Macro Poverty Outlook

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

Annual Meetings 2022

WORLD BANK GROUP
Macroeconomics, Trade & Investment
Poverty & Equity

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OUTLOOK

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

The cutoff date for information for most countries was September 23, 2022.

Note on new global poverty lines: Poverty data are now expressed in 2017 Purchasing Power Parity (PPP) prices, versus 2011 PPP in previous editions. As price levels across the world evolve, global poverty lines have to be periodically updated to reflect the increase of the value of the lines in nominal terms. The new global poverty lines of $2.15, $3.65, and $6.85 reflect the typical national poverty lines of low-income, lower-middle-income, and upper-middle-income countries in 2017 prices. In addition to reflecting updates in nominal terms, upper-middle-income countries raised the standards by which they determine people to be poor from 2011 to 2017. Hence, the increase in the upper line is larger, and the population that does not meet the new standard is higher in most countries than it was with 2011 PPPs. See pip.worldbank.org.

East Asia and the Pacific

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

CAMBODIA

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

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

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

Key conditions and challenges

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

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

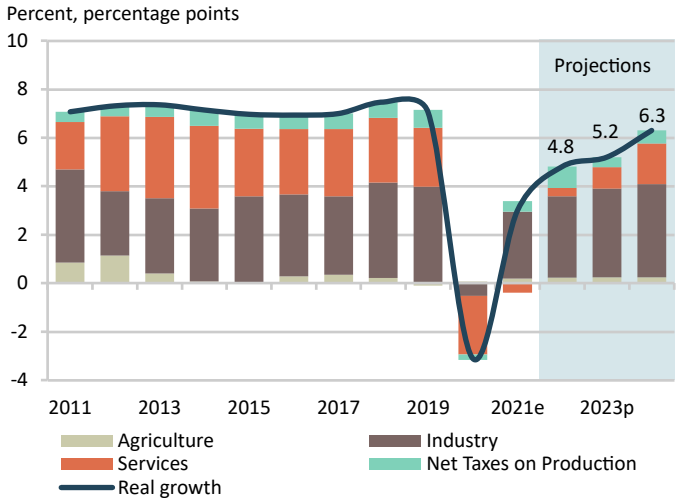
Recent developments

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

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

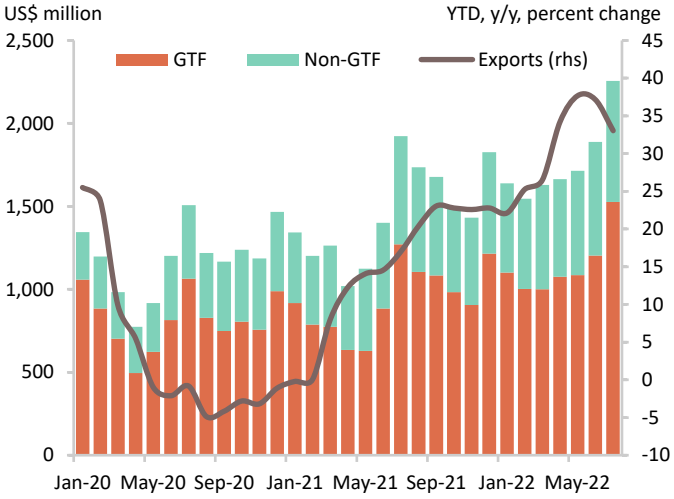
Monetary conditions continued to be accommodative. Broad money growth, however, eased to 12.9 percent y/y in June 2022, compared to 19.2 percent during the same period last year as foreign currency deposit growth slowed. Private sector deposit growth held up at 15.1 percent y/y in June 2022. Reflecting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

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



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

FIGURE 2 Cambodia / Merchandise exports (excluding gold)



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

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

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

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

Outlook

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

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

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

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

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

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

CENTRAL PACIFIC ISLANDS

Table 1	2020
Population, million	
Kiribati	0.12
Nauru	0.01
Tuvalu	0.01
GDP, US$, billion	
Kiribati	0.19
Nauru	0.11
Tuvalu	0.05
GDP per capita, current US$	
Kiribati	1671
Nauru	8867
Tuvalu	4663

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

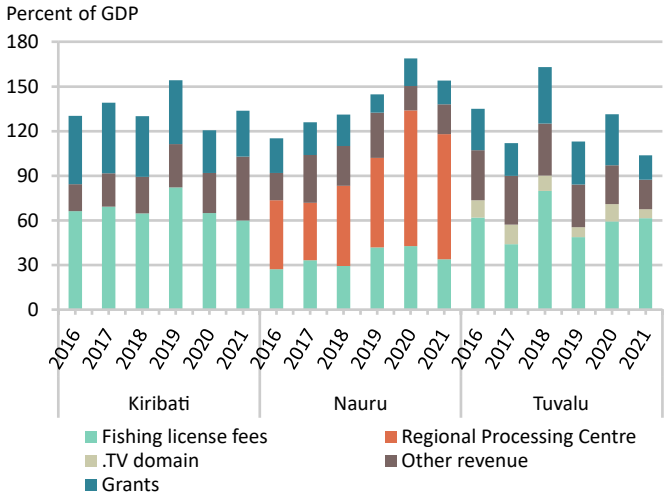
The Central Pacific faces major development challenges due to climate change, small size, remoteness, heavy reliance on external grants, near-total dependence on imports for foods and fuel, concentrated economic bases, and volatile revenue streams (like fishing). All three countries have invested in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

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

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

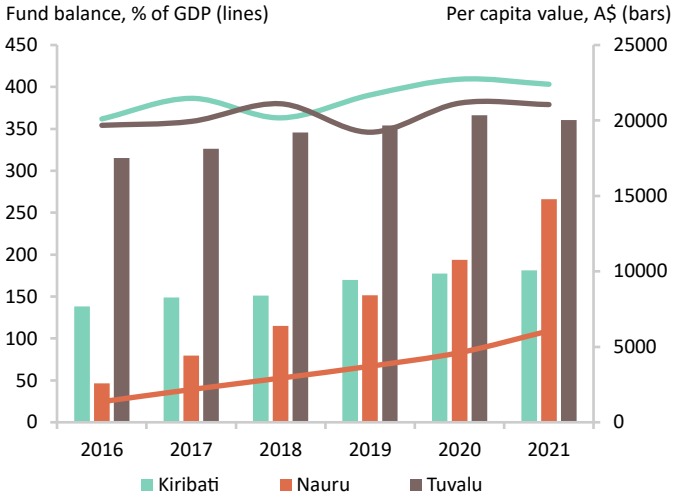
Tuvalu is one of the smallest and most climate-vulnerable countries in the world. Though no recent data on poverty is available, in 2010 an estimated 26 percent of the population lived below the national poverty line. Private sector development is restricted by inadequate infrastructure and no economies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

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



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

FIGURE 2 Central Pacific Islands / Trust Fund balances, 2016-2021



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

Recent developments

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

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

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

Outlook

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

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

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

Risks to the Central Pacific outlook are substantial and include slowing global growth after the pandemic recovery; shocks to global commodity prices; volatile revenue flows, including grants from development partners; and the ever-present threat of climate-related natural disasters.

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

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

Sources: World Bank and IMF.
Note: e = estimate; f = forecast. Country authorities and World Bank and IMF staff estimates. Nauru data are based on the fiscal year ended June. Kiribati and Tuvalu are calendar years.
a/ Calculations based on EAPPOV harmonization, using 2019-HIES.
b/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

CHINA

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

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

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

Key conditions and challenges

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

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

Recent developments

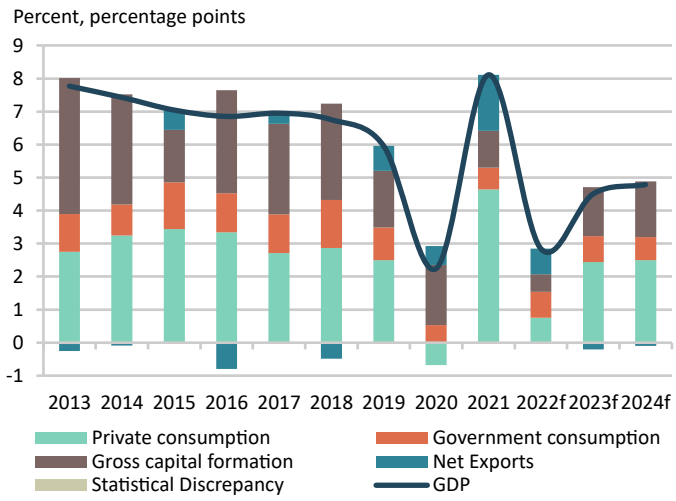
After a strong start in early 2022, China's growth cooled rapidly in the second quarter, mostly due to weaker consumption and services. Real GDP growth moderated to 0.4 percent y/y in the second quarter from 4.8 percent in the first quarter. Industrial production contracted as supply chains and logistics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

