, reductions in arrears, and reforms to increase tax progressivity.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices[a]	0.7	-13.8	5.3	3.8	3.4	3.1
Real GDP growth, at constant factor prices[a]	1.2	-13.7	5.3	3.8	3.4	3.1
Agriculture	-2.3	-14.5	5.2	3.3	2.8	1.9
Industry	-0.6	-14.8	6.5	4.2	2.9	2.0
Services	1.9	-13.4	5.0	3.7	3.6	3.5
Inflation (Consumer Price Index)	0.6	-1.2	2.2	4.7	2.6	1.9
Current Account Balance (% of GDP)	-14.6	-21.0	-24.4	-25.1	-20.1	-13.3
Fiscal Balance (% of GDP)[b]	5.0	-4.6	0.3	-1.7	1.8	2.3
Debt (% of GDP)	58.5	71.4	70.3	67.9	65.6	63.8
Primary Balance (% of GDP)[b]	6.8	-2.6	2.1	0.1	3.6	3.8
GHG emissions growth (mtCO2e)	0.6	-13.5	4.0	1.7	1.5	0.4
Energy related GHG emissions (% of total)	13.6	13.6	13.6	13.6	13.6	13.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
b/ The estimates for the fiscal balance and primary balance for 2020 excluded the Grenlec-related payment.

GUATEMALA

Table 1	2021
Population, million	17.2
GDP, current US$ billion	86.2
GDP per capita, current US$	5017.2
International poverty rate ($2.15)[a]	9.5
Lower middle-income poverty rate ($3.65)[a]	25.9
Upper middle-income poverty rate ($6.85)[a]	55.4
Gini index[a]	48.3
School enrollment, primary (% gross)[b]	100.6
Life expectancy at birth, years[b]	74.5
Total GHG emissions (mtCO2e)	41.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ Most recent WDI value (2020).

While GDP is above pre-pandemic levels, poverty and food insecurity levels have not fully recovered, threatening inclusive and sustainable growth. While employment is near full recovery, the quality has deteriorated. Guatemala needs to reduce inflation, contain COVID-19, and increase tax revenues. Risks are on the downside: higher inflation and interest rates, which can result in social discontent, slowdown in trade partners' growth, especially the US, and the intensification of climate-related natural hazards.

Key conditions and challenges

Output recovered from the COVID-19 crisis: GDP in 2021 was 5 percent above the 2019 level; and remittances grew 7 percent in 2020 and 35 percent in 2021, reaching 17.7 of GDP, fueling private consumption. The country also recorded current account surpluses and accumulated international reserves.

There are several challenges ahead for Guatemala: reducing inflation, containing COVID-19, and increasing tax revenues, while dealing with high levels of poverty and inequality, low levels of human capital, socio-economic exclusion, and regional disparities.

The country did not escape the worldwide inflationary pressure, as local inflation is at its highest since 2008 driven by food and transportation prices. Although the number of COVID-19 deaths has not increased substantially, daily new cases were recently at an all-time high, as Guatemala has one of the lowest vaccination rates in LAC (only 49.8 percent of the population has a complete vaccination scheme, but in the capital city, coverage is near universal and around 70 percent had a booster shot).

The country is known for its conservative fiscal policy, low revenue, and expenditure levels. The debt-to-GDP ratio is around 30 percent. Revenues represent 12.4 percent of GDP, below the minimum needed for a functioning government (15 percent of GDP). Interest payments consume a lot of revenues and public expenditure needed to reach higher growth and shared prosperity is beyond its revenue capacity.

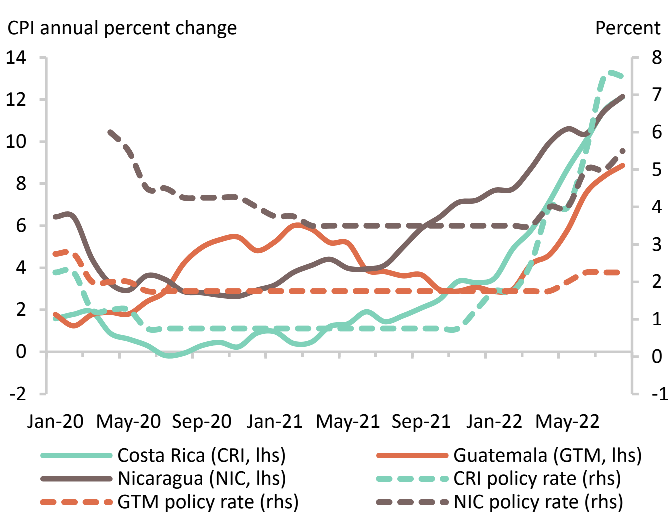
Despite steady economic growth, there has been limited progress in the reduction of poverty and inequality. In 2019, the poverty headcount rate reached 54 percent of the population (U$6.85 in 2017 PPP per day per person), close to the figure of 55.3 percent in 1998, making Guatemala the second poorest country in the region only behind Haiti. Employment growth has been concentrated in the informal sector, and real earnings have declined since 2010.

Recent developments

GDP grew 8 percent in 2021 driven by record-high remittances, low interest rates, and a favorable external environment, which fueled private consumption and investment. Remittances grew strongly in the first half of 2022, driving GDP growth to an estimated 4 percent, which will help to reduce poverty modestly, given that poor households are less likely to receive remittances.

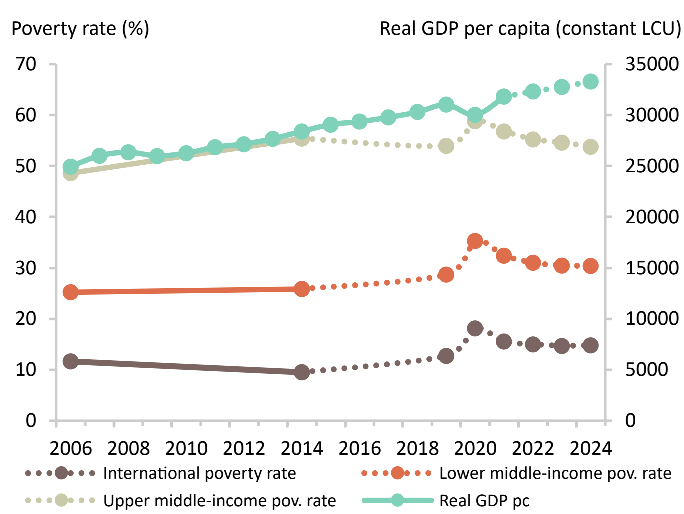
Higher commodity prices pushed inflation (12-month) to 8.9 percent in August, led by food (13.3 percent) and transportation (9.6 percent). Inflation would have been higher without the introduction of fuel subsidies. The central bank reacted by raising interest rates. However, real interest rates are still negative, and the central bank has been more moderate and slow-moving than its regional peers (Figure 1).

FIGURE 1 Guatemala / CPI and policy interest rates



Source: Banco Central de Nicaragua and Banco Central de Guatemala.

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



Source: World Bank. Notes: see Table 2.

Imports have outgrown exports since 2021, which together with higher commodity prices widened the trade deficit and narrowed the current account surplus. Nonetheless, the country accumulated US$2.8 billion in reserves (3.3 percent of GDP) in 2021.

The fiscal deficit narrowed to 1.2 percent of GDP in 2021 due to higher revenues and lower expenditures, as emergency spending, including transfers to households (Bono Familia), was scaled back. In the first half of 2022, tax revenues, especially VAT on imports, continue to grow above budget forecasts, which yield a central government primary surplus of 0.6 percent of GDP, despite spending 0.5 percent of GDP on fuel and energy subsidies.

It is estimated that in 2021 poverty remained above pre-pandemic levels, at approximately 56.8 percent (U$6.85 in 2017 PPP per day per person). By the end of 2021, while employment levels recovered, there was a deterioration in the quality of employment (more informality and less hours worked) compared to before the crisis (2021 LAC HFPS). The effects on food insecurity also lingered by the end of 2021 (5.6 pp above pre-pandemic levels), and the impact on school attendance are amongst the region's most severe (of about 28 pp between February 2020 and mid-2021).

Outlook

GDP is expected to grow 3.4 percent in 2022 underpinned by a large carryover from 2021 and high growth in remittances. However, the slowdown in the US economy, higher commodity prices, and interest rates will bring growth down to 3.1 in 2023, before rebounding to 3.5 percent in the medium term. Higher commodity prices are projected to drive inflation up in 2022 and slowly decline thereafter. Risks to the forecast are mostly on the downside. Higher inflation can reduce private consumption and require higher interest rates, which would reduce GDP growth.

The poverty rate (U$6.85 in 2017 PPP per day per person) is expected to decrease slightly to 55.3 in 2022, and 54.6 percent by 2023. High inflation will limit the purchasing power of households, curbing efforts to reduce poverty and inequality. A slowdown of remittances could slow down private consumption, further hindering poverty and inequality reduction.

Foreign exchange interventions to stabilize the exchange rate will continue and monetary policy will tighten to combat inflation. The current account will remain in surplus during the forecasting period, but surpluses will be smaller as remittance growth will dim and imports are growing due to higher prices and economic activity.

The budget deficit is expected to increase to 2.4 percent of GDP in 2022 as spending is expected to grow to 14.8 percent of GDP, due to an increase in social transfers, subsidies, and public investment. Revenues will remain high in 2022 benefiting from higher import revenues. The deficit will come down starting in 2023 due to lower expenditures, while revenues are expected to be flat at 12.2 percent of GDP, after the windfall gains on imports phase out. Debt is projected to decline as cash deposits are used in 2023 to cancel debt and the primary balance turns to surplus in 2024.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.0	-1.8	8.0	3.4	3.1	3.5
Private Consumption	4.7	-1.4	8.9	4.1	3.8	4.0
Government Consumption	2.7	1.5	5.0	3.5	1.7	-1.8
Gross Fixed Capital Investment	8.9	-6.2	20.8	4.0	2.8	5.8
Exports, Goods and Services	0.2	-7.7	11.7	6.3	3.0	3.3
Imports, Goods and Services	5.0	-5.7	22.1	6.7	4.0	3.9
Real GDP growth, at constant factor prices	3.8	-1.6	7.7	3.4	3.1	3.5
Agriculture	1.7	-0.2	3.5	2.3	2.4	2.4
Industry	3.9	-1.2	8.4	2.6	2.8	2.8
Services	4.0	-2.0	8.1	3.9	3.4	3.9
Inflation (Consumer Price Index)	3.7	3.2	4.3	6.5	5.5	4.5
Current Account Balance (% of GDP)	2.4	5.0	2.5	1.4	1.1	0.7
Fiscal Balance (% of GDP)	-2.2	-4.9	-1.2	-2.4	-2.2	-1.5
Debt (% of GDP)	26.5	31.6	30.8	30.7	30.2	29.8
Primary Balance (% of GDP)	-0.6	-3.2	0.6	-0.7	-0.4	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	12.8	18.1	15.5	15.0	14.7	14.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	28.7	35.3	32.4	31.0	30.5	30.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	54.0	58.8	56.8	55.3	54.6	53.8
GHG emissions growth (mtCO2e)	3.9	3.3	3.9	4.7	6.1	6.4
Energy related GHG emissions (% of total)	53.9	55.2	55.2	56.5	58.2	59.8

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 SEDLAC harmonization, using 2014-ENCOVI. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.

GUYANA

Table 1	2021
Population, million	0.8
GDP, current US$ billion	8.1
GDP per capita, current US$	10259.9
School enrollment, primary (% gross)[a]	97.8
Life expectancy at birth, years[a]	70.0
Total GHG emissions (mtCO2e)	22.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2012); Life expectancy (2020).

Guyana's economy is expanding at an extraordinary rate fueled primarily by the extraction and export of crude oil. Local-content rules will support non-oil economic activity. In parallel, increasing oil and gas revenues will allow financing to address development needs and tackle poverty. Nevertheless, significant risks remain including management of oil wealth to avoid Dutch disease effects and inflationary pressures. Improvements in the quality of public spending are critical. Guyana's development is dependent on mitigating ethnic tensions, strengthening institutions, and upgrading infrastructure.

Key conditions and challenges

Guyana is going through a period of exceptional growth with the development of its oil and gas sector. Real GDP per capita is expected to reach US$ 26,000 by 2024, more than double 2020 levels, with the share of the oil and gas sector rising to approximately 74 percent of total GDP. Nevertheless, agriculture, gold, bauxite, and timber production remain relevant as they account for a significant share of jobs.

The transformation also implies a significant increase in revenues which, up to 2021, were being saved in a Natural Resource Fund (SWF) outside of the economy. A Natural Resource Fund (NRF) Act, adopted in December 2021, introduced a revised framework for the management and transfers from the SWF. The Act allows transfers to the budget starting in 2022 which should average between 4 to 5 percent of GDP over the medium term.

Guyana's resource wealth contrasts with the overall needs of the population, marked by ethnic and social polarization. Poverty and social exclusion, including limited access to basic services, are particularly severe in Guyana's hinterland and among Amerindians.

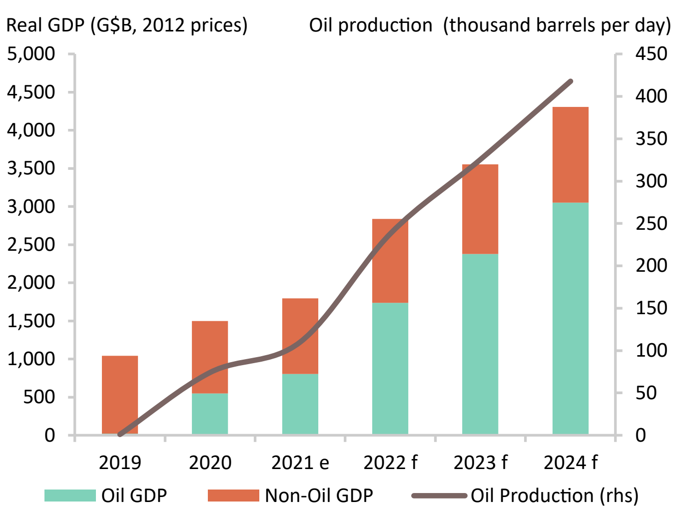
As increased fiscal revenues will allow Guyana to boost outlays, there is a need to ensure that spending is efficient and that reforms support private sector growth while also addressing social and infrastructure gaps. In parallel, Guyana will need to manage the risks of large inflows to prevent overheating the economy and Dutch Disease effects. The development of the oil and gas sector also implies the need to implement ambitious domestic measures to achieve net-zero emissions as oil production is expected to cause a steady increase in GHG emissions.

For sustainable pro-poor growth, more efficient and effective public service delivery is essential including in health, education, and digital connectivity. This will also require sound and transparent management of oil revenues to avoid increased polarization and further erosion of already weak institutions. It also requires adjusting the current foreign exchange regime including greater flexibility to respond to shocks and boost competitiveness. Guyana's exchange rate regime remains a *de facto* stabilized arrangement with foreign exchange rate interventions.

Recent developments

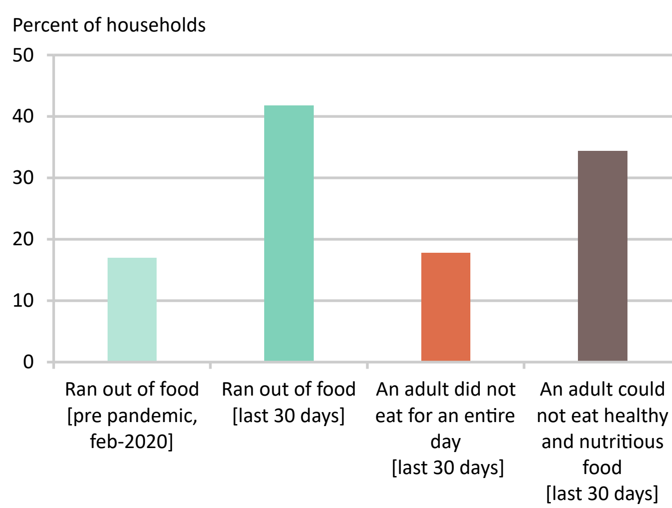
Real GDP expanded by 20 percent in 2021, owing primarily to an expansion of oil production, which averaged about 110,200 barrels per day. The non-oil economy also expanded, rising by 4.7 percent in 2021 reflecting a recovery in construction and services. Agriculture contracted due to the impact of adverse weather conditions during the year. Inflation averaged 6.2 percent in the first half of 2022, reflecting higher food prices which rose by 10.2 percent during the same period.

FIGURE 1 Guyana / Oil production, real oil, and real non-oil GDP, 2019-2024



Source: World Bank staff estimates.
Notes: f=forecast. 2024 values assume full-capacity production in Liza I and II.

FIGURE 2 Guyana / Selected food insecurity indicators in December 2021



Source: World Bank staff estimates based on World Bank and UNDP LAC High Frequency Phone Surveys, Phase II, Wave 2.

Negative impacts from the pandemic on employment and household income persisted in 2021 and are likely to have increased poverty and food insecurity. The World Bank - UNDP High-Frequency Phone Survey conducted in June and December 2021 showed that about 40 percent of households ran out of food due to a lack of money or other resources within the 30 days preceding the survey. Furthermore, almost half of the households had still not recovered their pre-pandemic level of income. Recovery was uneven. While male unemployment was nearing the pre-pandemic level in the third quarter of 2021 (latest data available), the female unemployment rate remained elevated.

The fiscal deficit increased by 0.8 percentage points to 10.1 percent of non-oil GDP in 2021. The widening was primarily driven by increased spending tied to flood relief assistance to farmers and households in response to the floods in 2021, and capital expenditure. Public debt fell to 38.6 percent of overall GDP in 2021 due to increased economic growth.

The current account deficit (CAD) widened to 20.5 percent of GDP in 2021, driven largely by the importation of Guyana's second floating production storage and offloading (FPSO) vessel, Liza Unity, and increased net service payments. The CAD was primarily funded by private inflows, while international reserves increased by 19.1 percent to US$ 810.8 million (1.7 months of total imports). With the non-repetition of the exceptional import for the mining sector, the current account recorded a surplus for the first half of 2022 despite increased spending on imports of food and fuel.