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

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

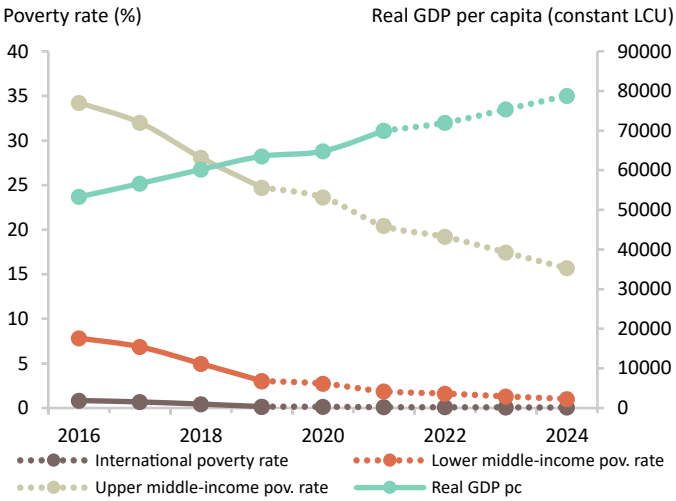
1/ Rogoff, K. and Y. Yang. 2020. "Peak China Housing." NBER Working Paper No. 27697, National Bureau of Economic Research, Cambridge, MA.

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ The adjusted fiscal balance adds up the public finance budget, the government fund budget, the state capital management fund budget and the social security fund budget.
b/ Last grouped data available to calculate poverty is for 2019 provided by NBS. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
c/ Projections based on GDP growth estimates, using a neutral distribution assumption with pass through 0.85 to per capita household consumption.

FIJI

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

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

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

Key conditions and challenges

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

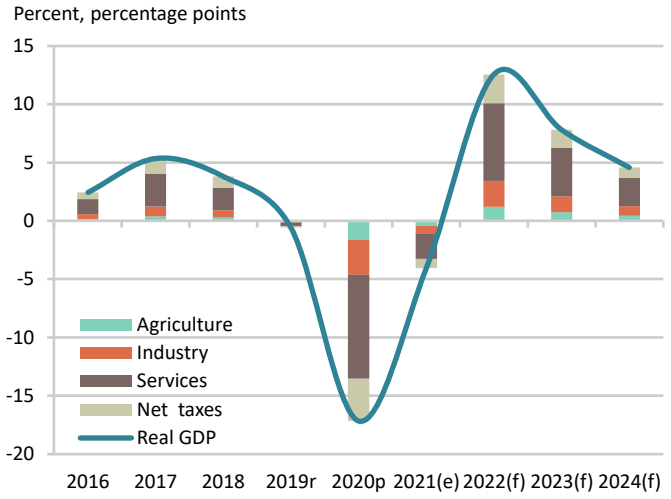
Real GDP contracted by 17.2 percent in 2020 and 4.1 percent in 2021, disrupting fiscal policy and amplifying pre-pandemic fiscal vulnerabilities that led to a spike in public debt. Fiji's adoption of the WHO best-practice standards and protocols, and its high COVID-19 vaccination rate resulted in the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

Recent developments

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

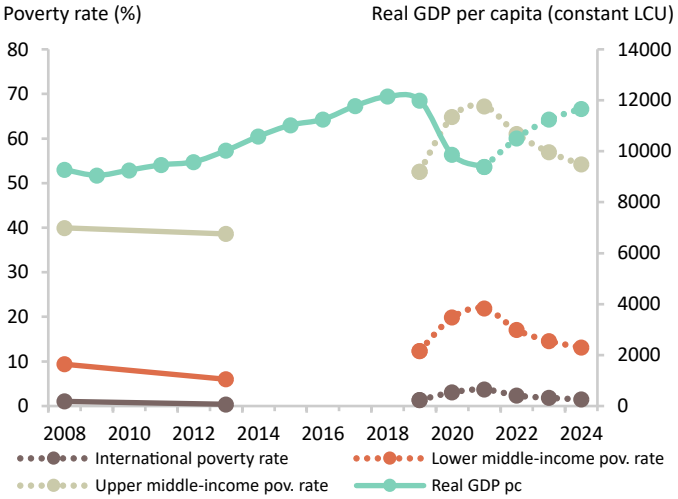
The current account deficit is estimated to decline to 12.4 percent of GDP in 2022,

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

INDONESIA

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

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

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

Key conditions and challenges

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

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

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

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

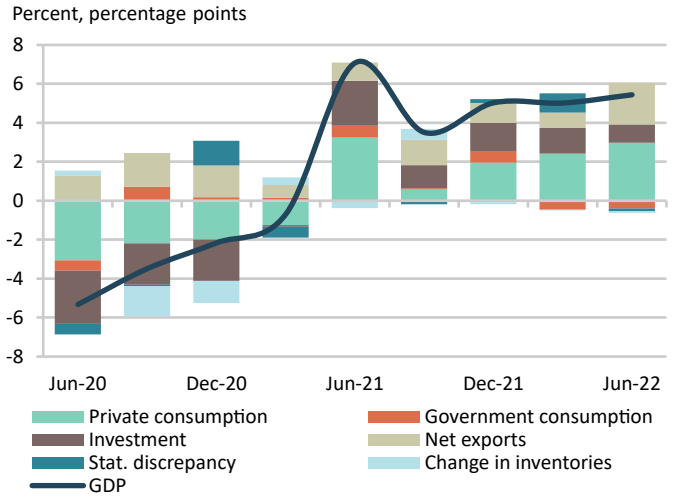
Recent developments

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

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

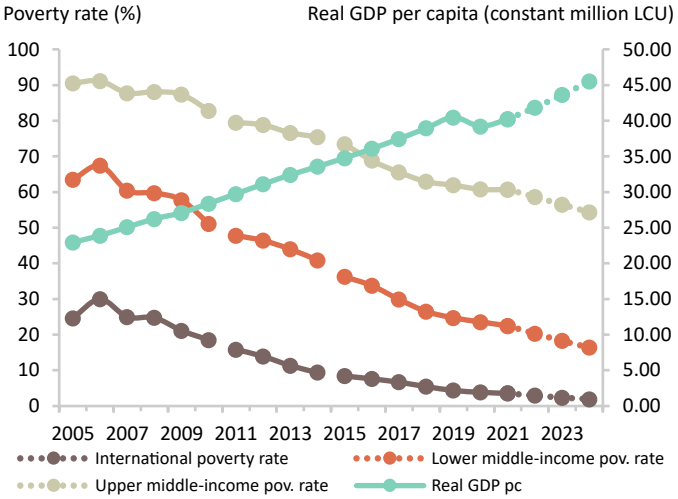
Inflationary pressures mount as global commodity prices soar. Year-to-date headline inflation reached 3.8 percent yoy, with food and transport contributing 37 percent of this increase. Rising core inflation reflects rising demand and a

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



Sources: National Statistics Agency and World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

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

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

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

LAO PDR

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

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

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

Key conditions and challenges

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

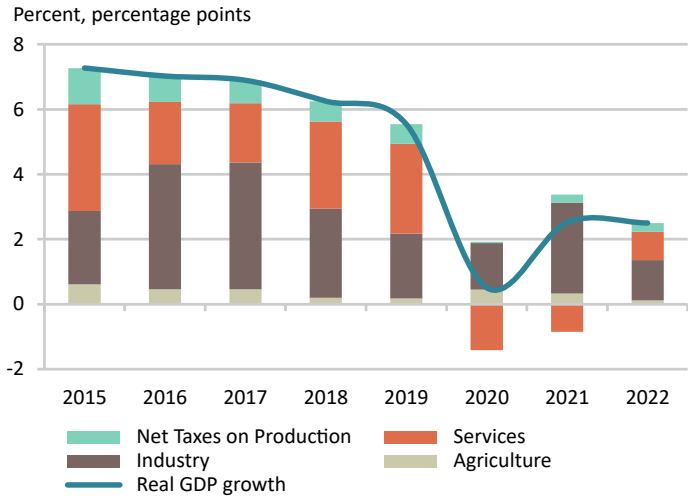
Domestic and external uncertainty continue to cloud the outlook. The reopening to international tourism, higher mineral prices, and the new Lao-China railway are supporting the economic recovery, but many challenges lay ahead. Structural imbalances and high global fuel prices will continue to put pressure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

Recent developments

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

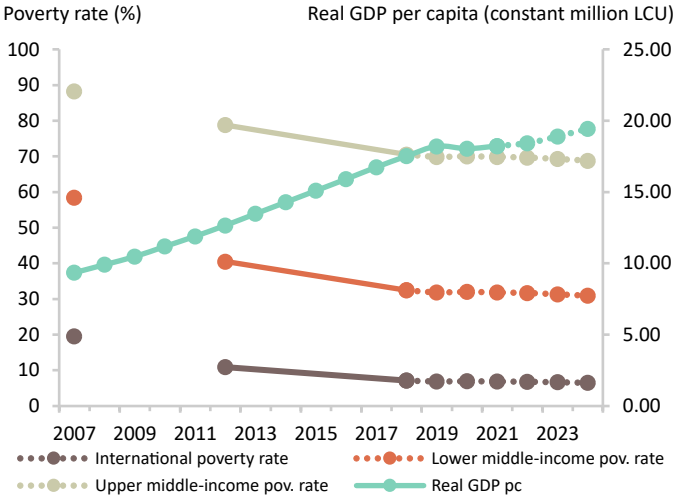
Inflation reached its highest level in over two decades – 26 percent in the year to July 2022 – owing to a weaker kip and rising global commodity prices, particularly fuel. Food and transport prices were the key categories contributing to overall inflation. The country also faced widespread

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



Sources: Lao Statistics Bureau and World Bank staff estimates.

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



Source: World Bank. Note: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

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

MALAYSIA

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

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

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

Key conditions and challenges

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

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

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

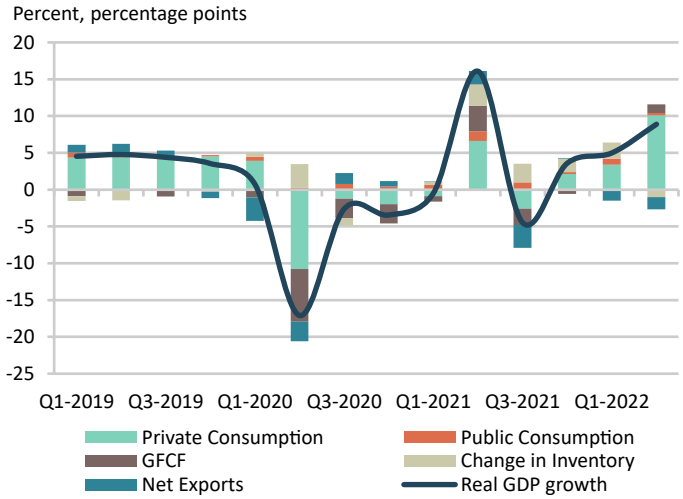
Recent developments

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

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

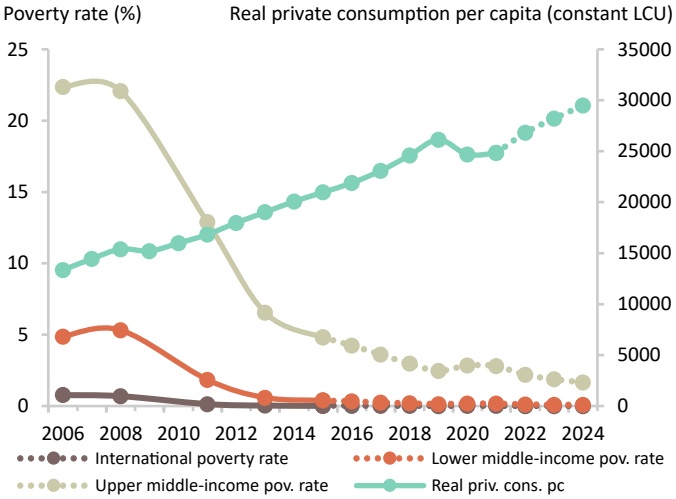
Inflation has been on an upward trend, increasing by 4.7 percent in August 2022

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.4	-5.5	3.1	6.4	4.2	3.9
Private Consumption	7.7	-4.2	1.9	9.1	6.5	5.7
Government Consumption	1.5	5.0	5.3	1.0	0.5	0.5
Gross Fixed Capital Investment	-2.1	-14.4	-0.9	5.2	2.6	2.7
Exports, Goods and Services	-1.0	-8.6	15.4	7.4	4.3	4.1
Imports, Goods and Services	-2.4	-7.9	17.7	8.3	5.1	4.8
Real GDP growth, at constant factor prices	4.5	-5.6	3.1	6.6	4.2	3.8
Agriculture	1.9	-2.4	-0.2	4.1	3.2	2.7
Industry	2.6	-6.1	5.6	4.1	3.7	3.6
Services	6.2	-5.8	1.8	8.8	4.7	4.2
Inflation (Consumer Price Index)	0.7	-1.1	2.5	2.7	2.0	1.9
Current Account Balance (% of GDP)	3.5	4.2	3.6	3.9	3.1	2.5
Net Foreign Direct Investment Inflow (% of GDP)	0.4	0.2	2.1	1.7	1.8	1.7
Fiscal Balance (% of GDP)	-3.4	-6.2	-6.5	-6.0	-5.4	-4.7
Debt (% of GDP)	52.4	62.0	63.5	65.1	66.2	67.1
Primary Balance (% of GDP)	-1.2	-3.7	-4.0	-3.6	-3.1	-2.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.1	0.2	0.2	0.1	0.1	0.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.5	2.8	2.8	2.2	1.9	1.7
GHG emissions growth (mtCO2e)	3.1	-3.7	1.8	4.1	2.7	2.5
Energy related GHG emissions (% of total)	60.4	59.0	59.6	60.8	61.5	62.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2011-2015) with pass-through = 0.7 based on private consumption per capita in constant LCU.

MONGOLIA

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

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

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

Key conditions and challenges

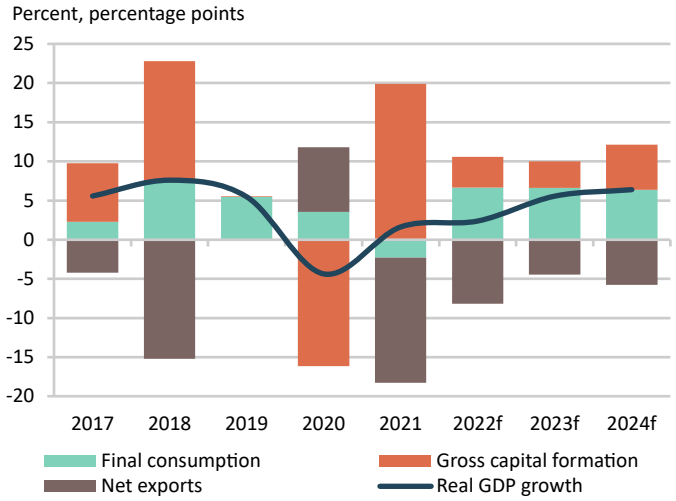
The combined impact of COVID-19, the war in Ukraine and lingering border frictions with China has resulted in slow growth and exacerbated fiscal and external imbalances. Even though the COVID-19 restrictions in the country have been removed, prolonged border frictions with China (resulting from China's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

Recent developments

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

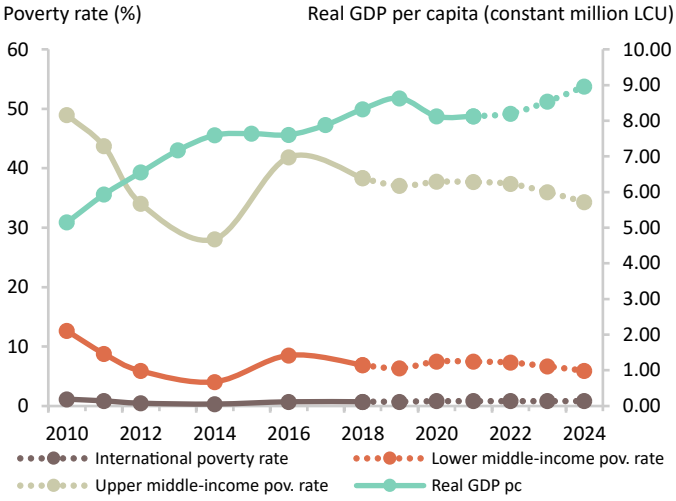
From the demand side, the continued income support program, labor market recovery and increasing wage incomes amid the reopening of the economy boosted private consumption in 2022H1 but momentum decelerated in 2022Q2