Outlook

Guyana's economy is expected to remain one of the world's fastest-growing in the medium term (2022-2024), with real GDP expanding at an annual average rate of 34.7 percent. This reflects a more than tripling of oil production capacity to around 418,000 barrels per day by 2024. Non-oil growth will also accelerate aided by new bauxite, sand and stone, and gold mining capacity, as well as a rebound in the agricultural sector following devastating floods in 2021. Inflation will remain elevated as a result of increased government consumption, higher input costs, and supply chain disruptions. This threatens the purchasing power and food security of poor and vulnerable households.

Poverty reduction will depend on the performance of the non-oil economy through job creation, including those linked to public investment projects and local content for the oil sector, as well as the redistribution of resource revenues. The government has been proactive in reducing taxes and increasing transfers to vulnerable businesses and households to mitigate the impact of rising prices.

Increased exports of oil, gold, and bauxite, as well as lower imports, will transform the current account into an annual average surplus of 33.2 percent of GDP over the medium term. In this context, the international reserves position will gradually improve to average above 2 months of total imports.

The fiscal deficit is expected to narrow to an average of 1 percent of non-oil GDP underpinned by a strong increase in revenues. Increased revenues, largely tied to inflows from the NRF will help offset higher spending on capital infrastructure projects, wages, and transfers. In this context, public debt is expected to fall to 18.2 percent of GDP by 2024.

Guyana's increasing reliance on the extractive sector raises its vulnerability to oil-related shocks. It also faces well-known risks associated with resource-dependent economies, increasing reliance on the state which can affect private sector competitiveness, and an erosion of institutions. Maintenance of an operational SWF is central to mitigating the imbalance between the resource inflow and the economy's absorptive capacity while also limiting waste. Moreover, oil production has environmental consequences that must be carefully considered, and the sector may face additional risks as the world transitions away from fossil fuels. Furthermore, the pandemic resulted in severe disruptions in education with a third of school-aged children not attending school in mid-2021. If resulting learning gaps are not addressed, this can have substantial long-term impacts on welfare. Given Guyana's history of ethnically polarized protests, the possibility of civil unrest challenging the government's authority constitutes another a risk to the economic outlook.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at purchaser prices (total)[a]	5.4	43.5	20.0	57.8	25.2	21.2
Real GDP growth, at factor prices (non-oil)[b]	4.3	-7.3	4.7	10.7	6.9	6.8
Agriculture	-0.5	4.1	-9.1	12.1	2.6	2.1
Industry	5.4	-10.5	5.2	8.7	5.8	4.2
Services	6.3	-11.6	13.2	11.0	9.7	10.4
Inflation (Consumer Price Index)	1.4	1.0	4.8	6.5	6.0	5.0
Current Account Balance (% of GDP)[c]	-54.6	-15.0	-20.5	42.3	29.6	27.7
Net Foreign Direct Investment Inflow (% of GDP)	32.8	37.7	54.9	-36.9	-23.1	-18.0
Fiscal Balance (% of GDP)[d]	-2.8	-9.4	-10.1	-1.4	-1.1	-0.4
Debt (% of GDP)	34.2	47.4	38.6	22.0	20.0	18.2
Primary Balance (% of GDP)[d]	-2.0	-8.6	-9.5	-0.8	-0.4	0.2
GHG emissions growth (mtCO2e)	3.7	7.4	5.0	15.5	10.2	10.1
Energy related GHG emissions (% of total)	13.7	19.2	22.5	31.4	36.6	41.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Total GDP at 2012 prices.
b/ Non-oil GDP at 2012 prices.
c/ BOP definition in current US$.
d/ Share of non-oil GDP.

HAITI

Table 1	2021
Population, million	11.5
GDP, current US$ billion	20.9
GDP per capita, current US$	1814.6
International poverty rate ($2.15)[a]	29.2
Lower middle-income poverty rate ($3.65)[a]	58.0
Upper middle-income poverty rate ($6.85)[a]	85.8
Gini index[a]	41.1
Life expectancy at birth, years[b]	64.3
Total GHG emissions (mtCO2e)	11.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ Most recent WDI value (2020).

GDP is expected to contract for a fourth consecutive year in 2022, against the backdrop of a continued institutional and political crisis. Increased insecurity creates an uncertain environment for businesses, which will further hamper growth. Beyond these challenges, low human capital accumulation and high vulnerability to shocks, including natural hazards, continue to hamper growth prospects, and limit social mobility and poverty reduction, especially given that the poorest take longer to recover after a disaster.

Key conditions and challenges

Haiti's political and institutional crisis, compounded by insecurity, continues to hinder economic performance. Other key challenges to growth include inadequate infrastructure, limited human capital, weak governance, and an unfavorable business environment characterized by uncertainty, under-developed finance markets, and limited market contestability. At below 6.0% of GDP, tax revenue is the lowest in the LAC region, while government spending priorities do not support growth-enhancing activities. A large informal sector with low-quality jobs combined with anemic growth makes escaping poverty elusive. Limited access to quality healthcare and education compounds the difficulty of building human capital and the ability to break the cycle of poverty.

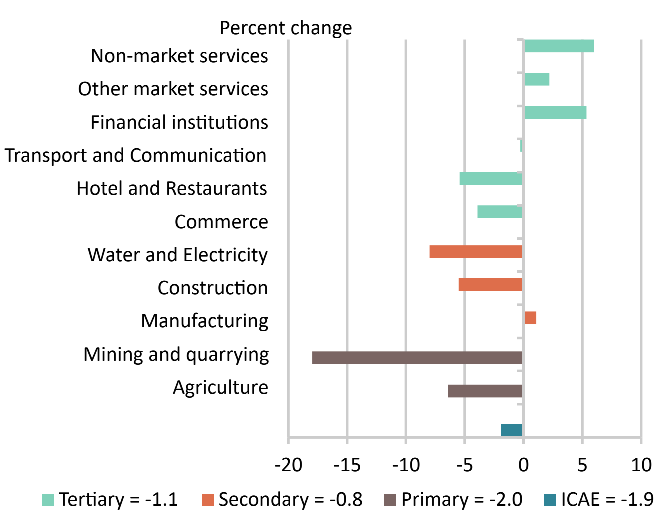
The structural issues that have constrained growth could rise in importance, including low agricultural productivity hampered by watershed degradation and land fragmentation. Vulnerability to natural hazard shocks and climate change will likely continue to hinder growth, hurting the poor and the vulnerable most.

Recent developments

The index of economic activity fell by 1.9 percent y-o-y in Q2 FY22, amid depressed investor confidence due to continued political uncertainty and insecurity caused by violent gangs. Nearly all sectors of the economy contracted; the agricultural sector, where most poor households work and live, was affected to a greater extent. Agricultural output dipped 6.4% y-o-y in Q2 FY22, following low rainfall which adversely affected the spring harvest that accounts for 60% of yearly sector output. In the industrial sector, construction and electricity production, which are harbingers of future growth, registered their fourth consecutive quarterly decline. Manufacturing advanced slightly (1.0%), supported by a weakened gourde and labor expansion in the textile sector. All sub-branches of the services sector contracted, except the banking sector and non-market services. Being more directly impacted by increased insecurity, the decline in the hospitality sub-branch has been particularly severe.

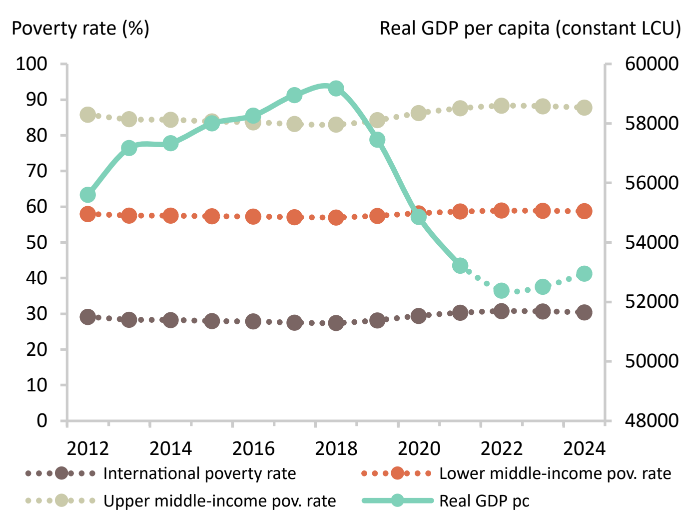
At the end of June, tax revenues were below the indicative target under the IMF's Staff Monitored Program, as security issues inhibited the normal operation of Customs administration and forced some businesses to close. Meanwhile, public expenditures rose, driven by fuel subsidies that reached 3.5% of GDP at the end of July because of rising oil prices triggered by the Russia-Ukraine war. The resulting deficit (2.0% of GDP) was monetized by the central bank (BRH), impacting the gourde which depreciated by 21.6% against the USD at the end of August. Inflation rose to 30.5% on deficit monetization, higher food and fuel prices, and insecurity that impeded the seamless flow of goods across regions.

FIGURE 1 Haiti / Sectoral growth rates, year-over-year



Source: Haiti Statistical Office (IHSI).

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



Source: World Bank. Notes: see Table 2.

The negative impact will be disproportionately felt by the poor since they typically do not have the assets to hedge against inflation. The BRH enacted a series of restrictive measures to tame inflation, including mopping up excess liquidity in the banking sector through bond sales, hiking the key policy rate by 150 basis points, restrictions on forex transactions, and capital control.

In the external sector, despite export growth, the current account ran a 0.3% of GDP deficit due to low remittances and a high fuel and food import bill. Foreign direct investment was not enough to offset the CAD. The resulting balance of payments deficit (0.4% of GDP) was financed by an accumulation of arrears, debt write-off, and a drawdown of foreign exchange reserves. Net forex reserves are down by 39.2% in end-August, but gross reserves remain solid above five months of import.

Outlook

Uncertainty around the political process and insecurity will continue to depress private investment and hinder growth. The restrictive policy measures taken by the BRH in Q4 FY22 will affect the efficiency of capital allocation and impair growth going forward. GDP is therefore expected to contract by 1.5 percent in FY22, with all three economic sectors receding, adversely impacting jobs, especially for women. In the baseline, growth is expected to firm up into positive territory with a rebound in 2024, assuming a resumption of economic activity should the political context following elections in 2023 becomes more stable and security improves. Growth, however, will not be strong enough to make much of a dent against poverty.

Despite tightening fiscal conditions under the IMF SMP, the fiscal deficit is expected to widen to 3.2% of GDP, mainly due to high energy sector subsidies. The deficit will be financed by the BRH at 2.4 percentage points of GDP and the remaining by T-bills. The fiscal deficit will continue to widen during the election year. But fiscal consolidation efforts are expected to resume over the medium term, bringing the fiscal deficit below the 3.0% of GDP mark.

Import volume is expected to contract but the value will expand on a higher fuel and food import bill. Concurrently, exports are set to expand thanks to greater output in the garment and apparel sector. Lower remittances due to higher inflation, and recession prospects in the major remittances-sending countries in North America and Europe mean that expectations for the CAD are around 1.4% of GDP. Over the medium term, this is expected to further widen as investment picks up, provided that security improves, and that elections are held in 2023 and are not contested.

Sustained high fuel and food prices coupled with low agricultural productivity will continue to exert pressure on CPI inflation, which is expected to close the fiscal year at 26.5% on average. The widening of the CAD toward the end of the FY will translate into increased depreciation of the gourde, creating a feedback loop between the exchange rate and inflation. This may exacerbate food insecurity that affected 5.6 million people in August 2022. Nonetheless, as BRH financing is gradually replaced by T-bills issuance, inflation is expected to trend down over the medium term.

The outlook is fraught with downside risks and depends heavily on the political process and the security context. Reforms in the energy sector are critical for creating fiscal space to expand spending in growth-enhancing sectors. Strengthening the institutional framework for disaster risk management, including better preparedness and response is key to laying the foundations for long-term, sustained, and inclusive growth.

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

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices	-1.7	-3.3	-1.8	-1.5	-0.1	2.0
Private Consumption	-1.0	-4.0	1.2	-1.1	0.4	0.9
Government Consumption	-8.6	11.1	9.7	5.2	8.3	9.0
Gross Fixed Capital Investment	7.7	-20.6	-21.8	-10.1	-8.1	15.9
Exports, Goods and Services	6.8	-39.7	1.4	2.0	4.0	2.0
Imports, Goods and Services	4.2	-18.3	2.7	-0.4	2.5	4.5
Real GDP growth, at constant factor prices	-1.1	-2.9	-2.5	-1.2	-0.1	2.0
Agriculture	-1.9	-2.5	-4.1	-3.1	0.4	2.0
Industry	-6.8	-6.9	-2.5	-1.0	0.0	1.5
Services	2.1	-1.2	-2.0	-0.7	-0.3	2.2
Inflation (Consumer Price Index)	17.3	22.9	15.9	26.4	23.1	21.4
Current Account Balance (% of GDP)	-1.1	1.5	0.7	-1.4	-2.6	-2.5
Net Foreign Direct Investment Inflow (% of GDP)	0.5	0.2	0.2	0.5	0.5	0.5
Fiscal Balance (% of GDP)	-2.0	-3.0	-2.5	-3.2	-3.3	-1.9
Debt (% of GDP)	26.2	24.4	25.6	27.7	22.4	23.8
Primary Balance (% of GDP)	-1.7	-2.7	-2.2	-2.3	-2.5	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	28.2	29.5	30.3	30.8	30.7	30.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	57.5	58.2	58.7	58.9	58.9	58.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	84.3	86.3	87.6	88.3	88.2	87.8
GHG emissions growth (mtCO2e)	0.9	0.0	0.2	0.4	0.7	1.0
Energy related GHG emissions (% of total)	36.6	36.0	35.4	34.8	34.6	34.7

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 SEDLAC harmonization, using 2013-, 2019-, and 2012-ECVMAS. Actual data: 2012. Nowcast: 2013-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2013-2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

HONDURAS

Table 1	2021
Population, million	10.1
GDP, current US$ billion	28.3
GDP per capita, current US$	2811.4
International poverty rate ($2.15)[a]	12.7
Lower middle-income poverty rate ($3.65)[a]	26.4
Upper middle-income poverty rate ($6.85)[a]	49.5
Gini index[a]	48.2
School enrollment, primary (% gross)[b]	91.9
Life expectancy at birth, years[b]	75.4
Total GHG emissions (mtCO2e)	27.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2014); Life expectancy (2020).

Honduras's economy expanded strongly in the first quarter of 2022, supported by remittance-fueled private consumption, investment, and robust export demand. While poverty and inequality are estimated to have declined, they remain above pre-pandemic levels. GDP growth is expected to moderate in the medium term amid a tempering of global demand and unwinding of crisis support. Adverse effects of the pandemic on human capital and labor markets coupled with rising inflation threaten future poverty reduction.

Key conditions and challenges

A lower-middle-income economy, Honduras is one of the poorest countries in Latin America and the Caribbean. In 2019 almost half the population lived on less than US$6.85 (2017 PPP) per day. Between 2014 and 2019, the urban-rural poverty gap widened, reflecting wide disparities in access to public services, differences in the labor market structure, and deceleration of the agricultural sector.

Annual real GDP growth averaged 3.1 percent over 2010-2019, mainly driven by remittance-fueled private consumption. Honduras lacks productive capacity and its export-oriented growth model has been insufficient to boost incomes and growth, particularly in rural areas. The country's exports are highly concentrated in agricultural commodities and low value-complexity manufactured goods, largely destined for the U.S. Several factors undermine its competitiveness, including high exposure to external shocks and natural hazards, elevated crime and emigration rates, and a weak institutional and business environment.

Nevertheless, the country benefits from prudent macroeconomic management anchored in the Fiscal Responsibility Law (FRL), a crawling peg with ample foreign reserves, and a sound financial sector. However, contingent liabilities, especially related to the state electricity company and climate shocks, are high.

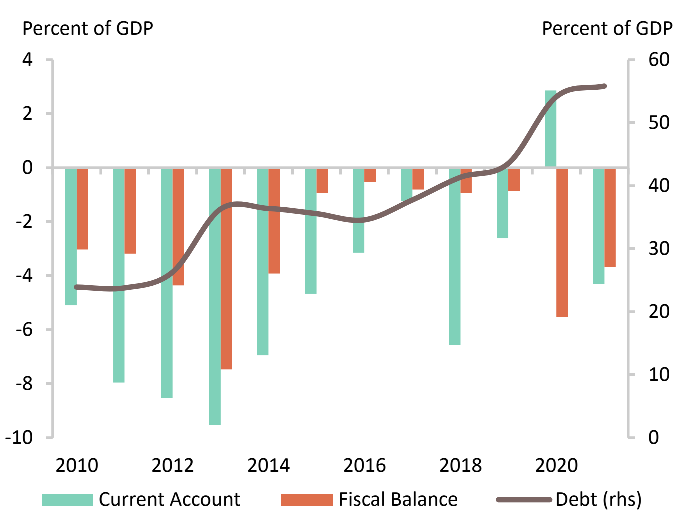
In 2020, the impacts of the pandemic and hurricanes Eta and Iota exacerbated existing economic and social challenges. Real GDP contracted by 9 percent y-o-y, and poverty (US$6.85 line) increased by 8.2 pp reaching 57.7 percent. The country's countercyclical response, in line with the FRL's escape clause, cushioned the impacts of these multiple shocks. Public debt increased steeply from 43.5 percent in 2019 to 55.8 percent by the end of 2021, composed mainly of multilateral financing amid the country's high-risk premium. Yet, emergency programs had a relatively small mitigating impact on welfare. High food insecurity (35 percent of the population) and low school attendance persisted in 2021, causing a deterioration in human capital formation.

Recent developments

After a strong rebound of 12.5 percent in 2021, real GDP grew 6.1 percent y-o-y in the first quarter of 2022. This expansion was broad-based, driven by remittance-fueled private consumption, investment, and strong export demand.