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



Sources: National Statistics Office and World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

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

Outlook

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

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

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

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

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

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

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

MYANMAR

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

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

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

Key conditions and challenges

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

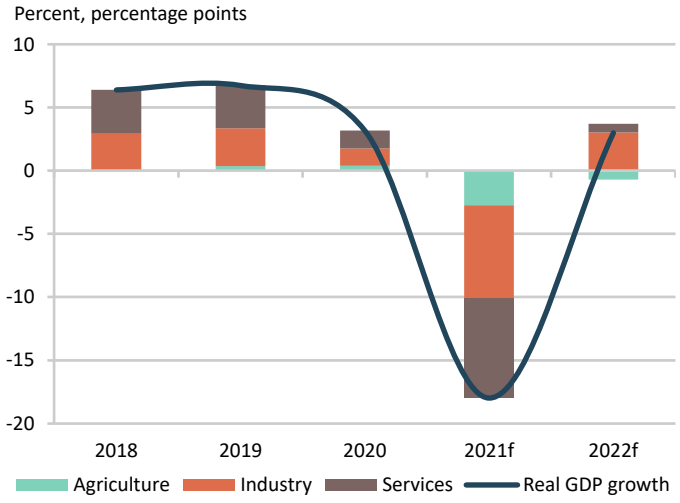
Available indicators suggest that the level of conflict remains high, impacting households and businesses across the country. One-fifth of all firms surveyed in May 2022 reported that conflict was their biggest operational challenge. This included 40 percent of all agricultural firms, highlighting the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

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

Recent developments

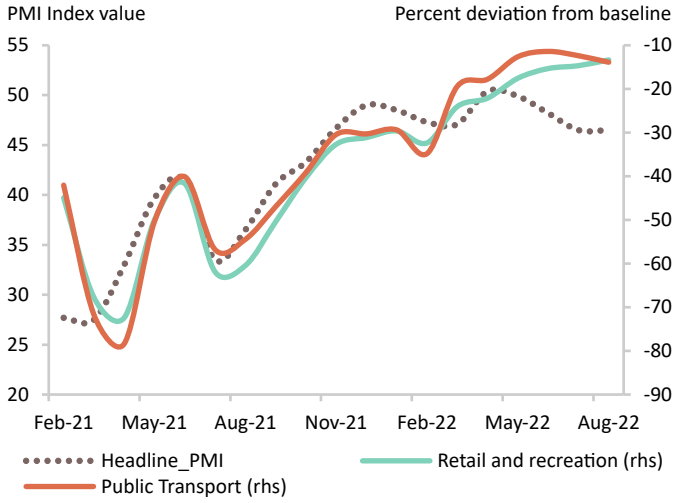
Although some parts of the economy have stabilized and even recovered over the past twelve months, overall the economy remains weak. Firms reported operating at a higher capacity in 2022 than in 2021, particularly in the manufacturing sector. The manufacturing Purchasing Managers' Index reached neutral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

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



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

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



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

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

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

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

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

Outlook

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

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

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

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

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

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

NORTH PACIFIC ISLANDS

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

Sources: WDI, World Bank staff estimates.

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

Key conditions and challenges

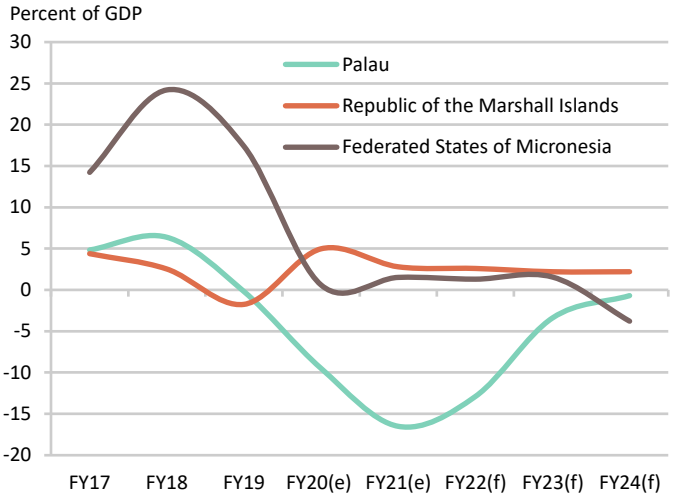
Recent COVID-19 outbreaks have stalled economic activity in the North Pacific by complicating border reopening plans in **FSM** and **RMI** and the tourism recovery in **Palau**. FSM opened its border on August 1, 2022, and RMI plans to reopen their borders to international travelers in October. Palau's border has been open for fully vaccinated international travelers since early 2022 and its eligible population is fully vaccinated. However, tourist arrivals are yet to recover with the monthly arrival in July at only 16 percent of pre-COVID levels. In the short term, the key challenges facing the North Pacific are: (1) The effective management of recent COVID outbreaks in FSM and RMI; (2) managing the spike in inflation without monetary policy and a fiscal policy that is determined by the availability of donor funds; (3) the continuation of vaccine rollout, to pave the way for full border reopening and gradual recovery of international arrivals; and (4) to support a sustainable and inclusive economic recovery while managing fiscal risks (particularly in Palau).

Over the medium term, the key challenge is the scheduled expiry of Compact-related grants and programs in 2023-2024. This poses a key structural risk to long-term fiscal sustainability, considering the limited space for additional debt. This is exacerbated by the fact that the projected annual distributions from the nations' Compact-related trust funds are not sufficient to fully offset the expiring fiscal transfers. Given this risk, reform-based fiscal adjustments, such as domestic revenue mobilization and expenditure rationalization, are critical to cover fiscal gaps. Natural disasters and climate change also pose a threat to livelihoods. Finally, governments need to implement structural reforms to ensure sustainable economic recovery that supports the livelihood of the bottom 40 percent of households. However, the lack of recent household data makes it challenging to monitor development progress and impacts of shocks and limits the potential for evidence-based policy.

Recent developments

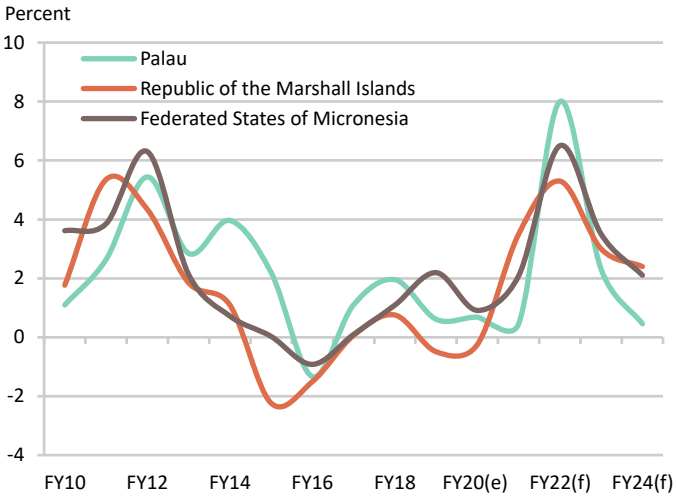
The economic impact of the pandemic drove **FSM** and **RMI** into the second year of consecutive recession in FY21. Output is estimated to have contracted by a further 3.2 percent in FSM and 2.5 percent in RMI in FY21. Ongoing strict border closures and related trade disruptions have curtailed construction activity, transport, and domestic consumption. Large parts of FSM and RMI government revenues have been relatively protected from the downturn in domestic activity, particularly donor grants and fishing revenues. Grants, combined with substantial fiscal buffers in FSM, provided fiscal space for stimulus, which was rolled out during FY20 and FY21. FSM and RMI registered fiscal surpluses of 1.5 percent and 2.8 percent of GDP in FY21, respectively. Total public

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



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

FIGURE 2 **North Pacific Islands** / Consumer price inflation



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

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

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

Outlook

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

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

Poverty in the North Pacific is expected to have risen relative to pre-crisis levels. The sharp economic contraction in FY20 and FY21 led to formal-sector job losses and lower demand for goods in the informal economy. The rebound in formal sector jobs in FY22 is expected to be slow. For Palau, the severe impacts on economic activity and jobs have led to increased vulnerability for a substantial number of households that predominantly work in the tourism sector. For FSM and RMI, many households rely on annual remittance inflows (approximately 6 percent and 13 percent of GDP, respectively) that is estimated to have dropped in FY21 and is expected to remain depressed in FY22 due to the impacts of the pandemic on US labor market conditions. There are only recent poverty estimates for RMI, where poverty is predicted to begin falling in FY22, but will remain above pre-crises levels through FY24. In FSM, the country with the highest poverty rate in the North Pacific, poverty reduction is likely to be slower, given the huge share of informal sector and lower rebound of economic growth in FY22.