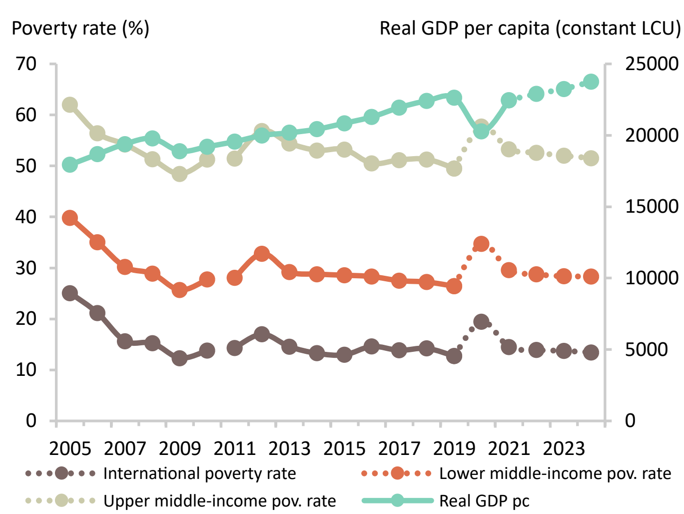
In 2021, poverty (US$6.85 line) is estimated to remain above the pre-crisis level, at 53.3 percent. By the end-2021, employment had almost recovered its pre-pandemic level, but its quality worsened, according to the 2021 LAC High-Frequency Phone Survey (HFPS). The informality rate was up by 7 percentage points and hours worked were 17 percent lower than pre-pandemic.

FIGURE 1 Honduras / Current account, fiscal balance, and inflation



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

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



Source: World Bank. Notes: see Table 2.

Inflation accelerated to 10.4 percent y-o-y in August 2022 – the highest since 2001 and more than double the upper bound of the Central Bank's (BCH) target band (4 ± 1 percent). Inflation was driven by global supply-chain disruption and rising commodity prices, especially for food, transport, and fuels. Higher food prices pose further risk to food security and poverty reduction as poor households spend nearly 36 percent of their income on food. The BCH maintained the key policy rate at 3 percent as of August 2022, while curbing the excess liquidity through open market operations.

The government continued expansionary measures as post-hurricane reconstruction, and health and social needs remain significant. In early 2022, it authorized new borrowing for up to US$2 bn in 2022-23 and withdrew US$335 m in IMF Special Drawing Rights. As of Q1 2022, the Non-Financial Public Sector Deficit (NFPS) registered a surplus of 2.8 percent of GDP as a result of strong performance of corporate income tax, expenditure controls, reallocations, and decreased pandemic-related spending coupled with slow budget execution. However, new energy and fuel subsidies and financial assistance to the agriculture sector (about 4.2 percent of GDP), coupled with the new spending agenda will put a strain on the fiscal accounts from 2022 onward.

The external position remained strong, supported by remittances and external financing. Foreign reserves stood at 29.4 percent of GDP in July 2022, covering 6 months of non-maquila imports, and supporting exchange rate stability. The current account reversed to a deficit of 4.3 percent of GDP in 2021 on the back of recovered imports and stood at 2.7 percent of GDP in the first quarter of 2022, mainly financed by foreign direct investment.

Outlook

Real GDP growth is expected to decelerate to 3.5 percent in 2022 and to 3.1 percent in 2023, as global demand slows and post-hurricane reconstruction and pandemic support are phased out. Remittances, representing 25.3 percent of GDP in 2021 and 29 percent of the household income for the poor, will continue to fuel domestic consumption. Slower growth and higher food prices are likely to curb reductions in poverty and inequality in the medium term. The poverty rate (USD 6.85 line) is expected to decrease modestly to 52.6 percent in 2022, and 52 percent by 2023. The rural-urban poverty gap could widen as the agricultural sector remains vulnerable to U.S. import demand and to climate shocks, as rural wages decline.

The NFPS deficit is projected to widen to 4.9 percent of GDP in 2022 (up from 3.7 percent in 2021) according to the Ministry of Finance, bringing the total NFPS debt to 57.1 percent of GDP (up from 55.8 percent in 2021). Honduras is expected to continue receiving external financial support while gradually returning to the FRL target of 1 percent NFPS deficit by 2030. The required fiscal tightening is challenging, especially given planned increases in public investment coupled with expected revenue deceleration as a share of GDP amid economic slowdown. The tightening will entail the unwinding of crisis support, budget reallocation, and revenue mobilization measures.

The current account is likely to narrow as higher import prices subdue import growth. Monetary tightening is expected in the near term in response to rising prices and monetary tightening in the U.S.; however, inflation is likely to remain above the BCH's target band in 2023.

A weak legislative position of the ruling party could slow progress on fiscal, social, and structural reforms, and along with budget execution issues, could weaken growth, cause a deterioration in the labor market, and raise risks of social unrest.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.7	-9.0	12.5	3.5	3.1	3.7
Private Consumption	4.7	-6.2	15.1	3.2	3.0	3.2
Government Consumption	1.7	2.9	8.5	0.1	0.2	0.1
Gross Fixed Capital Investment	-5.2	-23.8	33.3	5.2	4.5	5.6
Exports, Goods and Services	2.4	-20.8	21.5	5.4	4.2	5.1
Imports, Goods and Services	-2.4	-18.5	33.0	4.1	3.5	4.0
Real GDP growth, at constant factor prices	2.7	-9.0	12.5	3.5	3.1	3.7
Agriculture	-1.0	-6.3	0.4	1.7	2.2	2.4
Industry	1.8	-14.3	20.1	5.5	4.9	4.8
Services	4.0	-7.2	12.5	3.1	2.5	3.5
Inflation (Consumer Price Index)	4.4	3.5	4.5	8.1	5.9	4.4
Current Account Balance (% of GDP)	-2.6	2.9	-4.3	-4.1	-3.8	-3.3
Net Foreign Direct Investment Inflow (% of GDP)	2.0	1.6	1.2	1.0	1.2	1.4
Fiscal Balance (% of GDP)[a]	-0.9	-5.5	-3.7	-4.9	-4.4	-3.9
Debt (% of GDP)[a]	43.5	54.1	55.8	57.1	58.4	59.7
Primary Balance (% of GDP)[a]	-0.2	-4.3	-2.8	-3.8	-3.4	-2.9
International poverty rate ($2.15 in 2017 PPP)[b,c]	12.7	19.5	14.5	13.9	13.8	13.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	26.4	34.7	29.6	28.8	28.4	28.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	49.5	57.7	53.3	52.6	52.0	51.5
GHG emissions growth (mtCO2e)	0.9	-5.9	5.3	1.1	0.3	1.0
Energy related GHG emissions (% of total)	36.1	33.2	34.1	33.5	32.7	32.3

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/ Fiscal data refers to non-financial public sector.
b/ Calculations based on SEDLAC harmonization, using 2019-EPHPM. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
c/ Projections using microsimulation methodology.

JAMAICA

Table 1	2021
Population, million	3.0
GDP, current US$ billion	12.4
GDP per capita, current US$	4158.3
School enrollment, primary (% gross)[a]	90.6
Life expectancy at birth, years[a]	74.6
Total GHG emissions (mtCO2e)	9.4

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

Jamaica's economy is rebounding, reducing poverty and pushing unemployment to historic lows. However, both GDP and poverty remain below pre-pandemic levels. The country faces high public debt, inflationary pressures, low labor productivity, and a weak enabling environment for greater private sector participation. A slower-than-expected recovery in tourism, higher inflation, and climate shocks, also pose significant risks.

Key conditions and challenges

Jamaica's real gross domestic product (GDP) per capita between 2010-19 averaged US$ 4,944, 2.6 percent lower than the previous decade. The income per capita has declined further during the pandemic and is not expected to return to its pre-COVID-19 before 2024. Declining income per capita coincided with a larger share of the population at work which suggest that the economy has been characterized by declining average labor productivity.

Weak economic growth in Jamaica is attributed to, among others, limited innovation and interconnectedness of enclave industries with the rest of the economy, as well as high and pervasive crime and violence which discourages investments. Jamaica is also prone to frequent climatic shocks affecting key sectors such as tourism and agriculture which often undermine the livelihoods of poor and vulnerable groups. Further, the cost of energy and internet connectivity are extremely high and there are gaps in human capital due to high emigration of skilled labor.

Jamaica has had some success in reducing poverty over the past three decades despite being among the slowest growing economies in LAC. However, sustaining this progress has been a challenge since the 2008 Global Financial Crisis due to waning resilience to major shocks.

Similarly, while Jamaica successfully reduced the public debt-to-GDP ratio from 145 percent of GDP in 2013 to 96.9 percent of GDP in 2021, it is among the highest in the region. Debt service absorbed 41.4 percent of revenues in 2021. This has limited the government's ability to utilize fiscal policy to drive growth and respond to shocks. As such, faster growth is needed to reduce the debt burden and create space for public investment and pro-poor interventions. Achieving the public debt to GDP target of no more than 60 percent by 2028 will require addressing constraints to growth, improving the efficiency and effectiveness of public spending, and addressing fiscal risks, including natural disasters.

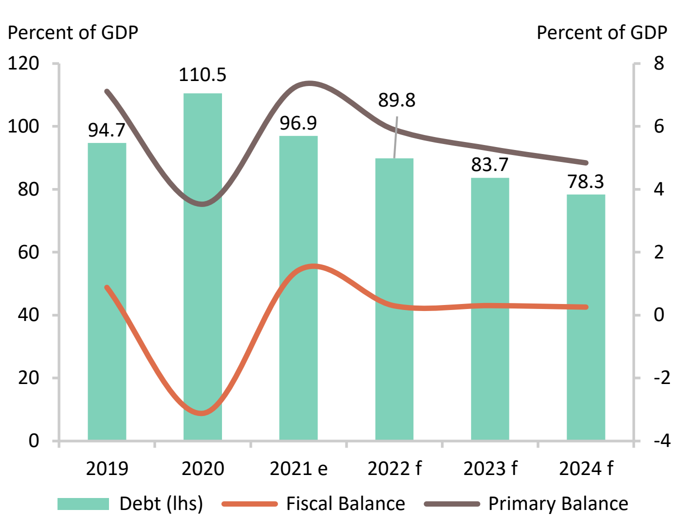
Jamaica remains highly vulnerable to external developments. It is heavily reliant on imported food and fuel, and its tourism sector accounts for more than 33.6 percent of GDP and one third of the workforce. Remittances are also a very important source of financing but affect the competitiveness of the economy.

Jamaica remains on the Financial Action Task Force's (FATF) grey list of non-compliant countries due to flaws in its anti-money laundering and counter-terrorism financing framework.

Recent developments

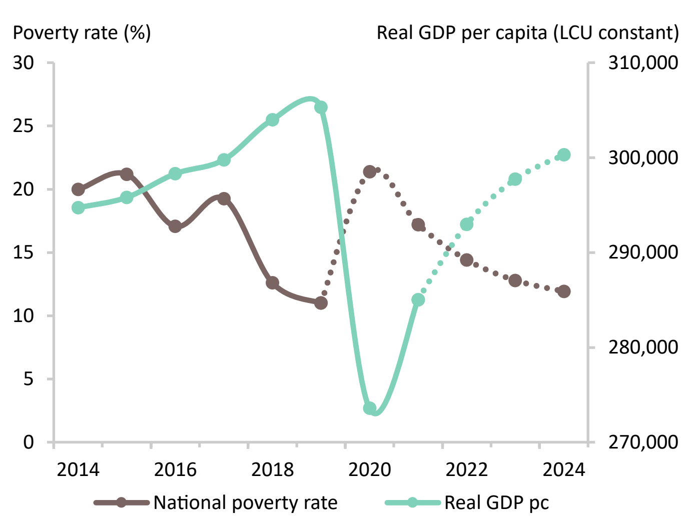
Real GDP expanded by 4.6 percent in 2021 due primarily to the gradual re-opening of the tourism sector supported by robust growth in agriculture which benefitted from favorable weather conditions. On the expenditure side, growth was driven by

FIGURE 1 Jamaica / Fiscal balances and public debt



Sources: GoJ, IMF, and World Bank staff estimates.

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



Source: World Bank staff calculations. Notes: Poverty projections are estimated based on 2018 JSLC. (b) Projection using growth semi-elasticity of poverty = -1 and GDP per capita in constant LCU.

private consumption and net exports. In parallel, the unemployment rate fell to a historic low of 6 percent in April 2022.

Inflation averaged 5.9 percent in 2021, within the 4-6 percent target range. For the first seven months of 2022, the inflation rate averaged 10.8 percent. In this context, the central bank adjusted its policy rate by a total of 550 basis points to 6 percent between September 2021 and August 2022.

The fiscal account recorded a surplus of 1.4 percent of GDP in 2021. Higher tax and non-tax collections boosted revenues by 1.3 percentage points to 30.9 percent of GDP. Spending fell by 3.3 percentage points to 29.5 percent of GDP, reflecting lower program, compensation, and capital expenditures. Lower spending on programs included the unwinding of temporary programs instituted in 2020 to support households and businesses. In this context, the public debt to GDP ratio fell by 13.6 percentage points to 96.9 percent of GDP as of March 2022.

Jamaica's recorded a current account surplus of 0.9 percent of GDP in 2021. This was driven by a 15.5 percent increase in visitor arrivals and a 20.4 percent increase in remittances. Tourist visitors are still down 32.5 percent from pre-pandemic levels as of May 2022. Jamaica ended 2021 with an official reserve cover of 7.8 months of total imports, up 22.8 percent from 2020. Most of the increase was driven by the allocation of the IMF's Special Drawing Rights.

The poverty rate is estimated to have declined to 18 percent in 2021, from 23 percent in 2020. Although the employment rate slightly surpassed pre-pandemic levels in October 2021, the quality of employment has deteriorated, with higher informality and fewer average hours worked relative to pre-pandemic levels. Lower-income households are feeling strained as prices continue to rise. Notably, at end-2021, approximately 45 percent of households ran out of food in a month, compared to about 20.3 percent before the pandemic.

Outlook

Real GDP growth is expected to average 2.1 percent between 2022-24. Agriculture and tourism will remain key drivers of growth and will be supported by mining and quarrying given the planned reopening of a major alumina plant in the fourth quarter of 2022. On the demand side, growth will be driven by private consumption, net exports, and investments including several public infrastructure projects. Inflation is expected to continue to accelerate in 2022, before falling over the medium term.

Monetary policy will continue to balance support to growth while strengthening efforts to dampen inflation expectations and avert pressures on the currency. Jamaica's financial sector remains sound, though an economic shock may pose stability challenges.

The fiscal account is expected to record an average annual surplus of 0.3 percent of GDP over the medium-term with stronger revenues underpinned by the continued economic recovery. Spending is expected to remain flat as saving from programs and interest offset higher outlays in 2022 (less than 0.1 percent of GDP) to vulnerable households to counter the impact of higher electricity prices. Financing needs will decline, pulling debt below 80 percent of GDP by 2024.

The current account is forecast to run a deficit of 5.8 percent of GDP principally reflecting increased spending on imports of capital and intermediate goods. Gross reserves will remain at healthy levels, averaging more than 5 months of imports.

Poverty is projected to fall to around 12 percent by 2024 as household incomes improve with the economic recovery. Disruptions in learning during the pandemic may have longer-term effects on human capital and the future earning potential of students, if not addressed adequately.

Significant downside risks to the economic outlook include slower-than-expected tourism recovery, higher inflationary pressures, worsening crime, and social unrest, tightening of financial markets, natural disasters, and the possibility of a worsening of the war in Ukraine.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.9	-10.0	4.6	3.2	2.0	1.2
Private Consumption	1.0	-13.2	3.0	2.9	2.0	1.4
Government Consumption	3.1	11.7	2.1	8.5	2.2	2.1
Gross Fixed Capital Investment	1.0	-15.9	-4.6	10.6	13.1	-9.5
Exports, Goods and Services	3.6	-30.0	26.0	5.9	3.1	1.0
Imports, Goods and Services	4.2	-26.7	11.9	10.2	7.8	-3.3
Real GDP growth, at constant factor prices	1.0	-10.0	4.6	3.2	2.0	1.2
Agriculture	0.4	-1.4	8.3	1.3	2.0	2.2
Industry	-0.7	-5.7	2.4	4.9	1.1	0.6
Services	1.6	-12.1	4.9	2.9	2.3	1.3
Inflation (Consumer Price Index)	3.9	5.7	5.9	9.6	6.0	5.0
Current Account Balance (% of GDP)	-2.3	-0.4	0.9	-6.6	-7.2	-3.6
Net Foreign Direct Investment Inflow (% of GDP)	1.4	1.9	1.8	1.8	2.1	2.3
Fiscal Balance (% of GDP)[a]	0.9	-3.1	1.4	0.3	0.3	0.3
Debt (% of GDP)[a]	94.7	110.5	96.9	89.8	83.6	78.3
Primary Balance (% of GDP)[a]	7.1	3.5	7.3	5.9	5.3	4.8
GHG emissions growth (mtCO2e)	-1.9	-12.7	5.6	3.6	-0.2	1.5
Energy related GHG emissions (% of total)	80.8	79.0	80.4	81.5	81.8	82.5

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

MEXICO

Table 1	2021
Population, million	126.4
GDP, current US$ billion	1295.4
GDP per capita, current US$	10249.5
International poverty rate ($2.15)[a]	3.1
Lower middle-income poverty rate ($3.65)[a]	9.9
Upper middle-income poverty rate ($6.85)[a]	32.5
Gini index[a]	45.4
School enrollment, primary (% gross)[b]	104.7
Life expectancy at birth, years[b]	75.1
Total GHG emissions (mtCO2e)	686.2

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

Real GDP growth is projected to expand by 1.8 percent in 2022, with inflation at its highest level in 20 years. Growth is projected lower in 2023 and pick up in 2024, with risks of more persistent than anticipated inflation; accelerated monetary policy normalization in the U.S.; and supply chain disruptions. Monetary poverty is projected to decline due to significant job creation and higher real per capita labor incomes. Addressing structural constraints to economic growth and inclusion remains critical for a robust medium-term economic recovery.