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

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

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

PAPUA NEW GUINEA

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

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

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

Key conditions and challenges

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

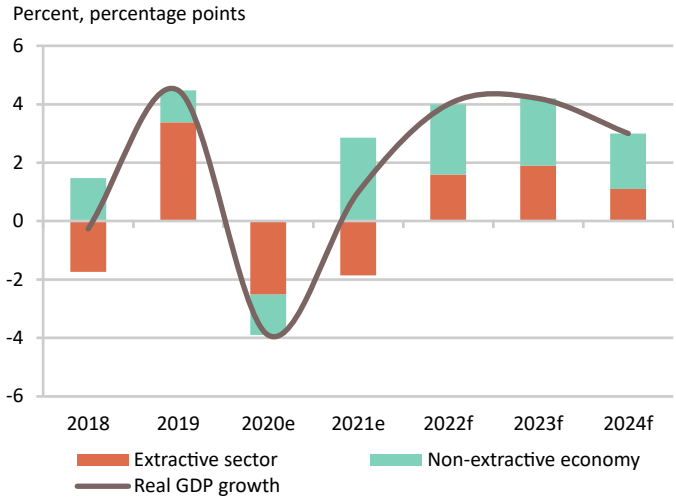
PNG has a highly dispersed and fragmented population, a low level of urbanization, significant gender disparities, high exposure to natural disasters, a high degree of resource dependence, and inter-communal violence in some regions. Weak governance severely constrains the ability to effectively manage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

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

Recent developments

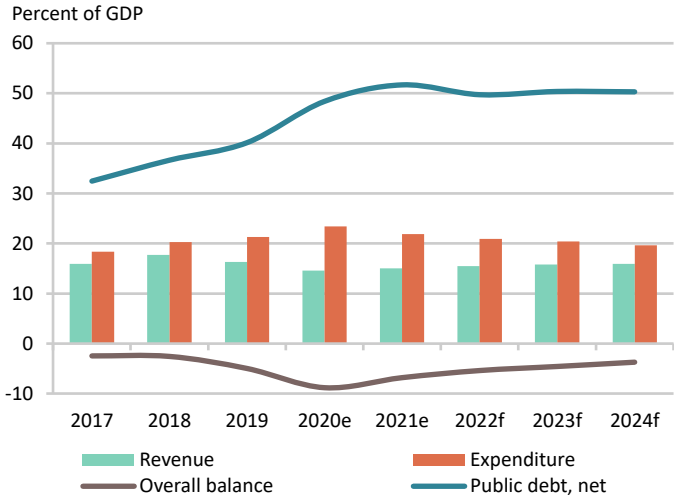
Following a sharp contraction in 2020, the economy is estimated to have recorded a 1 percent growth rate in 2021. Economic activity was mostly supported by a strong performance of the non-extractive sector. Agriculture was among the key contributors to economic recovery. More than half of respondents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

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



Source: World Bank staff estimates and forecast.

FIGURE 2 Papua New Guinea / Key fiscal and debt indicators



Source: World Bank staff estimates and forecast.

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

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

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

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

Outlook

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

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

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

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

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

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

PHILIPPINES

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

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

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

Key conditions and challenges

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

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

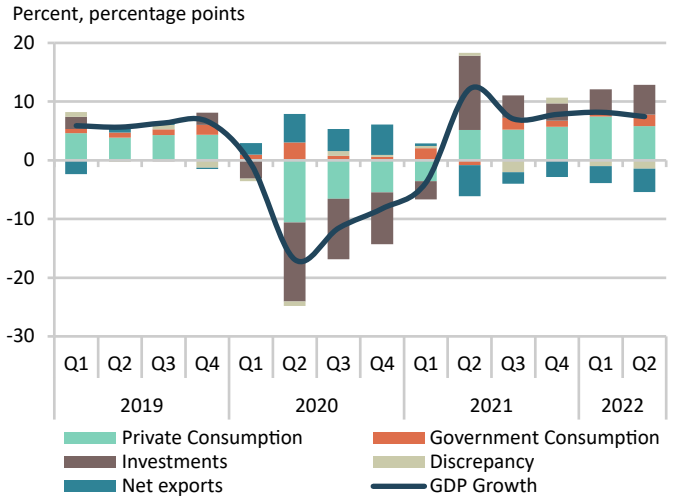
In the medium term, the government's fiscal consolidation agenda remains a key challenge as the authorities face tighter financing conditions while supporting economic growth. Achieving the 2.4 percentage point of GDP increase in tax revenues by 2028 will require the effective implementation of proposed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

Recent developments

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

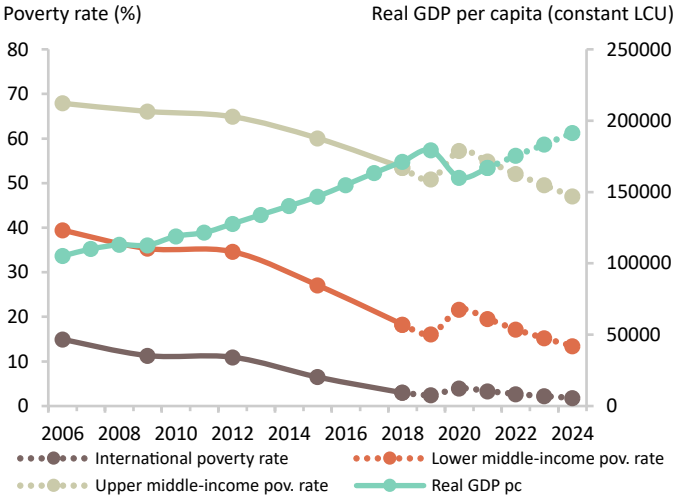
Robust imports led to strong dollar demand which contributed to the 8.2 percent

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



Source: Philippine Statistics Authority.

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



Source: World Bank. Notes: see Table 2.

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

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

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

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

Outlook

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

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

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

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

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

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

SOLOMON ISLANDS

Table 1	2021
Population, million	0.7
GDP, current US$ billion	1.6
GDP per capita, current US$	2312.3
National Basic Needs Poverty Rate[a]	12.7
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	73.1
Total GHG emissions (mtCO2e)	46.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Solomon Islands National Statistics Office. Most recent value (2013).
b/ Most recent WDI value (2020).

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

Key conditions and challenges

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

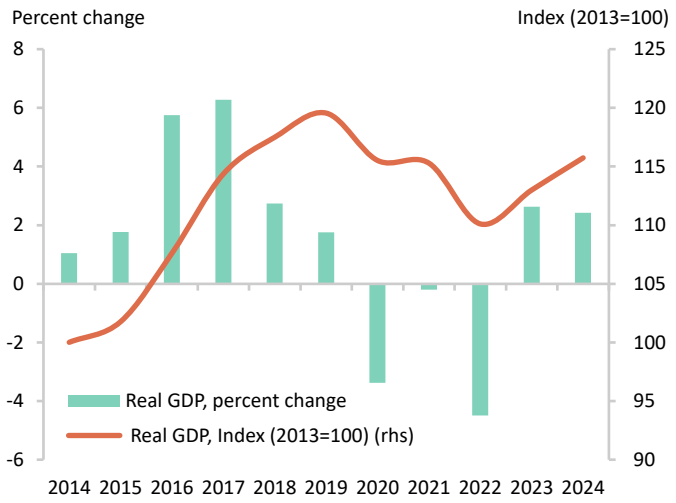
Development challenges have been further exacerbated by the COVID-19 pandemic which caused a sharp economic contraction and adversely affected livelihoods. According to a World Bank mobile phone survey collected during January-February 2022, there is no sign of employment recovery. Employment fell from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

Recent developments

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

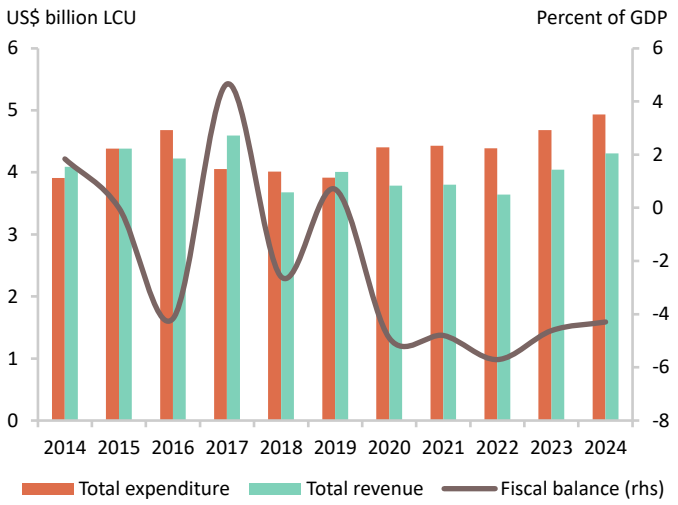
The external sector deteriorated in 2021. The trade deficit fell to 5.9 percent of GDP as logging exports fell and tourism receipts remained muted. As a result, current account deficit reached 5.5 percent of GDP in 2021. Furthermore, the war in Ukraine generated unfavorable terms of trade

FIGURE 1 Solomon Islands / Real GDP



Source: World Bank staff estimates.