Key conditions and challenges

Mexico's economic growth is supported by its trade openness, a strong export manufacturing base connected to Global Value Chains that are integrated with the U.S., and a stable macroeconomic framework. Mexico's potential output growth has declined in the last decade due to weak productivity growth and low investment. Private investment and productivity growth are hampered by limited access to finance, insecurity, high regulatory burdens, infrastructure bottlenecks, uncertain business environment, and inadequate provision of public services, with significant heterogeneity across sectors, regions, and firms. Mexico is one of the few countries that has not recovered to pre-pandemic economic levels.

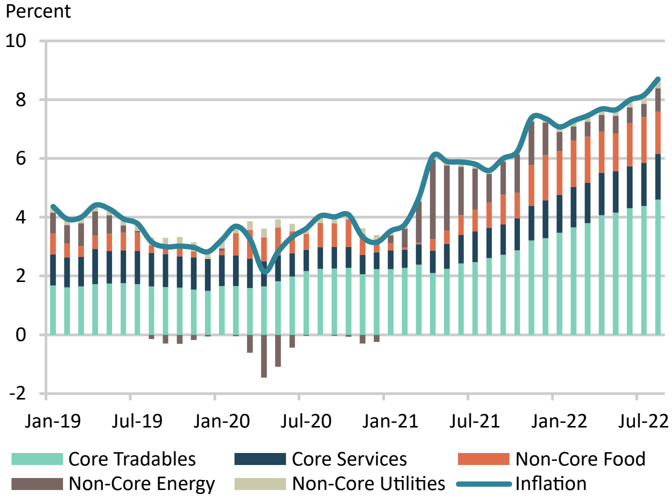
The challenges to household income generation persist, particularly in rural areas in the southern states. Multidimensional poverty rates vary widely by state, ranking from 22.5 percent in Baja California to 75.5 percent in Chiapas. About 8.5 percent of the Mexican population lived in extreme multidimensional poverty in 2020, but deprivations are significant in non-monetary dimensions; for example, 52 percent of the population lacked housing quality and space.

The economy faces significant and persistent inflation, which started in 2021 with external shocks, primarily in energy prices, and was exacerbated by food inflation and supply chain disruptions. The Central Bank has acted swiftly, raising the policy rate by more than 400 basis points since early 2021. The federal government has also reacted by reducing fuel taxes, increasing electricity subsidies, incentivizing grain production through price guarantees and fertilizer distribution, reducing tariffs and quotas for fertilizers, and freezing transportation costs. These measures are estimated to cost around 2 percent of GDP. Since 2020, Mexico's fiscal position has improved, thanks to the contained fiscal response to the pandemic, tax settlements with large companies, and a boost in oil revenues. However, deficit and debt levels are still above pre-pandemic levels. Mexico needs broader revenue-enhancing reforms to preserve debt sustainability, particularly given the current deficit and additional spending pressures required to increase access to quality public services and infrastructure. PEMEX's challenging financial situation calls for a turnaround.

Recent developments

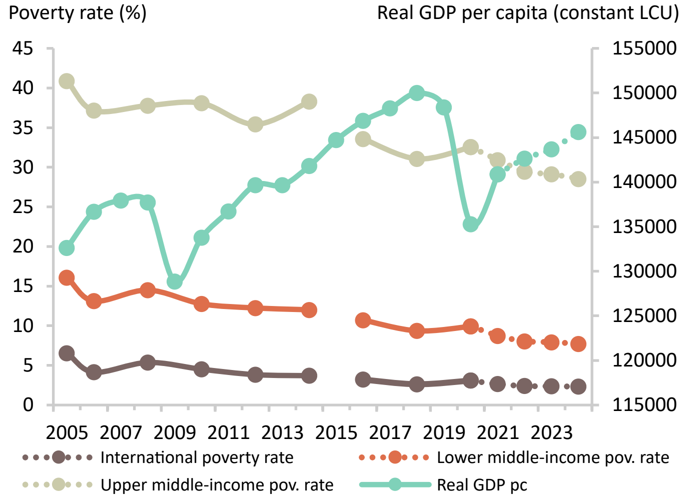
Real GDP grew 1.9 percent in the first half of 2022, compared to the same period last year. Correspondingly, real per capita labor income increased by 4.8 percent over the same period. Transportation, food, and services sectors drove the recovery. Between 2021 Q2 and 2022 Q2, the economy added 2.2 million jobs, although most gains correspond to informal and low-earning positions. Unemployment and underemployment rates and female labor force participation are almost back to pre-pandemic levels.

FIGURE 1 Mexico / Inflation, and core/non-core components contribution to overall inflation



Source: INEGI.

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



Source: World Bank. Notes: see Table 2.

The current account deficit was 1.3 percent of GDP in the first half of 2022. Imports recovered due to inventory re-stocking and a return to normalcy in supply chains. Imports dynamism was attenuated by exports performance. Despite international turbulence and volatility, the exchange rate has remained stable. From January to July, remittances amounted to US$32.8 billion.

Annual headline (core) inflation reached 8.7 (8.1) percent in August 2022, with the cost of the basic basket of goods increasing by 9.9 percent. Food and energy-related goods and services explain the bulk of total inflation. The Central Bank increased the policy rate from 5.5 in December 2021 to 8.5 percent in August 2022 to maintain medium-term inflation expectations within the target (3 ± 1 percent).

Despite inflation, job gains, higher labor earnings, and remittances are expected to support higher real household incomes. Monetary poverty using the US$6.85 a day per capita (2017 PPPs) poverty line is projected to decline by 1.4 percentage points between 2021 and 2022, from 30.9 to 29.5 percent.

The fiscal deficit was 1.8 percent of GDP in the first half of 2022. Public sector revenues benefited from the economic recovery and higher oil prices, but higher revenues were partially offset by the fiscal stimulus to contain inflation. Expenditures remained limited, with a focus on completing public investment projects. Mexico's credit rating remains investment grade, despite Moody's downgrade in July 2022.

Outlook

The economy is expected to expand by 1.8 percent in 2022, 1.5 percent in 2023, and 2.1 percent in 2024, reaching pre-pandemic levels at the end of 2023. The main driver of this trajectory is the economic slowdown in the U.S. At the same time, high inflation and moderate recovery in labor income are projected to continue to weigh on consumption. Private investment is expected to remain weak as regulatory uncertainties persist.

The Central Bank is anticipated to further raise its policy rate to contain inflation, anchor inflation expectations, and accommodate the normalization of monetary policy in the U.S. Inflation is projected to fall within the target band by the end of 2023.

The 2023 public budget will continue the fiscal consolidation process, aiming to stabilize the public debt-to-GDP ratio around 50 percent, supported by the enacted tax administration reform, economic growth, and high oil prices. The fiscal deficit is expected to decrease considerably by 2024 as public infrastructure projects are completed.

Poverty is expected to continue its decline but at a lower speed due to a slower economic recovery and to job gains being concentrated in low-pay positions. The poverty rate (US$6.85 a day per capita, 2017 PPPs) is projected to decline to 29.1 and 28.5 percent in 2023 and 2024, respectively. Risks of climate change, inflation, and global markets disruption could contribute to a greater risk of food insecurity, as nearly 52 (33.9) percent of the rural (urban) population had incomes below the basic food basket in 2022 Q2.

Risks are mostly tilted to the downside. Lasting inflationary pressures may further erode households' purchasing power and keep interest rates high, affecting investment and consumption. Global uncertainties may affect external financial conditions, especially in emerging markets, and worsen international supply chain disruptions. Lower-than-expected growth or a faster than anticipated normalization of the policy rates in the U.S. could impact the Mexican economy. New waves of COVID19 could affect mobility and private consumption. Regulatory uncertainty, mainly around the energy sector, may result in international disputes and restrained private investment.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-0.2	-8.1	4.8	1.8	1.5	2.1
Private Consumption	0.4	-10.3	7.5	1.7	1.5	2.2
Government Consumption	-1.8	-0.2	1.0	0.6	0.3	0.1
Gross Fixed Capital Investment	-4.7	-17.7	9.5	2.1	2.0	1.8
Exports, Goods and Services	1.5	-7.3	6.9	6.9	5.3	6.5
Imports, Goods and Services	-0.7	-13.8	13.6	6.7	5.2	6.0
Real GDP growth, at constant factor prices	-0.2	-7.8	4.7	1.8	1.5	2.1
Agriculture	-0.3	0.3	2.2	1.9	1.5	1.6
Industry	-1.8	-9.5	6.4	2.5	1.7	2.1
Services	0.6	-7.5	4.1	1.4	1.4	2.1
Inflation (Consumer Price Index)	3.6	3.4	5.7	8.0	5.3	3.5
Current Account Balance (% of GDP)	-0.3	2.5	-0.4	-1.2	-1.7	-1.6
Net Foreign Direct Investment Inflow (% of GDP)	1.9	2.4	2.6	2.3	2.2	2.0
Fiscal Balance (% of GDP)	-2.3	-3.9	-3.8	-4.0	-4.2	-2.9
Debt (% of GDP)	44.5	51.6	49.9	48.8	50.0	50.0
Primary Balance (% of GDP)	0.4	-1.0	-1.2	-0.8	-0.7	0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	3.1	2.6	2.4	2.4	2.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.0	9.9	8.7	8.0	7.9	7.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	0.0	32.5	30.9	29.5	29.1	28.5
GHG emissions growth (mtCO2e)	0.2	-2.2	4.6	2.1	1.2	1.6
Energy related GHG emissions (% of total)	63.6	63.4	64.5	64.7	64.7	64.8

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 SEDLAC harmonization, using 2020-ENIGHNS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Based on the microsimulation model for 2021-22. For 2023-24, assumes neutral distribution (2020) with pass-through=0.87 based on GDP per capita.

NICARAGUA

Table 1	2021
Population, million	6.7
GDP, current US$ billion	14.0
GDP per capita, current US$	2090.9
International poverty rate ($2.15)[a]	3.9
Lower middle-income poverty rate ($3.65)[a]	14.4
Upper middle-income poverty rate ($6.85)[a]	42.1
Gini index[a]	46.2
School enrollment, primary (% gross)[b]	120.6
Life expectancy at birth, years[b]	74.7
Total GHG emissions (mtCO2e)	39.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2010); Life expectancy (2020).

Robust remittance inflows, fiscal stimulus, and favorable export prices drove economic recovery following the three-year recession brought on by the 2018 sociopolitical crisis, the COVID-19 pandemic, and two major hurricanes. Growth is expected to decelerate in 2022 and thereafter with moderation in external demand, unwinding of the fiscal stimulus, and slowdown in private investment. Nicaragua still faces lingering pandemic-associated negative welfare impacts with lower wages, employment, and activity compared to the pre-crisis period.

Key conditions and challenges

Nicaragua – one of the poorest countries in Latin America – continues to recover from three years of recession. A history of market-oriented reforms and sound macroeconomic management (including a crawling peg exchange rate serving as a nominal inflation anchor, and modest fiscal deficits) underpinned economic expansion before the 2018 sociopolitical crisis. Between 2000 and 2017, growth averaged 3.9 percent, led by remittance-fueled domestic demand and foreign direct investment (FDI). Nevertheless, productivity was low, growth was driven by factor accumulation and led by low-skill agriculture and manufacturing exports. A weak business environment stymied the country's growth prospects. Poverty, measured at US$3.65/day, more than halved between 2005 and 2017, from 29 to 12 percent, driven by growth in rural areas. Poverty ratcheted up since the onset of the sociopolitical crisis in 2018 followed by the Covid-19 pandemic and the hurricanes Eta and Iota reaching 16 percent by the end of 2020.

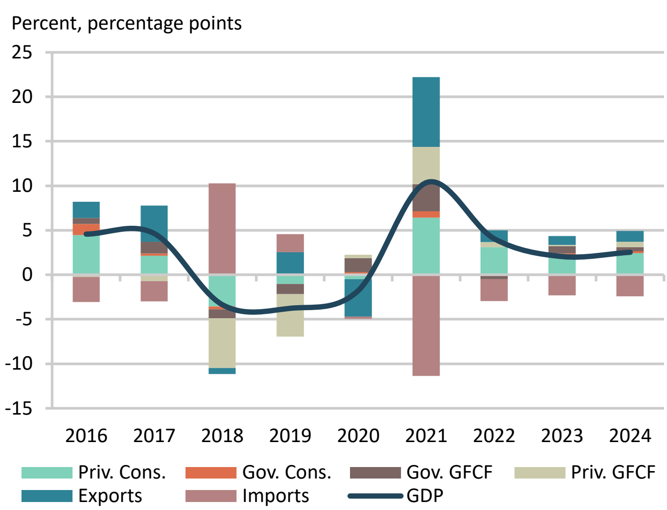
The economic impact of the pandemic in Nicaragua was limited due to mild containment measures and strong remittance inflows. Nevertheless, real GDP declined 1.8 percent in 2020 as voluntary shutdowns weighed on domestic demand, while the global crisis dragged external demand. Cumulative losses amounted to 8.7 percent over 2018-2020. Economic activity rebounded in 2021, recovering to pre-2018 levels, driven by large-scale public investment and strong export demand. However, the impacts of the COVID-19 crisis on the welfare of Nicaraguans continued to linger, as the main sources of income – wages and family businesses – remained affected. Tourism (12.9 percent of GDP in 2017) started to recover in 2021 but remains 6.3 percent below 2017 levels.

The global environment is expected to weigh on growth in Nicaragua as growth in advanced economies slows and inflationary pressures spark interest rate hikes globally. The current domestic political context and subsequent international reaction pose additional challenges to economic growth, including lower FDI inflows and higher borrowing costs. It will therefore be more urgent to establish productivity-boosting and confidence-enhancing reforms, including improved access to finance, property rights, and innovation.

Recent developments

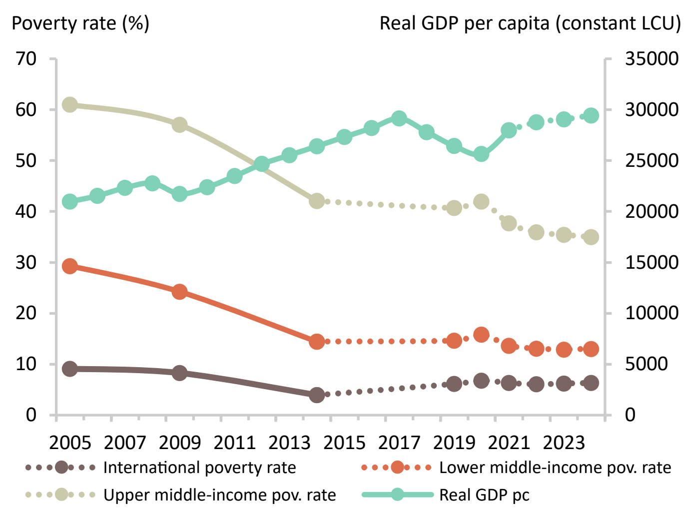
Real GDP increased 10.3 percent in 2021 and continued through the first half of 2022 with a 5.0 percent growth. Remittance-fueled private consumption and exports drove the expansion in 2022H1. Public consumption, COVID-19-related investment, and hurricane reconstruction fueled growth in 2021, but subsequently decelerated in 2022H1 following fiscal consolidation efforts and projects being finalized. Trade, manufacturing, hotel and restaurants, mining and transportation, and

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



Sources: Central Bank of Nicaragua and World Bank.

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



Source: World Bank. Notes: see Table 2.

communications were the leading sectors in 2022H1.

Welfare impacts of the COVID-19 crisis remain. Employment rates in 2022Q2 were lower than 2019Q2 (64 vs 66 percent), as labor-intensive sectors like construction, hotels, and restaurants have not fully recovered. According to the World Bank High Frequency Survey, around 10 percent of those formally employed, prior to the pandemic, transitioned to an informal job by the end of 2021. Employment and wage declines drove a reduction in family income for 28 percent of households. Inflation increased from 4.9 percent in 2021 to 12.1 percent (yoy) in August 2022, as commodity price pressures and supply-chain disruptions affected domestic food and transport prices, prompting the central bank to tighten monetary policy. As a result, food price inflation continues to rise in the country increasing the risk of food insecurity for parts of the population. The financial system has been recovering slowly, as asset quality and profitability have continuously improved. Credit growth was robust in 2022H1 as deposits continued to grow.

The fiscal deficit narrowed to 1.5 percent of GDP in 2021 as revenue growth surpassed spending growth. To mitigate the impact of higher prices, the government expanded energy and agricultural subsidies and froze gas prices, costing an estimated 1.5 percent of GDP. Higher revenues, particularly from income tax and VAT on imports, and multilateral loans are expected to finance the additional spending. Debt ratios nevertheless declined to 63 percent of projected GDP in 2022Q2.

The current account returned to deficit in 2021 but narrowed in 2022Q1 as a rising imports bill was offset by strong merchandise exports, a gradual resumption in tourism, and strong remittances. FDI remained robust at 12.9 percent of GDP in 2022Q1, in part destined for mining and energy projects, while international reserves remained adequate at 3.5 times the monetary base as of July 2022.

Outlook

The pace of expansion is expected to slacken in the second half of the year amid slowing external demand and fiscal consolidation. Growth is projected to moderate to 4.1 percent in 2022 and to slow further to 2.0 percent in 2023, consistent with a global economic deceleration. These events will prevent further reductions in poverty (defined as $3.65/day PPP) in 2022, which will then remain at around 13 percent. Inflation is expected to peak in 2022 and decline thereafter as commodity price pressures ease and higher interest rates reduce domestic demand.

The current account deficit is expected to widen in 2022 amid deteriorating terms of trade. In 2023 and onwards, the current account deficit is projected to narrow as import pressures ease due to lower commodity prices and weakening domestic demand. Meanwhile, FDI inflows are expected to slow, given the present political context.

Despite an anticipated fiscal consolidation as COVID-19 and hurricane reconstruction-related projects come to an end, the deficit is expected to increase in 2022 amid government subsidies, aimed at easing rising fuel costs, and narrow thereafter. Financing needs will be met through domestic borrowing and semi-concessional external borrowing, which will increase the cost of debt but will not compromise debt sustainability. The debt burden is expected to decline to 64.3 percent of GDP in 2024.

Risks to the forecast are on the downside and include: (i) deterioration of the political context which could lead to further international isolation ii) deterioration in the terms of trade; iii) faster-than-expected slow-down in advanced economies, and (iv) natural disasters.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-3.8	-1.8	10.3	4.1	2.0	2.5
Private Consumption	-1.3	-0.6	8.1	4.0	2.8	3.1
Government Consumption	0.7	1.9	4.4	-0.2	1.3	1.4
Gross Fixed Capital Investment	-24.5	10.4	33.9	0.5	3.8	4.3
Exports, Goods and Services	5.6	-8.9	18.0	2.8	2.2	2.6
Imports, Goods and Services	-3.4	0.4	18.5	3.7	3.5	3.6
Real GDP growth, at constant factor prices	-3.3	-1.7	8.3	4.2	2.1	2.5
Agriculture	2.0	0.1	6.9	2.4	1.5	1.4
Industry	-3.3	-1.4	17.7	3.9	2.7	2.6
Services	-4.8	-2.4	5.0	4.9	2.1	2.8
Inflation (Consumer Price Index)	5.4	3.7	4.9	8.9	5.5	4.5
Current Account Balance (% of GDP)	6.0	3.9	-2.3	-2.5	-1.4	-0.8
Fiscal Balance (% of GDP)[a]	-1.7	-2.6	-1.5	-2.1	-1.4	-1.2
Debt (% of GDP)[b]	58.1	65.9	66.5	67.0	66.2	64.3
Primary Balance (% of GDP)[a]	-0.4	-1.3	-0.3	-0.9	-0.1	0.0
International poverty rate ($2.15 in 2017 PPP)[c,d]	6.1	6.8	6.3	6.1	6.2	6.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	14.6	15.8	13.7	13.1	12.9	13.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	40.7	42.0	37.7	36.0	35.5	35.0
GHG emissions growth (mtCO2e)	1.4	1.2	2.4	1.9	1.7	1.8
Energy related GHG emissions (% of total)	14.0	14.0	14.8	14.9	15.0	15.1

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/ Fiscal and Primary Balance correspond to the non-financial public sector.
b/ Debt is total public debt.
c/ Calculations based on SEDLAC harmonization, using 2014-EMNV. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
d/ Projections using microsimulation methodology.

PANAMA

Table 1	2021
Population, million	4.4
GDP, current US$ billion	63.6
GDP per capita, current US$	14515.0
International poverty rate ($2.15)[a]	1.0
Lower middle-income poverty rate ($3.65)[a]	3.7
Upper middle-income poverty rate ($6.85)[a]	12.1
Gini index[a]	49.8
School enrollment, primary (% gross)[b]	94.7
Life expectancy at birth, years[b]	78.7
Total GHG emissions (mtCO2e)	25.2

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

Panama's strong rebound in 2021 and 2022 and convergence to pre-pandemic poverty levels will lead to another year of high growth and shared prosperity, supported by transport, tourism, and carry-over effects. However, downside risks are accumulating. Subsidies and tax cuts will add extra expenditures in 2022 and delays in pension reform are jeopardizing deficit targets achievement in the medium term. Recent social unrest underscores the need to support the poor and vulnerable.

Key conditions and challenges

Panama is a net fuel and food importer, and a dollarized economy, which had one of the highest growth rates in Latin America and the Caribbean (LAC) before COVID-19, supported by logistics, tourism, financial services, and construction. Panama's strong rebound in 2021 set the country on a high-growth path for 2022 due to large carry-over effects. However, current external conditions like COVID-19, global inflation, and monetary tightening are unfavorable, while the episodes of social unrest in July, triggered by inflation, have slowed economic activity (Figure 1).

Poverty rates approached pre-pandemic levels in 2021 partly because of the Programa Panama Solidario (PPS), the government's emergency transfer program. It is estimated that the poverty headcount would have been 4 percentage points higher without PPS. In addition, labor market outcomes, especially for women, have not fully recovered, and one out of three households reported limited access to food.

Positive economic momentum helps, but it is not sufficient to sustain high growth over time. Panama needs reforms to address low productivity, low human capital; it also needs to improve the efficiency of public investment, while addressing the post-COVID-19 fiscal imbalances. Reform progress, however, has been timid. The country made small advances on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), although it is still on the grey list, and Public-Private Partnerships (PPPs), but not on pension reforms, the chances of which diminished following recent social unrest.

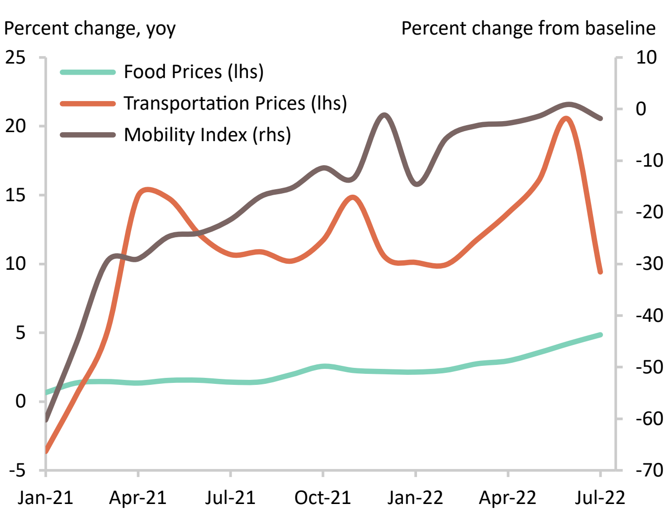
Recent developments

Panama continued to grow strongly in 2022, with GDP expanding 13.6 percent in the first quarter, led by construction and tourism. The monthly economic activity index grew 13.2 percent, and copper production, Panama's main export, and one large post-COVID-19 growth driver grew 3.3 percent in the first half of 2022.

Inflation (12-month average) reached 3.2 percent in July 2022, led by transport (12.5 percent, weight in the CPI basket: 16.8 percent) and food (2.8 percent, weight: 22.4 percent), but is slowing because of subsidies and tax cuts for fuel and foods that were implemented in July, which will cost up to US$300 million. While higher food prices affect lower-income households mostly, transportation and food costs are a relevant share of expenditures for middle-income households. The employment rate grew from 60.4 in 2021 to 62.3 percent in 2022, and the unemployment rate dropped from 11.3 to 9.9 percent, however neither has reached pre-pandemic levels (66.5 and 7.1 percent, respectively).

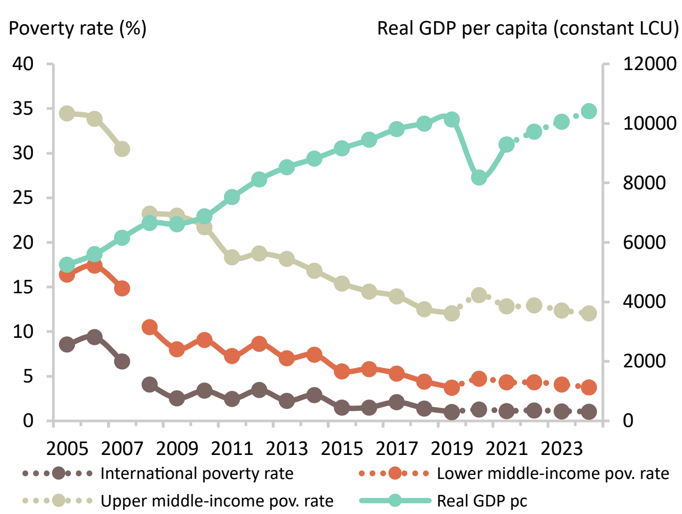
Fiscal results improved with revenues posting growth of 7.8 percent in the first half of 2022 and current expenditures growing by

FIGURE 1 Panama / Food and transportation inflation and mobility activity



Sources: INEC and Google Mobility Index.
Note: The mobility Index baseline is the median value from the 5-week period Jan 3 to Feb 6, 2020, calculated for each day of the week.

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



Source: World Bank. Notes: see Table 2.

a moderate 2.3 percent. Public investments declined slightly (-2.9 percent). The primary and overall deficit declined by 23.3 and 14.4 percent, respectively.

The current account deficit (CAD) nearly doubled in the first quarter: increasing from US$153.8 million in 2021 to US$292.6 million in 2022, because of a higher deficit in the trade of goods (caused by higher commodity prices). The wider CAD was more than compensated for by an increase in the financial account surplus from US$669.4 million in 2021 to US$3,243 million in 2022, with foreign direct investment (FDI) more than tripling in the same period.

Outlook

GDP growth is expected to reach 6.2 percent in 2022 and then stabilize at around 5 percent in the medium term, led by private consumption and investment, while public consumption and investment should moderate in the medium term in a fiscal consolidation environment. Inflation will be higher in 2022 (4.5 percent) and in 2023 (3 percent) due to higher food and transport prices, but inflation will converge to 2 percent in the medium term.

It is estimated that poverty will decrease to 13 percent in 2022 (US$6.85 a day 2017 PPP)[1] due to the mitigation effects of the New PPS (NPPS) and the continued recovery of the labor market.[2]

The CAD will widen in 2022 to 3.5 percent of GDP on the back of higher import prices, despite increased service exports. Nonetheless, the CAD should be easily financed. Over the medium term, the CAD is expected to stabilize around 3 percent of GDP, once the effect of higher food and oil prices phases out.

Fiscal consolidation is expected to continue but will likely require additional structural fiscal reforms to meet the deficit targets set by the Fiscal and Social Responsibility Law, which would stabilize the debt-to-GDP ratio at 64 percent. The debt has low cost (at an average interest rate of 3.95 percent on the debt stock), with more than 80 percent of the debt with fixed interest rates and an average maturity of 16 years. However, downside risks have increased: (i) the new contract with Panama Cobre that would raise the government revenues by US$375 million has not been formally approved by congress; and (ii) the pension reform, which is needed to curb the increase in government transfers to cover deficits, has stalled. Continued social unrest, climate change, and natural disasters can trigger new expenditures.

1/ As of fall 2022, the WBG updated the upper-middle income poverty line (UMIC) to $6.85 as differences in price levels across the world evolve.

2/ The government created the NPPS in 2022 to last until December to support poor and vulnerable households still affected by the COVID-19 crisis. It includes pre-existing support (digital food vouchers and food baskets) and adds a labor market inclusion intervention.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.0	-17.9	15.3	6.2	5.0	5.0
Private Consumption	3.4	-18.5	8.5	6.4	4.5	4.3
Government Consumption	4.5	4.3	4.3	2.6	3.0	3.0
Gross Fixed Capital Investment	0.0	-37.9	40.3	12.5	8.0	7.4
Exports, Goods and Services	-0.1	-22.0	15.5	6.8	6.0	6.0
Imports, Goods and Services	-3.3	-29.3	20.0	10.2	7.0	6.5
Real GDP growth, at constant factor prices	3.2	-17.9	15.3	6.2	5.0	5.0
Agriculture	2.5	3.8	6.7	3.0	2.5	2.0
Industry	3.4	-32.1	30.6	7.4	4.0	3.7
Services	3.2	-12.7	10.7	5.9	5.5	5.6
Inflation (Consumer Price Index)	-0.4	0.0	1.6	4.5	3.0	2.1
Current Account Balance (% of GDP)	-5.0	2.3	-2.2	-3.5	-3.0	-2.9
Net Foreign Direct Investment Inflow (% of GDP)	5.5	3.2	5.0	5.1	5.3	5.8
Fiscal Balance (% of GDP)	-2.9	-10.4	-6.7	-4.0	-3.1	-2.3
Debt (% of GDP)	46.4	69.8	63.7	64.0	63.7	63.6
Primary Balance (% of GDP)	-1.0	-7.8	-4.2	-1.6	-0.6	-0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.0	1.3	1.1	1.2	1.1	1.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.7	4.7	4.3	4.3	4.1	3.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.1	14.1	12.9	13.0	12.4	12.1
GHG emissions growth (mtCO2e)	15.6	-3.8	3.6	6.8	6.9	3.6
Energy related GHG emissions (% of total)	50.6	52.0	51.5	54.0	56.4	57.1

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 SEDLAC harmonization, using 2019-EH. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.

PARAGUAY

Table 1	2021
Population, million	7.2
GDP, current US$ billion	39.5
GDP per capita, current US$	5470.3
International poverty rate ($2.15)[a]	0.8
Lower middle-income poverty rate ($3.65)[a]	5.2
Upper middle-income poverty rate ($6.85)[a]	22.3
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	104.4
Life expectancy at birth, years[b]	74.4
Total GHG emissions (mtCO2e)	98.4

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

Paraguay's economy is expected to contract for the third time since 2019. A severe drought has led to a historically small soybean harvest, suppressed hydropower exports, and higher logistics costs. Although monetary conditions have been significantly tightened, inflation is running at its fastest pace in 14 years. Despite additional social transfers to households, poverty remains higher than before the pandemic and is likely to increase.

Key conditions and challenges

Paraguay has overcome several challenges of being a landlocked country to achieve inclusive growth. From 2004 to 2019, Paraguay grew faster, recorded smaller fiscal deficits, and borrowed less than its peer countries. Much of this growth reflected favorable terms of trade that supported agriculture and hydropower exports, at the expense of natural resources, but institutional reforms such as the inflation targeting mechanism and fiscal responsibility legislation (FRL) helped to safeguard macro stability and sustain growth. Poverty (US$6.85 per day per capita, 2017 PPPs) fell from 40.2 to 19.7 percent, while inequality fell from 54 to 46 Gini points during the same period. The Human Capital Index rose from 0.51 in 2010 to 0.53 in 2020. More recently, multiple external shocks have suppressed growth and poverty reduction. The economy contracted in 2019 due to droughts and poor trading partner performance, and subsequently in 2020 due to mobility restrictions associated with COVID-19. Despite additional social transfers, poverty increased to 22.3 percent in 2020. The recurrent drought led poverty to remain higher than pre-pandemic levels.

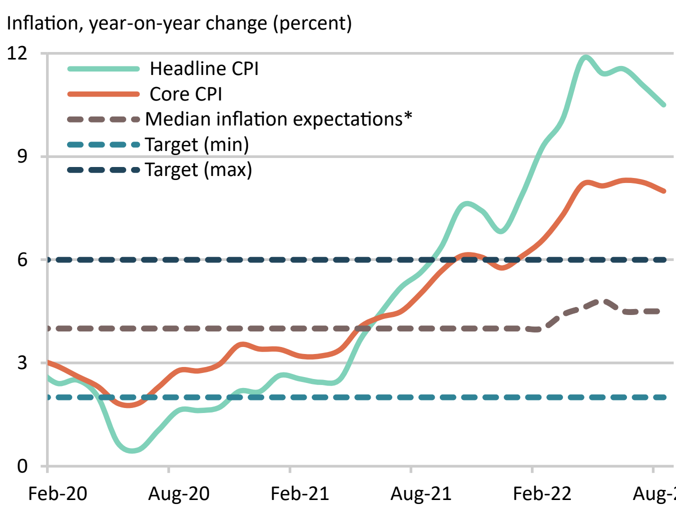
With weather shocks projected to be more frequent and intense under climate modeling, structural reforms are needed to boost productivity and resilience. These include strengthening governance and capacity to enforce regulations and spending more on human capital and infrastructure, especially to adapt to climate change. To finance such investments, Paraguay needs to raise more domestic revenues in a fair and efficient manner, while improving the overall quality of public spending. It also needs to mobilize more private capital, which will require stronger sector regulation and cost recovery of services through consumer tariffs. Additionally, Paraguay needs to tackle the perception of its growing role in the illicit goods trade.

Recent developments

The economy contracted by 2 percent year-on-year (y-o-y) in the first quarter of 2022. Net exports contracted for a fifth consecutive quarter as the drought led to a 69 percent reduction in soybean production. A deeper, broader-based recession occurred in the second quarter as the monthly activity indicator contracted 4.3 percent y-o-y on average, or 1.9 percent excluding agriculture and hydropower. Despite subdued activity, unemployment fell to 6.7 percent from 8.6 percent a year ago. The quality of employment, however, remains a challenge, especially among women in rural areas, who are much more likely to be unemployed or underemployed compared to men.

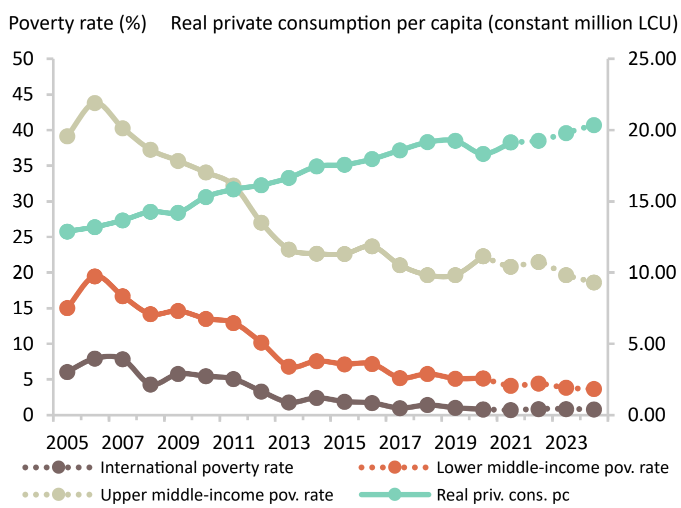
The balance of trade in goods posted a cumulative deficit of US$586 million or 1.5 percent of GDP at end-August, compared to a surplus of US$1.6 billion in the same period last year. Nominal exports fell by 1.6 percent as the impact of the drought on volumes outweighed higher commodity

FIGURE 1 Paraguay / Headline and core CPI inflation and inflation expectations



Sources: Central Bank of Paraguay and World Bank staff calculations.
Note: *Monetary policy horizon.