FIGURE 2 Solomon Islands / Fiscal balance



Source: World Bank staff estimates.

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

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

Outlook

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

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

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

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

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

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

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

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

SOUTH PACIFIC ISLANDS

Table 1	2021
Population, million	
Samoa	0.20
Tonga	0.10
Vanuatu	0.31
GDP, US$, billion	
Samoa	0.84
Tonga	0.46
Vanuatu	0.95
GDP per capita, current US$	
Samoa	4216
Tonga	4669
Vanuatu	3045

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

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

Key conditions and challenges

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

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

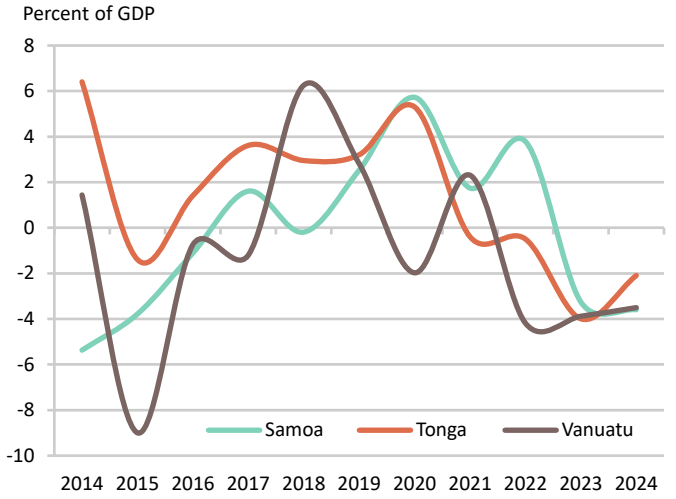
Recent developments

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

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

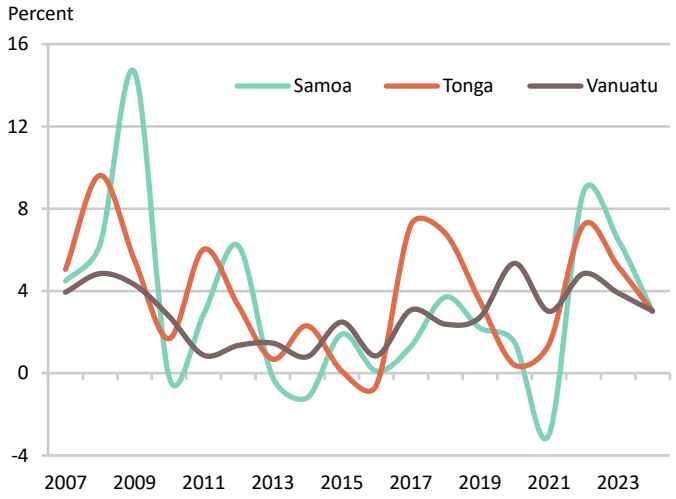
The **Tongan** economy is estimated to have contracted by 2.7 percent in FY21, due to the impacts of COVID-19 and TC Harold—a

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Inflation



Sources: National sources and World Bank projections.

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

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

Outlook

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

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

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

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

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

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

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

THAILAND

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

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

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

Key conditions and challenges

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

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

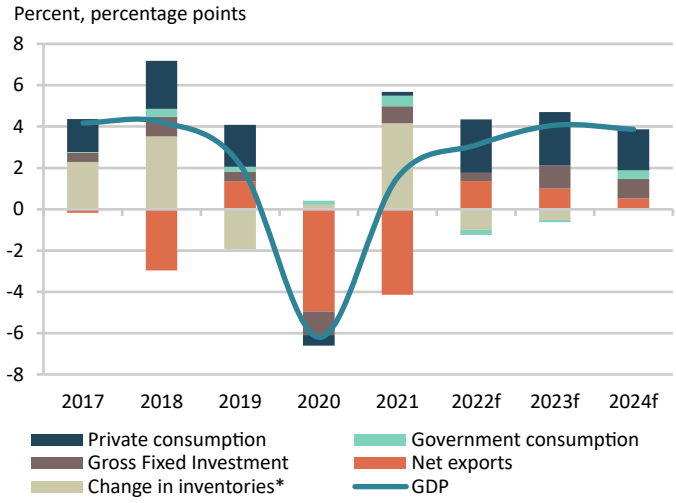
The calibration of fiscal policy to lessen the impact of the Ukraine-Russia war while maintaining fiscal consolidation is particularly important. At the current juncture, the government's response of price subsidies and cash transfers targeted at low-income households remain important tools that can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

Recent developments

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

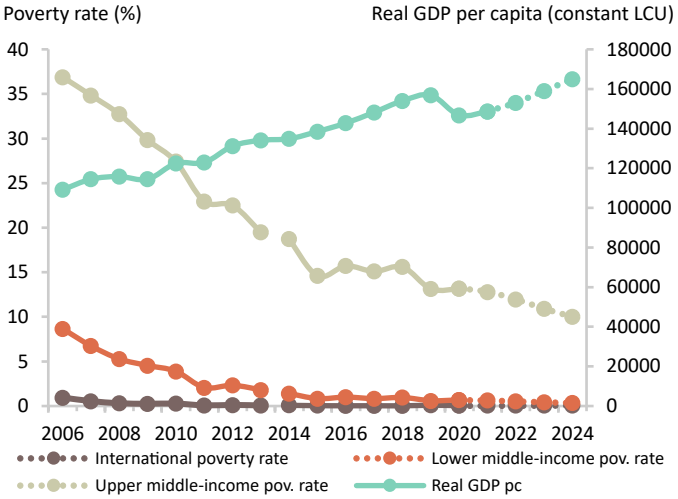
The external position remained weak due to the fallout from the Ukraine-Russia war. The current account deficit remained

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



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

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

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

TIMOR-LESTE

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

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

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

Key conditions and challenges

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

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

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

Recent developments

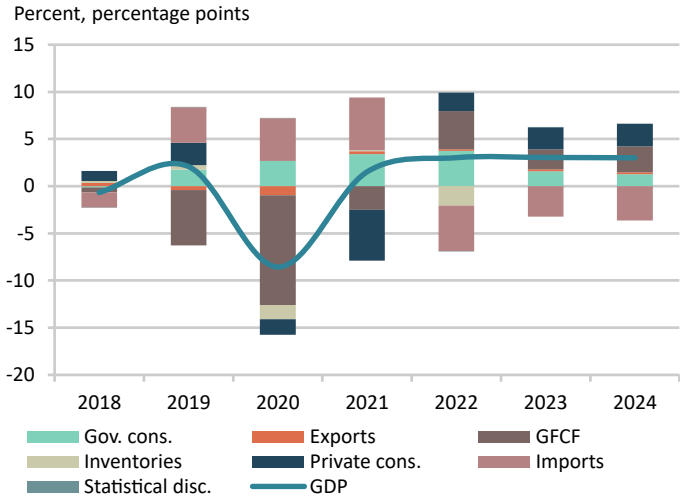
Strong progress with vaccination allowed the authorities to lift COVID-19-related restrictions at the end of November 2021 and social and economic life has largely returned to normal.

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

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

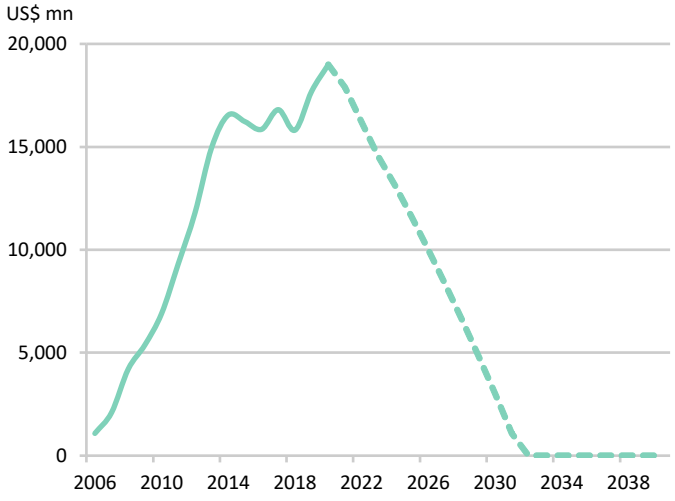
Lack of more recent data poses a challenge to fully understand the current poverty condition and a threat of inflation may set back any progress. The poverty rate at the national poverty line fell from 50.4 percent in 2007 to 41.8 percent in 2014. The latest poverty measurement was produced using the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

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



Sources: Ministry of Finance and World Bank staff estimates.

FIGURE 2 Timor-Leste / Petroleum fund



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

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

Outlook

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

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

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

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

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

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ The ESI is part of total revenue, while excess withdrawals from the PF is a financing item.

VIETNAM

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

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

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

Key conditions and challenges

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

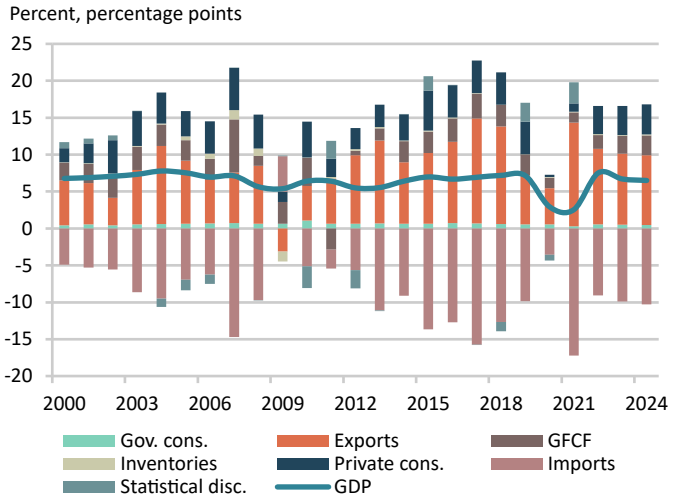
Recent developments

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

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

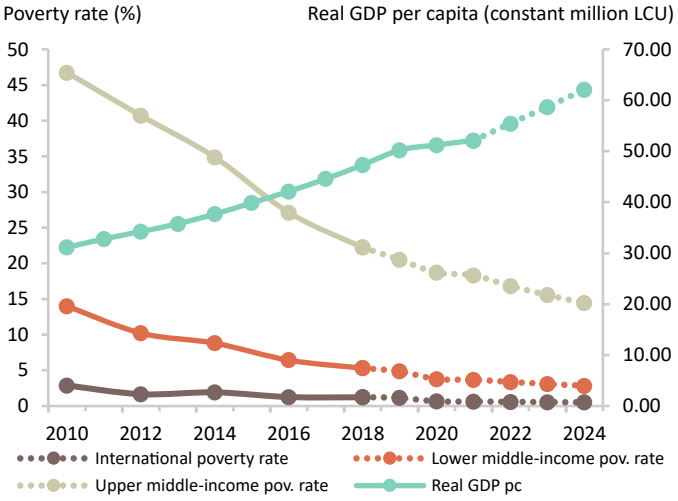
The external position remained solid in Q1-2022 despite a deteriorating current account. The current account registered a deficit of US$1.5 billion in Q1-2022. The deficit is driven by a deterioration of the balance of trade in goods and non-factor services (-US$1.5 billion) compared to Q1-2021, with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

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

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

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

Outlook

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

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

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

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

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	7.2	2.9	2.6	7.2	6.7	6.5
Private Consumption	7.4	0.5	2.0	6.5	6.8	7.0
Government Consumption	5.8	6.2	2.9	5.6	5.4	5.2
Gross Fixed Capital Investment	8.3	4.1	4.0	5.2	6.9	7.7
Exports, Goods and Services	6.7	5.0	14.0	8.9	8.5	8.2
Imports, Goods and Services	9.5	3.4	16.2	7.4	8.2	8.4
Real GDP growth, at constant factor prices	7.6	3.4	2.6	7.2	6.7	6.5
Agriculture	2.0	2.7	2.9	2.0	2.0	2.0
Industry	9.6	4.7	4.0	7.6	7.9	7.9
Services	7.5	2.6	1.2	8.3	6.8	6.3
Inflation (Consumer Price Index)	2.8	3.2	1.8	3.8	4.0	3.3
Current Account Balance (% of GDP)	3.7	3.7	-1.1	-0.1	0.4	0.3
Net Foreign Direct Investment Inflow (% of GDP)	4.7	4.5	4.2	4.2	4.3	4.3
Fiscal Balance (% of GDP)	-0.4	-2.9	-3.5	-2.8	-3.2	-2.0
Debt (% of GDP)	41.3	41.7	40.2	39.9	40.5	39.5
Primary Balance (% of GDP)	1.0	-1.6	-2.2	-1.6	-2.1	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.1	0.7	0.6	0.6	0.5	0.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.9	3.8	3.7	3.4	3.1	2.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	20.5	18.7	18.3	16.8	15.6	14.4
GHG emissions growth (mtCO2e)	13.3	2.9	2.9	6.2	5.7	5.6
Energy related GHG emissions (% of total)	65.2	64.9	64.4	64.7	64.7	64.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on EAPPOV harmonization, using 2014-VHLSS and 2018-VHLSS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

Europe and Central Asia

Annual Meetings 2022

Albania
Armenia
Azerbaijan
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Kosovo
Kyrgyz Republic
Moldova
Montenegro
North Macedonia
Poland
Romania
Russian Federation
Serbia
Tajikistan
Türkiye
Ukraine
Uzbekistan

ALBANIA

Table 1	2021
Population, million	2.8
GDP, current US$ billion	18.3
GDP per capita, current US$	6447.7
International poverty rate ($2.15)[a]	3.9
Lower middle-income poverty rate ($3.65)[a]	11.3
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	36.0
School enrollment, primary (% gross)[b]	100.2
Life expectancy at birth, years[b]	78.7
Total GHG emissions (mtCO2e)	7.9

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

Following a strong growth in Q1 2022, GDP is likely to decelerate, as rising inflation affects disposable income, and a slowdown in the global economy translates into tighter financing conditions and lower exports. Medium-term prospects hinge on the global recovery, structural reforms, and fiscal consolidation. Poverty is expected to decline but persistent inflation could lead to smaller declines in the future or to reversals of past gains.

Key conditions and challenges

Albania's GDP growth rebounded to 8.5 percent in 2021, reflecting the economy's resilience following two exceptionally large shocks: the 2019 earthquake and the COVID-19 pandemic. The post-earthquake reconstruction supported strong investment growth, while consumption benefited from the growth in employment and wages, and credit growth.

Towards year-end 2021, closure of the output gap and rising global prices started affecting domestic inflation. Pressures intensified after the start of the war in Ukraine, with food and energy prices being the most affected. Rising interest rates have also hardened borrowing conditions while global supply chain shortfalls still persist following the pandemic and contribute to inflationary pressures.

The global slowdown and rising inflation brought new trade-offs for macroeconomic policies. While macroeconomic policies were geared towards providing a stimulus during 2021, increased inflation expectations prompted a change in the course of monetary policy with the key rate increasing 3.5 times since March 2022.

Against further erosion of disposable income, social assistance is still needed to continue supporting the most vulnerable, but the budget now faces increased refinancing and interest rate risks on its public debt.