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



Source: World Bank. Notes: see Table 2.

prices, while costlier fuel imports and machinery imports pushed up total nominal imports by 25.5 percent y-o-y.

Exacerbated by the drought and the war in Ukraine, average consumer price inflation from January to August tripled to 10.4 percent compared to the same period last year. The food index rose 17 percent y-o-y, disproportionately impacting poor and vulnerable households who spend a larger share of their budget on food, while non-food inflation rose 8 percent. Strong monetary policy tightening helped keep median inflation expectations within the 2-6 percent target range. The real effective exchange rate remained relatively stable and gross reserves remained ample at US$9.4 billion as of end-August, equivalent to 8 months of imports.

The 12-month cumulative fiscal deficit rose to 4.2 percent of GDP at end-August as real revenues fell faster than expenditures. Adjusting for inflation, revenues declined by 6.1 percent y-o-y, mainly reflecting lower hydropower royalties. Real expenditures, however, only declined by 1 percent y-o-y as personnel, capital and social spending kept the momentum. Public debt rose to 36.4 percent of GDP from 34.6 percent at the end-2021, reflecting January's US$500 million sovereign bond issuance.

Outlook

The economy is expected to contract by 0.3 percent in 2022 due to the drought, coupled with tighter monetary and fiscal conditions. Assuming favorable weather during the soy planting season in Q4, strong recovery of 5.2 percent is projected for 2023. Fixed investment is expected to remain firm as public and private works progress.

Inflation is projected to decelerate as commodity prices moderate, interest rate hikes take effect and household utility bills decline following energy tariff reductions. In 2023-2024, inflation is expected to return to the upper bound of the target range.

The current account balance is expected to deteriorate due to lower soybean exports and higher fuel imports. It is projected to remain in a small deficit in 2023-2024 as import growth accelerates in line with fixed investment growth. Despite US monetary policy normalization, the financial account is expected to remain stable as residents mainly own domestic currency-dominated assets.

Public finances are expected to remain on a consolidation path. Reforms to improve the efficiency of public procurement, civil service wages, and pensions have been proposed but are unlikely to be executed before the April 2023 elections. With no new revenue reforms planned, a larger consolidation of personnel and capital spending is expected as the government strives to reach the FRL deficit target of 1.5 percent of GDP in 2024. The debt ratio is expected to increase due to the contraction in GDP in 2022, but fall thereafter.

With the recession and high inflation depressing real disposable incomes, poverty is expected to increase to 21.5 percent in 2022. The effects of the war in Ukraine on regional growth and the slow recovery of labor markets may drive poverty higher. Better-targeted social protection programs would help cushion the impact of future crises.

The projected recovery may be adversely impacted by bad weather or by political/economic uncertainty domestically as well as in Brazil and Argentina. Given that only half the population is fully vaccinated against COVID-19, more severe outbreaks may dampen growth and poverty reduction.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-0.4	-0.8	4.1	-0.3	5.2	4.2
Private Consumption	1.8	-3.6	5.7	1.8	4.0	4.0
Government Consumption	4.7	5.1	5.3	-1.0	-1.3	-1.7
Gross Fixed Capital Investment	-6.1	5.3	18.6	7.1	6.8	6.1
Exports, Goods and Services	-3.4	-9.0	2.2	-9.0	10.0	6.5
Imports, Goods and Services	-2.0	-15.2	21.4	0.0	5.5	5.0
Real GDP growth, at constant factor prices	-0.2	-0.5	3.7	-0.3	5.2	4.2
Agriculture	-3.1	7.4	-11.6	-15.0	19.0	6.0
Industry	-3.0	0.8	4.7	1.1	2.8	3.5
Services	2.5	-3.1	6.9	1.7	4.4	4.3
Inflation (Consumer Price Index)	2.8	1.8	4.8	9.0	5.3	4.5
Current Account Balance (% of GDP)	-0.5	2.7	0.7	-3.5	-1.1	-0.6
Net Foreign Direct Investment Inflow (% of GDP)	0.6	0.3	0.3	0.8	0.8	0.8
Fiscal Balance (% of GDP)	-2.9	-6.1	-3.7	-3.2	-2.6	-1.5
Debt (% of GDP)	23.4	34.5	34.5	37.4	36.4	35.1
Primary Balance (% of GDP)	-2.0	-5.1	-2.6	-1.9	-1.3	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.0	0.8	0.7	0.9	0.9	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.1	5.2	4.1	4.4	3.8	3.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	19.7	22.3	20.8	21.5	19.7	18.6
GHG emissions growth (mtCO2e)	2.1	0.7	1.1	-1.4	1.1	2.3
Energy related GHG emissions (% of total)	8.8	8.5	9.5	9.9	9.8	10.0

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 SEDLAC harmonization, using 2020-EPH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.

PERU

Table 1	2021
Population, million	33.4
GDP, current US$ billion	223.2
GDP per capita, current US$	6691.2
International poverty rate ($2.15)[a]	5.8
Lower middle-income poverty rate ($3.65)[a]	17.4
Upper middle-income poverty rate ($6.85)[a]	42.7
Gini index[a]	43.8
School enrollment, primary (% gross)[b]	121.0
Life expectancy at birth, years[b]	76.9
Total GHG emissions (mtCO2e)	190.2

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

Peru´s economy is expected to grow somewhat below the pre-pandemic pace in 2022-24, supported by higher exports, while domestic demand is expected to slow down, in the context of low business confidence, lower growth of trading partners, and volatile energy prices. Poverty is projected to remain above pre-pandemic levels, hampered by the lower quality of employment. Overcoming structural challenges related to low-productivity jobs and low-quality public services is critical to boost long-term growth and poverty reduction.

Key conditions and challenges

Peru´s macroeconomic fundamentals remain solid, including a relatively low public debt to GDP ratio, considerable international reserves, and a credible central bank. However, important structural weaknesses related to widespread informality, limited economic diversification, and weak state capacity have led to a significant slowdown in GDP growth since the end of the commodity boom in 2014, attenuating the pace of poverty and inequality reduction. Progress in reducing the size of the informal sector, which employs three-quarters of workers in low-productivity jobs, has been scant. In addition, low-quality government services, including in education, health, and water, hamper growth and poverty reduction. They also made the country more vulnerable to the COVID-19 pandemic, placing Peru as one of the leading countries in mortality rates associated with the virus. The strict measures adopted to limit negative health outcomes led to significant losses in output and an increase in poverty of over 13 percentage points ($6.85 poverty line) during 2020.

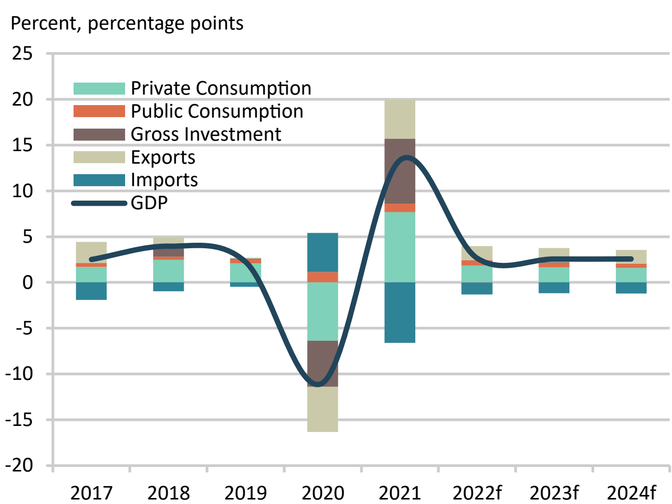
Recent developments

GDP grew by 3.5 percent y-o-y in the first half of 2022, led by higher activity in manufacturing, construction, and services, and supported by considerably fewer restrictions than the previous year's first semester. However, the recovery in poverty has been slow, due to the sluggishness of real wages, still 12 percent below their 2019 level, and the lower average quality of jobs, with underemployment and informality rates higher by 4 p.p. compared to their pre-pandemic rates. Also, existing inequalities between formal and informal workers have widened, as the ratio of formal to informal average wage went from 2.3 pre-pandemic to 2.4 in 2021.

The annual fiscal deficit continued trending downwards and stood at 1.2 percent of GDP by July 2022, compared to 2.5 percent in December 2021. The reduction was mainly driven by the increase in fiscal revenues, associated with the higher collection of corporate income tax in the context of high mineral prices. In this context, public debt stood at 34 percent of GDP by June 2022, two percentage points below its level in December 2021.

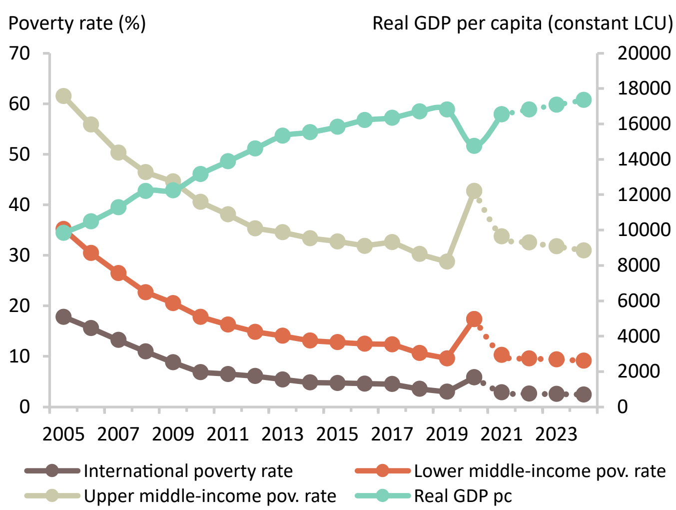
Annual inflation reached 8.4 percent by August 2022, below its peak in June, but still markedly higher than its 2.8 percent average in the decade before the pandemic. The sizable increase in liquidity to counteract the fall in demand during the COVID-19 crisis ignited an upward trend in inflation since mid-2021, which was subsequently exacerbated by the increase in food and energy prices linked to the Russia-Ukraine conflict. Rising prices led to higher food insecurity among the poor, as they spend on it a higher percentage of their budget. To curb inflation, the Central Bank tightened its monetary policy by elevating the reference policy rate by 650 basis points since August

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



Sources: Central Bank and World Bank staff.

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



Source: World Bank. Notes: See Table 2.

2021, to 6.75 percent currently. To counteract food insecurity, the Government launched a one-time cash transfer to be distributed by end-2022.

The current account deficit reached 5.6 percent of GDP during the first semester, driven by higher outflows to remunerate foreign capital, in the context of record mineral prices and higher profits of mining companies. These additional outflows markedly surpassed the increase in mining exports and the surplus trade balance.

Outlook

GDP is expected to grow by about 1.7 percent y-o-y in the second semester, completing a 2.7 percent expansion in 2022. Activity would be supported by higher mining exports but would also reflect a slowdown in domestic demand. Private investment would be stagnant in a context where business confidence is low due to political instability. The recovery of high-quality jobs, more dependent on private investment, will be slow, limiting productivity gains and workers´ income.

Over the medium term, output is expected to expand at around 2.6 percent annually, somewhat below the pre-pandemic trend. GDP growth would be mainly supported by higher exports, due to the entry into production of new important mines, such as Quellaveco. Private spending would continue expanding slowly in the context of low business confidence, lower expected growth for trading partners, and volatility in energy prices. Expansion of public spending will be restricted by the fiscal consolidation mandated by fiscal rules. Although output is projected to remain above the pre-pandemic level, poverty is expected to decline just to 32.5 percent this year, still above its level in 2019. Setbacks in informal employment are not expected to be corrected in the medium term due to the persistence of job informality. In turn, poverty is projected to decline to 31 percent by 2024, still higher than its pre-pandemic level of 28.7 percent.

The public deficit is projected to slightly increase next year, mainly due to an anticipated reduction in revenues, given the correction in mining prices. However, the trajectory of the deficit would remain in line with fiscal rules, converging to 1 percent by 2026. This consolidation would entail a moderate effort on expenditures, especially those related to extraordinary transfers. Thus, public debt is projected to remain stable in 2022-24, at around 35 percent.

The current account deficit would moderate in the second semester of 2022, finishing the year above 3 percent of GDP. Over the medium term, it is expected to decline mainly due to higher exports and the normalization of mining companies' profits, in line with the correction of mineral prices.

Annual inflation is expected to follow a decreasing trend in the coming years, due to the moderation in domestic demand, accompanied by the tightening measures taken by the Central Bank. Thus, inflation is expected to return to its target range of 1 – 3 percent by the end of 2023, providing some support to poverty reduction.

The balance of risks is tilted to the downside. Political volatility might continue introducing uncertainty around the future policy agenda, undermining business confidence and investment prospects. Low citizen support for Congress and the Executive Branch could eventually translate into greater government spending, compromising fiscal objectives. An eventual misalignment of fiscal and monetary policies might also pose a risk to inflation reduction. The economy is also vulnerable to lower growth of main trading partners, capital outflows, sudden reductions in prices of minerals, increases in the international price of fuels, and natural disasters. A positive development is that the ongoing energy transition is expected to provide support to the long-term price of copper, Peru´s main export product.

TABLE 2 Peru / 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	-11.0	13.3	2.7	2.6	2.6
Private Consumption	3.2	-9.8	11.7	2.9	2.5	2.5
Government Consumption	3.6	9.1	6.0	4.0	3.2	3.2
Gross Fixed Capital Investment	2.9	-16.2	34.1	0.0	0.5	0.9
Exports, Goods and Services	0.3	-18.2	17.1	6.1	5.7	5.5
Imports, Goods and Services	1.7	-15.4	25.1	4.5	4.0	4.0
Real GDP growth, at constant factor prices	2.2	-10.9	12.8	2.7	2.6	2.6
Agriculture	1.5	1.0	3.7	1.8	2.0	2.0
Industry	-0.1	-13.3	16.4	3.3	4.3	4.0
Services	3.8	-10.7	11.8	2.4	1.5	1.7
Inflation (Consumer Price Index)	2.1	1.8	4.0	7.4	4.3	2.5
Current Account Balance (% of GDP)	-0.7	1.2	-2.3	-3.5	-2.5	-0.8
Net Foreign Direct Investment Inflow (% of GDP)	2.2	-0.4	2.5	2.7	2.3	2.2
Fiscal Balance (% of GDP)	-1.6	-8.9	-2.5	-2.1	-2.4	-2.0
Debt (% of GDP)	26.6	34.6	35.9	35.2	35.9	35.8
Primary Balance (% of GDP)	-0.2	-7.3	-1.0	-0.2	-0.5	-0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.0	5.8	2.9	2.6	2.5	2.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	9.6	17.4	10.2	9.6	9.4	9.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	28.7	42.7	33.8	32.5	31.8	31.0
GHG emissions growth (mtCO2e)	1.5	-2.6	2.4	1.1	0.9	0.8
Energy related GHG emissions (% of total)	28.2	27.0	28.3	28.7	29.0	29.2

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 SEDLAC harmonization, using 2021-. Actual data: 2021. Forecasts are from 2022 to 2024.
b/ Projections using microsimulation methodology.

SAINT LUCIA

Table 1	2021
Population, million	0.2
GDP, current US$ billion	1.7
GDP per capita, current US$	9380.9
International poverty rate ($2.15)[a]	5.1
Lower middle-income poverty rate ($3.65)[a]	11.7
Upper middle-income poverty rate ($6.85)[a]	25.3
Gini index[a]	51.2
School enrollment, primary (% gross)[b]	101.1
Life expectancy at birth, years[b]	76.3
Total GHG emissions (mtCO2e)	0.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ Most recent WDI value (2020).

A strong rebound is projected for Saint Lucia's tourism sector, driving economic growth and poverty reduction. However, debt rollover risks will remain elevated if substantial consolidation measures are not implemented. High public debt also crowds out private investment. Early adoption of a fiscal rule, supported by reductions in fiscal deficits and improvements in public financial management will help the government improve financing access and create fiscal space for social programs and infrastructure projects with high social and economic returns.

Key conditions and challenges

With a population of around 180,000, SLU is a small open economy, highly dependent on tourism. Natural disasters and the effects of climate change cause frequent and significant socio-economic losses. Prior to COVID-19, economic growth had been volatile and relatively low, averaging around 1.5 percent between 2010-2019. About 1 in 4 Saint Lucians were poor in 2019 (based on projections and using the $6.85 international poverty line and 2017 Purchasing Power Parity (PPP)). The pandemic made the situation worse. The poor and vulnerable groups include female-headed households with small children, the elderly, and people living in hazard-prone communities and depressed rural and urban areas.

Public debt is high, leaving limited fiscal space to provide public services and finance key development projects. Tax revenue in SLU has been lower than in similar economies as a result of more generous tax incentives, especially in the tourism sector. The absence of an FRF to anchor multi-year planning and prioritization of the limited fiscal resources weaken market confidence and borrowing conditions.

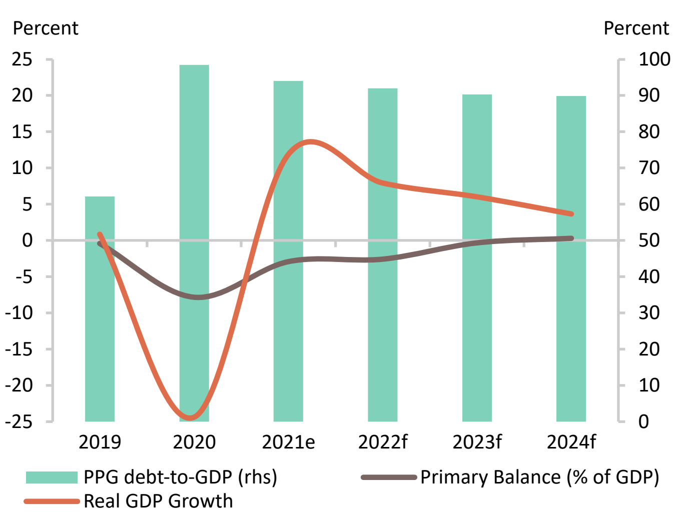
To reduce poverty, support growth and build climate resilience, it will be critical to address key structural challenges, including improving the efficiency of public spending to build space for much-needed investment, mobilizing revenue collection, raising the capacity of the tax administration, strengthening the fiscal framework, increasing private access to finance and addressing large skill mismatches.

Recent developments

Economic activity rebounded strongly in 2021 and early 2022, driven by a buoyant tourism sector, as well as public and private investment which have revitalized the construction sector, more than compensating for the contraction in the agricultural sector as a result of Hurricane Elsa in July 2021. Rebounding economic activities are expected to have created jobs and increased incomes, bringing down unemployment from its record high of 24 percent in the second half of 2020. Despite these positive developments, phone survey data collected by the World Bank and UNDP in December 2021 suggests that employment remained below pre-pandemic levels. Moreover, women were experiencing more difficulties than men in returning to work, exacerbating pre-existing gender gaps in the labor market.

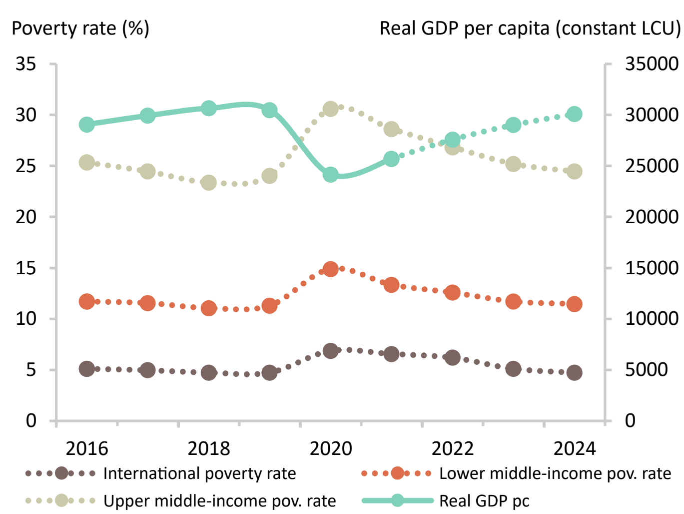
Recovery in tourism exports narrowed the external deficits in 2021 and 2022, attenuating the negative impacts of increased import prices. Tourism and commodity exports volumes have improved significantly since late 2021, helping to bring down the current account deficit, while increases in fuel prices and higher import demand from the gradual pick-up in domestic activities are exerting pressure in the opposite direction. Remittances and foreign direct investment

FIGURE 1 Saint Lucia / Key macroeconomic variables



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

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



Source: World Bank. Notes: See Table 2.

(FDI) have remained robust and helped finance the external deficit. International reserves increased to 3.6 months of imports in 2021 from 3.0 months in 2020.

Inflation rose to 2.4 percent in 2021 and further accelerated in early 2022, owing to the economic recovery and increased import prices. High inflation has put pressure on living costs, especially for the most vulnerable. Data collected throughout the pandemic reveals that food security has been worse among low-income and vulnerable households. The Caribbean COVID-19 Food Security & Livelihoods Impact Survey shows an increase of moderate and severe food insecurity by 3 p.p. from February 2021 to 43 percent of respondents in February 2022.

The fiscal deficit narrowed in 2021 but remained elevated at 6.5 percent of GDP. The improvement was mainly driven by the recovery in tax revenue from international trade and domestic activities. Total expenditure increased marginally by 0.5 percent due to higher procurement costs and the supportive measures continued into 2021, for the health-related spending and capital projects to boost economic activity. Despite the high fiscal deficit, public debt declined in 2021 as a share of GDP, thanks to the higher increase in nominal GDP. The government continued to face significant financing constraints in 2021, with gross financing needs at around 24 percent of GDP, and increased overdrafts and arrears to domestic suppliers. Pressures on the spending side extend into early 2022, as the government announced measures to mitigate the impact of inflation, including subsidizing the prices of cooking gas, fuel, rice, and sugar.

Outlook

The recovery is expected to continue, driven by rebounding tourism and a robust construction sector, revitalized by large infrastructure projects and major hotel and entertainment projects. The recovery will expand employment and support a gradual reduction in poverty to its pre-pandemic level of about 25 percent by 2024. Inflation is expected to rise in 2022 to around 5.6 percent, significantly above SLU's historical average of 1.8 percent, but ease gradually over the medium term. Consistent with medium-term economic recovery and falling import prices, the current account balance is projected to improve and return to surplus by 2024.

The projected high growth will marginally reduce public debt to around 90 percent of GDP by 2024. Risks to debt sustainability remain elevated. The continuous recovery in tax revenue will compensate for the 8.5 percent increase of total spending and narrow the fiscal deficit in 2022. In 2023 and 2024, the fiscal balance is projected to decline owing to the rolling-back of support measures but will remain in deficit if additional consolidation measures are not implemented. Gross financing needs will remain at around 20 percent of GDP over the medium-term.

Risks are tilted to the downside. A deceleration in economic growth in the main tourism source countries, tightening financial conditions, and natural disasters can hamper economic growth, and poverty reduction and increase the fiscal deficit. This would further constrain the government's ability to finance social programs and needed investments in physical and human capital accumulation to spur long-term growth and climate resilience. Continued socio-economic impacts from the pandemic, compounded by pre-existing vulnerabilities and heightened uncertainties, call for measures to improve safety nets and economic resilience of the population.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices[a]	-0.1	-24.4	11.9	7.9	6.0	3.6
Real GDP growth, at constant factor prices[a]	0.8	-24.4	11.9	7.9	6.0	3.6
Agriculture	3.6	-9.5	-10.3	4.8	3.4	2.1
Industry	-1.4	-10.9	9.4	6.9	4.2	3.2
Services	1.1	-26.5	12.9	8.1	6.3	3.7
Inflation (Consumer Price Index)	0.5	-1.8	2.4	5.6	2.8	2.1
Current Account Balance (% of GDP)	5.7	-15.5	-11.2	-5.6	-1.1	0.7
Fiscal Balance (% of GDP)[b]	-3.4	-11.8	-6.5	-5.9	-3.5	-2.8
Debt (% of GDP)[b]	62.2	98.5	94.0	92.0	90.2	89.8
Primary Balance (% of GDP)[b]	-0.4	-7.8	-2.9	-2.6	-0.3	0.3
International poverty rate ($2.15 in 2017 PPP)[c,d]	4.7	6.9	6.6	6.2	5.1	4.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	11.3	14.9	13.3	12.6	11.7	11.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	24.0	30.6	28.6	26.8	25.2	24.5
GHG emissions growth (mtCO2e)	1.7	-28.5	12.8	7.3	4.9	1.0
Energy related GHG emissions (% of total)	72.9	77.0	75.6	74.5	73.8	73.5

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/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
b/ Fiscal balances are reported in fiscal years (April 1st -March 31st).
c/ Calculations based on SEDLAC harmonization, using 2016-SLC-HBS. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
d/ Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

ST. VINCENT AND THE GRENADINES

Table 1	2021
Population, million	0.1
GDP, current US$ billion	0.8
GDP per capita, current US$	7331.4
School enrollment, primary (% gross)[a]	113.4
Life expectancy at birth, years[a]	72.7
Total GHG emissions (mtCO2e)	0.3

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

Growth resumed in 2022 as tourism resumed and the effects from the 2021 volcanic eruptions abated. The economy is expected to reach its 2019 GDP level by 2023. The COVID-19 pandemic and the eruptions exerted pressure on public finances. Ambitious public investment plans will pose fiscal challenges. Natural disasters and rising food and fuel prices pose additional risk. The risk of debt distress remains high. Poverty is expected to have remained above its pre-pandemic level.

Key conditions and challenges

St. Vincent and the Grenadines (SVG) is a small island developing state particularly vulnerable to climate change, external economic shocks, and natural disasters, as recently experienced with the volcanic eruption and the COVID-19 pandemic. Prior to the pandemic, SVG was upgrading essential infrastructure to lay the foundation for stronger growth and economic diversification, including the completion of a new international airport, modernization of the seaport (a 27 percent of GDP public investment), and construction of a new hospital. To ensure sustainability of these essential investments, fiscal consolidation commenced, and primary fiscal surpluses had been achieved from 2016 through 2019. However, the COVID-19 pandemic and the eruption of the La Soufriere volcano in 2021 disrupted this fiscal reform agenda, and deficits and public debt have subsequently increased.

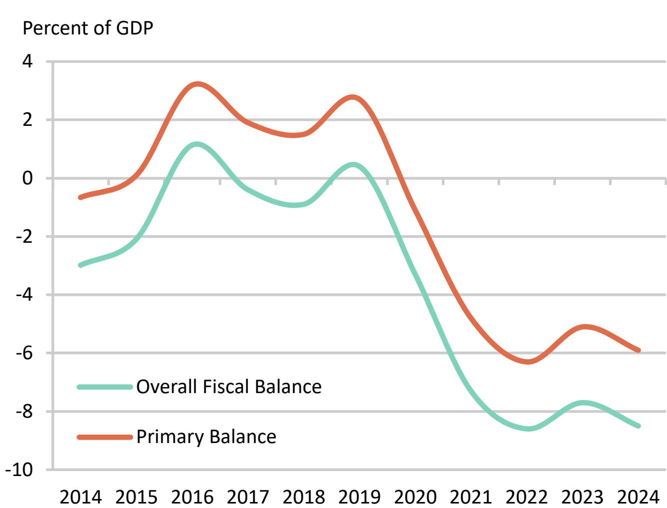
Heavy ashfall, critical utility interruptions, increased food insecurity, and subsequent flooding and mudslides have had a significant impact on poverty and welfare, although this is difficult to quantify in the absence of recent data. Based on the last available data from 2008, 30.2 percent of the population was poor, using the national poverty line of EC$5,523 or US$2,046 per annum per adult.

Recent developments

The fall in tourism following the COVID-19 pandemic resulted in a GDP contraction of 5.3 percent in 2020. Livelihoods and the economy were then completely disrupted by the volcanic eruption in April 2021, when 22,800 people were evacuated from their homes, farms, and businesses. Growth in 2021 was only 0.7 percent as the effects of the volcanic eruption were further compounded by the resurgence of new COVID variants that delayed the rebound in tourism. Tourism has modestly rebounded, reaching over 40 percent of 2019 pre-COVID levels over the period January to May 2022. Growth is returning and is expected to reach 5.0 percent in 2022.

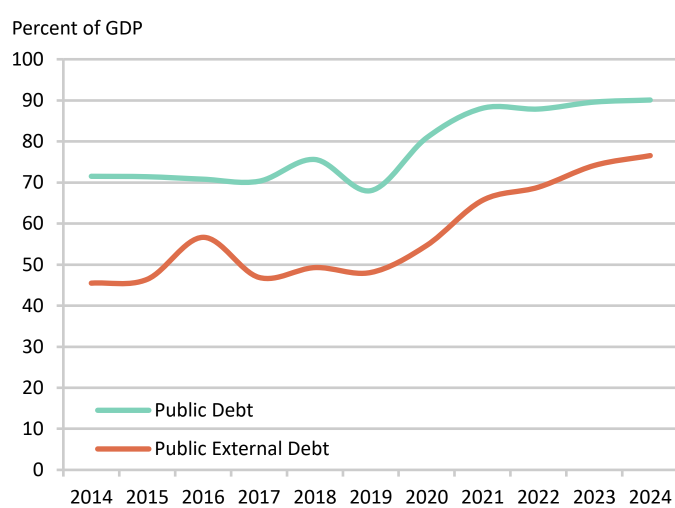
The overall fiscal deficit widened to 7.3 percent of GDP in 2021, as the government implemented fiscal spending measures totaling 5.5 percent of GDP to address the immediate humanitarian crisis following the eruption in addition to 3.6 percent of GDP related to COVID-19 expenditures. The deficit is expected to widen to 8.5 percent of GDP in 2022 as public investment plans proceed, particularly the port modernization project. While fiscal rule targets have been suspended, given the disruptions caused by the COVID pandemic and the volcanic eruption, fiscal consolidation measures continue, particularly the implementation of the new Tax Administration Act, limiting wage bill growth, and improving public investment practices and processes.

FIGURE 1 St. Vincent and the Grenadines / Overall and primary fiscal balances



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

FIGURE 2 St. Vincent and the Grenadines / Public debt



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

Inflation remained relatively subdued in 2021 at 1.6 percent but food and fuel prices have increased in 2022. The government has taken several measures to cushion the impact of rising prices, including the expansion of existing social programs, the introduction of new avenues of support, and increased support to agriculture. Total support to households exceeds US$20 million (2.5 percent of GDP).

In terms of external vulnerabilities, the current account deficit (CAD) increased to 23.8 percent of GDP in 2021, from 15.1 percent in 2020. While the balance of payments data is unreliable, the CAD has certainly widened due to pandemic- and eruption-related factors. Nonetheless, international reserves are sufficient at 6 months of import coverage.

Public debt rose to 88.1 percent of GDP at end-2021, of which external debt is 66.3 percent; SVG remains at a high risk of debt distress. Debt is currently assessed as sustainable given the authorities' fiscal consolidation plans, which would ensure that the public debt to GDP ratio would fall to under 60 percent of GDP by 2035, the regional goal of the Eastern Caribbean Currency Union. Government gross financing needs are covered primarily by official external financing and some recourse to domestic financing through the issuance of T-Bill and bond issuances. SVG participated in the Debt Service Suspension Initiative.

Outlook

Growth is forecast to accelerate to 5.0 percent in 2022 and 6.3 percent in 2023 as tourism continues to rebound and is expected to return to levels approaching 80 percent of pre-COVID levels by 2023 and 100 percent thereof in 2024. Poverty is expected to follow a similar trajectory. Tourism growth is expected to be facilitated by the new airport and new hotel and resort facilities. The sizeable investment pipeline should also contribute to growth over the short term. Inflation is expected to reach 5.7 percent in 2022 and moderate to 4.4 percent in 2023 and 2.0 percent thereafter.

Authorities have taken concrete steps to build fiscal buffers and to ensure public debt returns to a downward trajectory. Fiscal consolidation measures include: (i) containing the growth of the wage bill; (ii) prioritizing public investment by focusing on port modernization and the new hospital, while scaling back other projects; (iii) increasing the customs service charge; (iv) enhancing taxpayer compliance; (v) limiting import duty and VAT exemptions; and (vi) strengthening SOE governance. The fiscal deficit is forecast to increase to 8.5 percent of GDP in 2022 and 7.7 percent in 2023 as the ambitious public investment program is implemented. Limiting the deficit in the current uncertain global economic environment will require careful management of the ambitious public investment program and continued progress on domestic revenue mobilization and fiscal consolidation. Balances in the contingency fund, which were accessed to address COVID-19 and volcano needs, are being replenished to strengthen future fiscal resilience. Primary fiscal surpluses beginning in 2025 should facilitate a reduction in public debt levels over the medium term as COVID-19 impacts dissipate, reconstruction activities are addressed, and port modernization is completed.

Forecasts are subject to considerable downside risk given rising food and fuel prices, the economic impact of global geopolitical developments, COVID-19 developments, and the ever-present risk of natural disasters.

TABLE 2 St. Vincent and the Grenadines / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices[a]	0.4	-5.3	0.7	5.0	6.3	4.8
Real GDP growth, at constant factor prices[a]	0.4	-5.9	-0.5	5.0	6.3	4.8
Agriculture	-1.6	1.6	-22.7	13.5	10.4	-3.8
Industry	-5.5	-7.8	3.9	4.0	1.9	1.4
Services	1.8	-6.1	0.6	4.6	6.9	6.1
Inflation (Consumer Price Index)	0.9	-0.6	1.6	5.7	4.4	2.0
Current Account Balance (% of GDP)	-3.1	-15.1	-23.8	-26.7	-28.6	-21.0
Fiscal Balance (% of GDP)[b]	0.4	-3.3	-7.3	-8.6	-7.7	-8.5
Debt (% of GDP)[b]	68.0	80.9	88.1	87.9	89.6	90.1
Primary Balance (% of GDP)[b]	2.7	-1.1	-4.8	-6.3	-5.1	-5.9
GHG emissions growth (mtCO2e)	3.1	-8.2	10.1	3.2	2.0	1.9
Energy related GHG emissions (% of total)	75.4	73.9	75.4	76.1	76.5	76.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Growth projections for 2021-23 remain sensitive to uncertainties surrounding the timing of the vaccine roll-out and the recovery in tourism.
b/ Budget balances and public debt are for the central government.

SURINAME

Table 1	2021
Population, million	0.6
GDP, current US$ billion	3.0
GDP per capita, current US$	5041.7
School enrollment, primary (% gross)[a]	108.5
Life expectancy at birth, years[a]	71.8
Total GHG emissions (mtCO2e)	13.3

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

Suriname built up macroeconomic imbalances because of high commodity revenue volatility and economic mismanagement. The pandemic exacerbated existing domestic vulnerabilities, leading to a sharp GDP contraction, increased unemployment, and high inflation which created an increase in poverty. A newly elected government adopted a comprehensive IMF-supported macroeconomic stabilization program. While Suriname's economy is now showing signs of stabilization, poverty remains elevated, and could be alleviated by stepping-up plans to improve delivery and targeting of social assistance.

Key conditions and challenges

Suriname is a small, natural-resource-rich, upper-middle-income country. Gold currently represents more than 80 percent of total exports and the overall mining sector accounts for nearly half of public sector revenue. The government redistributes revenue earned from extractive industries through significant public sector employment, price subsidies, and through mostly categorically targeted income support to people with disabilities, households with children, the elderly, and vulnerable households.

Suriname is slowly recovering from a severe fiscal and balance of payments crisis, exacerbated by the COVID-19 pandemic. Substantial macroeconomic imbalances built up after a sharp decline in commodity prices (2015-16) and the run-up to the 2020 general elections. A widening fiscal deficit led to a rapid accumulation of debt as well as monetary financing, which eventually resulted in surging inflation, a large depreciation of the exchange rate, and a near-exhaustion of international reserves.