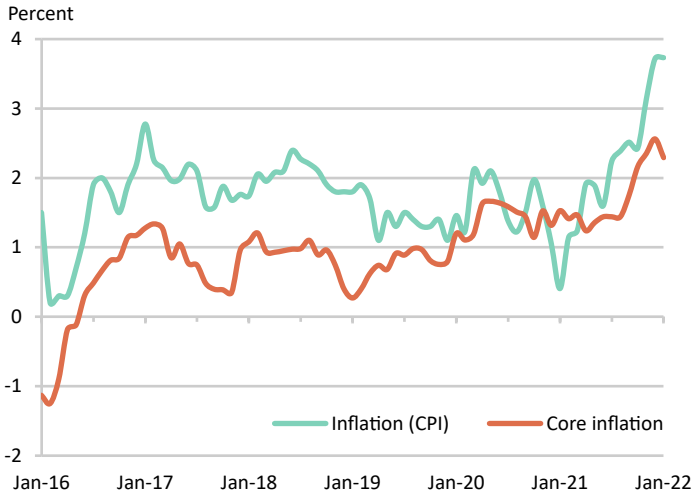
Public debt is expected to decline further in 2022, reaching 67.9 percent of GDP, largely on account of higher nominal GDP. The energy sector SOEs represent a key risk to the government's further consolidation plans, in addition to higher costs of public works. At around 27 percent of GDP, public revenues provide little space to increase investment in public infrastructure and human capital. A Medium-Term Revenue Strategy under preparation has the potential to increase revenues over the medium run.

Growth prospects are uncertain with many downside risks. Higher energy, food, and commodity prices could further shrink households' purchasing power and consumption. Additional risks include new, vaccine-resistant COVID-19 variants, tighter global financial and trade conditions, and renewed travel restrictions.

Recent developments

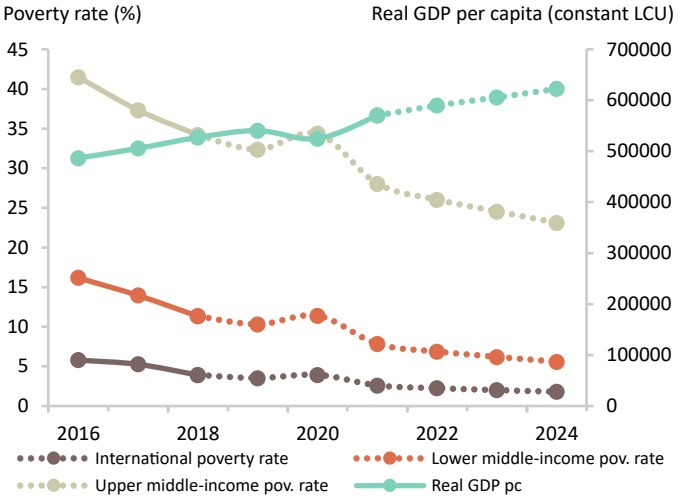
GDP grew by 6 percent in Q1 2022. Private consumption, exports, and investment expanded, as business and consumer confidence remained strong despite increasing prices. Household consumption rose by 8.6 percent yoy. Net foreign demand contributed positively to GDP growth as exports increased by 25.3 percent yoy, while imports rose by 17.6. Gross fixed capital formation slowed (15.5 percent yoy vs 16.9 percent in Q4 2021) while government spending declined significantly with the earthquake

FIGURE 1 Albania / Headline inflation and core inflation



Sources: INSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

reconstruction winding down. On the supply side, trade and construction led growth in Q1 2022. Surveys indicate continued growth in the following trimesters on account of tourism.

Labor markets improved during Q1 2022. Employment grew by 3.4 percent, from 2.7 percent in the previous quarter. For the same period, unemployment fell to 11.3 percent from 11.4 percent a quarter earlier, while labor force participation increased. Given the strong growth in GDP per capita in 2021, poverty is estimated to have dropped from 34.4 percent in 2020 to 28.1 percent in 2021.

The annual inflation rate rose to 7.4 percent in June 2022, the highest since March 2020, from 6.7 percent in the previous month. Core inflation was at its peak July 2022 (at 7.3 percent) indicating raising inflation expectations. The Central Bank raised its key policy rate by 50 basis points to 1.75 percent in August, marking the third hike since the start of the war in Ukraine. Credit to the private sector grew at 13.8 percent yoy in H1 2022.

Fiscal revenues increased by 19.2 percent yoy in H1 2022 on account of increased inflation, formalization efforts, and higher profit tax. In response to higher food prices stemming from the war in Ukraine, the government increased support to vulnerable groups and increased the subsidies to the energy SOEs, while keeping the tariffs for households and SMEs unchanged.

Outlook

Economic activity is projected to expand at an average of 2.7 through 2024, below the pre-earthquake historical rate, following global conditions and persistent supply side shocks. Enduring geopolitical tensions could further increase inflation, disrupt supply chains, and disturb financial markets; all of which could further dim Albania's growth prospects. In turn, a sluggish job market combined with diminished purchasing power could dampen progress on poverty reduction.

While the government plans to contain spending in line with fiscal consolidation plans, higher costs of public service provision create additional pressures on growth. Higher spending may be needed to guarantee energy supply through more costly energy imports and support to the fragile energy SOEs.

On the external account, services exports, including tourism and fast-expanding business-process operations should gradually recover. The current account deficit is expected to reach 7.7 percent of GDP in 2024 reflecting high demand for infrastructure-related imports.

Public debt is expected to decline to 68.9 percent of GDP in 2022, and more significantly over the medium term. This is based on the assumption that the primary balance turns positive in 2024 in line with the fiscal rule. However, the fiscal balance could further deteriorate in a worsening international context, which may force the government to cut public spending to prevent a hike in the debt-to-GDP ratio. Given Albania's growing reliance on external financing, interest rate and refinancing-related risks remain elevated. Contingent liabilities in the form of guarantees to cover energy purchases also represent a significant risk.

In the medium term, private consumption is projected to return as a key driver of GDP growth. Private investment could provide further support to growth if business climate reforms are implemented. After the significant reduction in 2021, poverty is expected to continue declining in 2022, but persistent inflationary pressures could hamper further poverty reduction.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.1	-3.5	8.5	3.2	2.3	2.5
Private Consumption	3.2	-3.5	4.2	2.8	2.2	2.4
Government Consumption	2.9	1.5	7.8	-3.3	-0.2	2.0
Gross Fixed Capital Investment	-3.7	-0.9	19.8	3.9	-0.1	0.1
Exports, Goods and Services	2.6	-27.9	46.0	6.5	5.7	5.6
Imports, Goods and Services	2.3	-19.8	31.7	3.5	2.7	2.9
Real GDP growth, at constant factor prices	2.4	-2.9	8.6	3.2	2.3	2.5
Agriculture	0.6	0.3	1.5	1.5	1.2	1.2
Industry	0.9	-3.5	10.8	5.0	5.0	5.0
Services	3.8	-3.8	10.3	2.9	1.3	1.7
Inflation (Consumer Price Index)	1.4	2.2	2.6	6.7	4.0	3.5
Current Account Balance (% of GDP)	-7.9	-8.5	-7.7	-7.9	-8.1	-7.7
Net Foreign Direct Investment Inflow (% of GDP)	7.5	6.7	6.4	6.3	6.4	6.4
Fiscal Balance (% of GDP)	-1.9	-6.7	-4.5	-3.8	-4.7	-3.8
Debt (% of GDP)	67.4	75.9	74.0	68.9	67.4	66.9
Primary Balance (% of GDP)	0.1	-4.6	-2.6	-1.3	-1.1	0.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.5	3.9	2.6	2.2	2.0	1.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	10.3	11.4	7.8	6.9	6.2	5.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	32.4	34.4	28.1	26.0	24.5	23.1
GHG emissions growth (mtCO2e)	-4.8	-8.7	-1.7	-4.2	-4.4	-4.0
Energy related GHG emissions (% of total)	47.7	44.5	44.6	42.9	40.7	38.4

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/ Calculations based on ECAPOV harmonization, using 2016-SILC-C and 2018-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ARMENIA

Table 1	2021
Population, million	3.0
GDP, current US$ billion	13.9
GDP per capita, current US$	4670.3
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	6.9
Upper middle-income poverty rate ($6.85)[a]	53.5
Gini index[a]	25.2
School enrollment, primary (% gross)[b]	91.2
Life expectancy at birth, years[b]	75.2
Total GHG emissions (mtCO2e)	9.6

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

Growth has surprised on the upside and is expected to reach 7 percent in 2022, prior to slowing in 2023. The economy has benefited from a surge in money transfers and visitors from Russia that is expected to subside. Risks to this outlook are mostly on the downside, related to the duration and severity of the conflict, inflationary pressures, and the tensions at Armenia's borders.

Key conditions and challenges

Despite the twin shocks of COVID-19 and military confrontation with Azerbaijan in 2020, the Armenian economy has