Recent internationally comparable poverty statistics are not available for Suriname. Data collected in 2016 suggested that over a quarter of the population was not able to meet basic food and non-food consumption needs. Consumption poverty was markedly higher in the interior of the country.

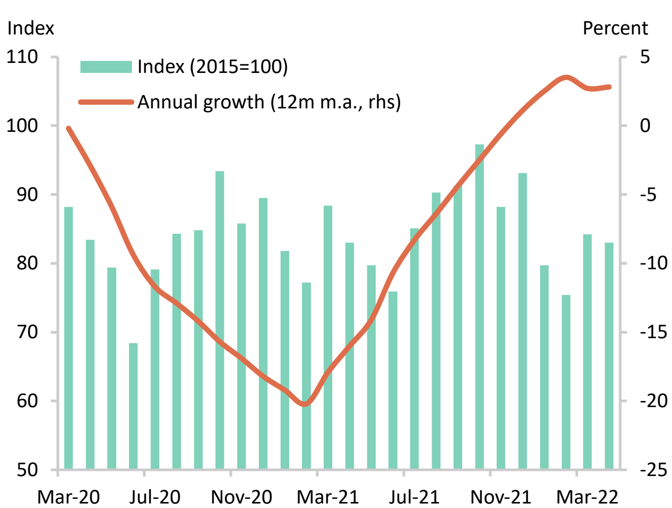
Micro-simulations suggest that employment losses induced by the economic downturn, combined with a loss in purchasing power stemming from high levels of inflation, led to a substantial increase in poverty rates. Women, especially those who were single and those with lower levels of education, were more likely to be poor pre-pandemic and more heavily affected by the economic downturn.

The government adopted a comprehensive program of policy measures with respect to fiscal and debt sustainability, monetary and exchange rate policy, financial sector stability, and governance to address macro-economic imbalances as of mid-2020. On December 22, 2021, the IMF board approved a three-year Extended Fund Facility in support of this program.

Recent developments

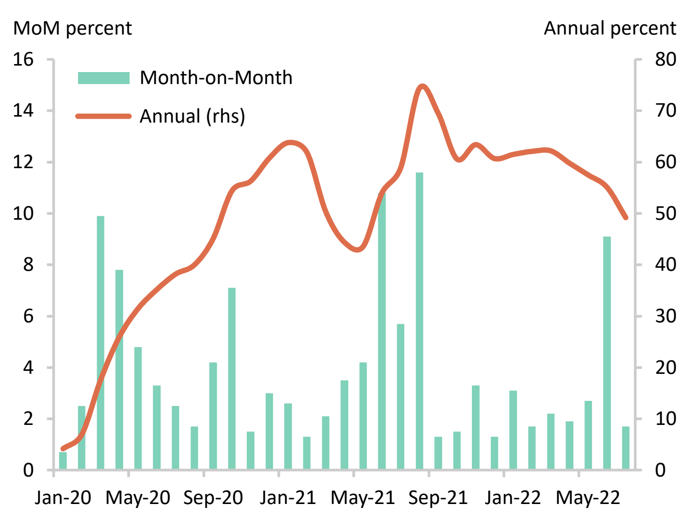
Suriname's economy is now starting to show signs of stabilization and a modest recovery. Economic activity, as measured by the 12-month moving average of the Central Bank's Monthly Economic Activity Index (MEAI), is posting modestly positive rates of growth as of December 2021 after two years of moving in negative territory (Figure 1). Annual inflation, while still high, is starting to come down with its latest print last July at 49.2 percent (Figure 2). The exchange rate, which has been reasonably stable since the introduction of a flexible exchange rate in June 2021, showed significant weakening as of June 2022. The recent sharp depreciation of the nominal exchange rate mitigates appreciation of the real exchange rate, though also feeds into

FIGURE 1 Suriname / Monthly economic activity index



Source: Central Bank of Suriname (CBvS).

FIGURE 2 Suriname / Consumer price inflation



Source: General Bureau of Statistics.

higher consumer price inflation. Exchange rate depreciation contributed to a significant shift in the current account of the balance of payments: from a deficit of 11 percent of GDP in 2019 to a surplus of 9 and 5 percent of GDP in 2020 and 2021, respectively. The current account turned into a modest deficit again in the 2nd quarter of 2022.

Public debt amounted to US$3.4 bn or 125 percent of GDP at the end of 2021 and arrears on external bilateral and private market debt are estimated at about 11 percent of GDP. Restoring debt sustainability under the IMF-supported program will require debt relief from Suriname's private and bilateral external creditors.

Suriname successfully reached an agreement to restructure its external debt owed to Paris Club bilateral creditors (US$ 119m, including arrears) under a two-stage debt treatment. The first phase includes a reprofiling of maturities falling due between 2022-2024, while the second phase envisages a rescheduling of debt repayment due after December 2024 and is conditioned on comparability of treatment with other external creditors and the continuation of macroeconomic policies consistent with debt sustainability. Existing arrears (up to end-2021) will be repaid in two installments in 2022 and 2024.

Revenue enhancing and expenditure reduction measures have significantly reduced the country's primary fiscal deficit. Additional measures, such as the introduction of a Value Added Tax, the elimination of electricity subsidies, and the rationalization of civil service, should turn the primary balance from a persistent deficit into a surplus of 3-4 percent of GDP by 2023-24. The government managed to pass legislation for the introduction of VAT as of January 1, 2023, at a general rate of 10 percent. The introduction of VAT makes up an important part of the fiscal adjustment.

Although the economy is stabilizing, poverty rates are likely to exceed pre-crisis levels. Social assistance spending remains low at about 1.3 percent of GDP. And increases in social assistance payments are not expected to fully offset declines in disposable household incomes that were brought about by declines in employment and rapid inflation. Imported inflation is putting poor and vulnerable households further under strain.

Unusual for Suriname, popular protests reflecting dissatisfaction with the current situation in the country broke out in July. Protesters expressed their dissatisfaction with failing public health care, continuing high inflation, and especially rising fuel and electricity prices. They demanded an immediate end to fraud and corruption. The protests faded after a government response acknowledged protestors' concerns.

Outlook

Suriname faces challenging social and economic conditions. The near-term outlook critically depends on the successful implementation of the macroeconomic stabilization program. After two years of sharp contraction in economic activity, a gradual resumption of economic growth is expected for 2023-24 to nearly 3 percent per year in the medium term.

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

The modest economic recovery is not expected to fully counterbalance the significant challenges faced by many households. Labor market indicators are not expected to return to their pre-pandemic level any time soon and inflation remains high, with continued negative implications for poverty. Planned efforts to improve the delivery and effectiveness of social assistance, therefore remain a priority.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.2	-16.0	-2.7	1.3	2.3	3.0
Real GDP growth, at constant factor prices	1.2	-16.0	-2.7	1.3	2.3	3.0
Agriculture	-18.8	-10.3	-7.5	3.0	3.0	3.0
Industry	-4.9	-17.5	-10.9	2.0	2.0	2.5
Services	7.7	-16.0	1.7	0.8	2.3	3.2
Inflation (Consumer Price Index)	4.3	34.8	59.1	42.1	23.4	14.0
Current Account Balance (% of GDP)	-11.2	8.9	5.3	-1.5	-0.7	-1.1
Net Foreign Direct Investment Inflow (% of GDP)	-0.2	0.0	-5.6	3.1	3.0	2.7
Fiscal Balance (% of GDP)[a]	-21.7	-13.3	-7.0	-3.5	0.4	1.6
Debt (% of GDP)[a]	84.6	146.3	119.9	122.6	107.4	110.4
Primary Balance (% of GDP)[a]	-18.8	-9.6	-1.3	1.6	3.3	4.4
GHG emissions growth (mtCO2e)	4.3	-2.7	-1.4	0.3	0.3	0.5
Energy related GHG emissions (% of total)	19.4	18.1	17.0	17.3	17.6	18.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Budget balances and public debt are for the central government.

URUGUAY

Table 1	2021
Population, million	3.5
GDP, current US$ billion	59.3
GDP per capita, current US$	17021.4
International poverty rate ($2.15)[a]	0.2
Lower middle-income poverty rate ($3.65)[a]	0.9
Upper middle-income poverty rate ($6.85)[a]	7.2
Gini index[a]	40.2
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	78.1
Total GHG emissions (mtCO2e)	34.6

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

Uruguay's broad-based economic recovery continued into 2022, helped by the re-opening of borders to foreign tourism. Despite the Central Bank's tight monetary stance, inflation remains high, limiting progress in poverty reduction and welfare outcomes. Uncertainty related to global financial conditions, demand, prices, and new COVID variants continue to represent relevant risks to the outlook.

Key conditions and challenges

Between 2002 and 2019, Uruguay experienced its longest period of economic growth on the back of prudent macroeconomic management and favorable external conditions, which have enabled the country to reach the highest income per capita in Latin America, the largest middle class in the region, and relatively low levels of inequality.

The COVID-19 pandemic and adverse weather conditions disrupted this spell, leading to a 6.1 percent fall in GDP in 2020. The country's wide social safety net was reinforced, buffering the impact mainly on the poor and vulnerable. A rapid and comprehensive vaccination campaign, one of the world's most successful, contributed to a 4.4 percent rebound in 2021.

Uruguay has balanced COVID-related expenditures with fiscal consolidation in other areas, retaining its investment-grade status and tapping into credit markets at favorable terms. However, the country has struggled with persistently high inflation, averaging 7.8 percent since 2006. The structural agenda of the government includes modernization of the monetary policy framework, education reform to improve outcomes, pension reform to address the system's long-term sustainability, trade integration, enhanced domestic competition, and actions to reduce the country's vulnerability to climate change.

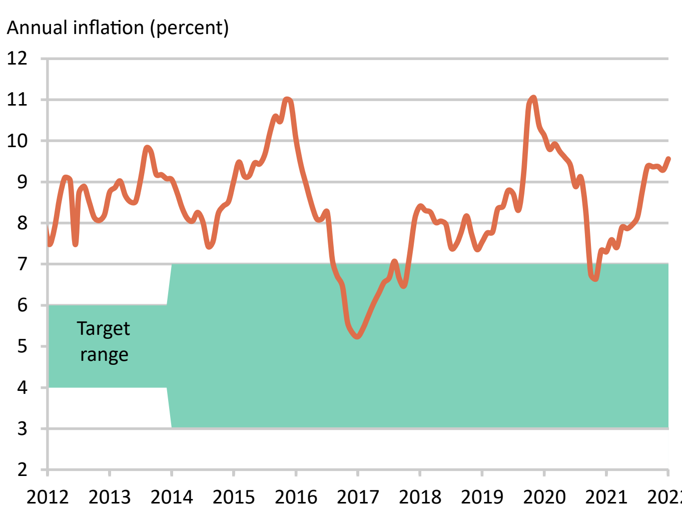
Recent developments

GDP increased 8.3 percent year-over-year (yoy) in the first quarter of 2022, supported by the opening of borders to tourism. Growth was widespread across demand components, led by exports (+23.5%) and gross fixed capital formation (+13.7%), positively influenced by private and public investments related to a US$3bn paper mill project. Private consumption increased 6.9 percent (yoy). High-frequency indicators signal a continued recovery, reflected in labor market outcomes. Labor participation and employment rates reached 61.8 and 56.7 percent in June 2022, an increase of 1.1 and 2.2 pp. respectively with respect to June 2021. The unemployment rate fell from 10.2 percent in June 2021 to 8.4 percent in June 2022.

External trade increased in the first half of 2022. Exports increased 41.1 percent in USD led by soy and beef, which benefited from higher prices triggered by the Ukraine war and from an increase in production thanks to favorable weather conditions. Imports increased 24.3 percent fueled by strong consumption and investment and higher fuel prices. Exports of services increased 70 percent in the first quarter of 2022, driven by the recovery of tourism.

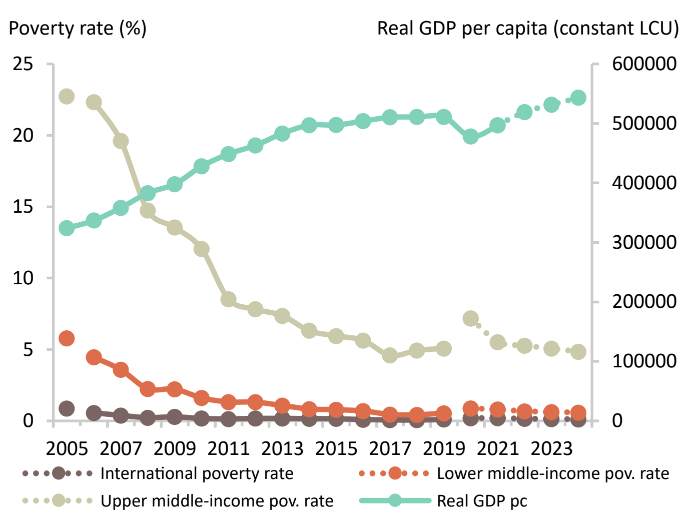
Inflation was 9.6 percent (yoy) in July, the highest reading since December 2020, led by food and non-alcoholic beverages. External factors explain most of the deviation from historical averages, with a negative contribution of domestic demand and the

FIGURE 1 Uruguay / CPI Inflation and inflation target range



Source: Central Bank of Uruguay.
Note: The target range was reduced to 3%-6% in September 2022.

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



Source: World Bank. Notes: see Table 2.

monetary policy stance. The Central Bank hiked its benchmark rate to 10.25 percent in August 2022 after a 575bp cumulative increase since August 2021, contributing to a strong peso, which appreciated 10 percent relative to the USD in 2022. As announced in 2020, the monetary authority narrowed its inflation target range from 3-7 percent to 3-6 percent in September 2022.

Despite the tight targets, inflation affected real wages, which fell 1.6 percent (yoy) in June. Purchasing power losses have been higher for workers in the health sector (3.8%), hotels and restaurants (3.8%), and retail (2.7%). The government responded with reduced VAT rates for beneficiaries of cash transfer programs and by limiting the pass-through of oil price spikes to domestic fuel prices, among other measures, for an estimated cost of 0.3 percent of GDP.

Despite support measures, fiscal accounts continued to improve in 2022, sustained by a 13 percent (yoy) increase in revenues in the first half of 2022, as a result of solid growth and higher inflation. Expenditures grew 4.7 percent (yoy) driven by higher wages and pensions (7.3 and 7.1 percent yoy). The fiscal balance of the non-monetary public sector fell from 3.2 to 2.1 percent of GDP in the twelve months ending in July 2022.

Outlook

GDP is expected to increase by 4.8 percent in 2022, with a deceleration in 2023 to converge closer to its potential growth rate by 2024. Under this scenario, labor market outcomes will continue to improve, and the poverty rate could reach pre-pandemic levels by the end of 2022: around 5 percent under the international poverty line of $6.85 per day in 2017 PPP. Inflation will limit the prospects of more rapid welfare improvement.

Exports are expected to grow 14 percent this year driven by beef, cellulose, agricultural products, and tourism. They will decelerate but remain strong in 2023 as the new pulp plant starts producing and tourism normalizes further. Imports are expected to grow 10 percent this year and moderate going forward, given the lower domestic expenditure dynamism. Absent a major deterioration of the terms of trade, the current account deficit is expected to gradually narrow.

The Central Bank has hinted at commitment to its tight monetary policy stance going forward, as inflation expectations for the monetary policy horizon (24 months) remain above the new target range. Inflation is expected to subdue gradually in the context of high inflationary inertia.

The fiscal deficit is expected to reach 2.9 percent of GDP in 2022 and narrow to 2 percent by 2024. The burden of the adjustment will fall on expenditures, as the government is committed to not raising taxes. Capital expenditures will fall as the large investments related to the pulp-mill are finalized.

The outlook is subject to downside risks, including a slow-down in global growth and a faster-than-expected tightening of US monetary policy. Sustained oil prices and softer agricultural commodity prices are a risk to external accounts as well as weather shocks to production. COVID-19 surges from new variants at home or abroad continue to be a source of uncertainty, as is the disruption of economic activity in China, Uruguay's main trading partner.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.4	-6.1	4.4	4.8	2.7	2.5
Private Consumption	0.5	-6.9	2.3	3.5	2.2	2.1
Government Consumption	1.1	-7.3	8.0	-4.7	-1.4	0.1
Gross Fixed Capital Investment	0.8	1.6	15.2	10.8	0.1	2.6
Exports, Goods and Services	3.6	-16.0	14.4	14.0	7.5	4.2
Imports, Goods and Services	1.5	-12.0	20.9	10.0	2.8	2.5
Real GDP growth, at constant factor prices	0.4	-6.3	4.3	4.9	2.6	2.5
Agriculture	-0.3	-5.4	5.0	6.7	2.5	2.5
Industry	-3.7	-6.1	6.7	3.1	2.0	2.0
Services	1.1	-6.4	3.9	5.0	2.8	2.6
Inflation (Consumer Price Index)	7.9	9.7	7.7	8.9	6.9	6.0
Current Account Balance (% of GDP)	1.6	-0.8	-1.7	-0.9	-0.5	-0.1
Net Foreign Direct Investment Inflow (% of GDP)	2.3	1.9	2.0	1.3	1.3	1.3
Fiscal Balance (% of GDP)[a]	-3.9	-5.4	-3.2	-2.9	-2.2	-2.0
Debt (% of GDP)	60.6	68.2	65.6	64.7	64.4	64.3
Primary Balance (% of GDP)[a]	-1.6	-2.7	-1.0	-0.2	0.6	0.8
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.1	0.2	0.2	0.2	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	0.5	0.9	0.8	0.7	0.6	0.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	5.1	7.2	5.5	5.3	5.1	4.8
GHG emissions growth (mtCO2e)	-0.3	-2.1	3.0	2.4	-0.1	0.0
Energy related GHG emissions (% of total)	19.1	18.2	19.6	20.5	20.0	19.7

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/ Non-Financial Public Sector. Excluding revenues associated with the "cincuentones".
b/ Calculations based on SEDLAC harmonization, using 2020-ECH. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projections using microsimulation methodology.

Macro Poverty Outlook

10/
2022

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity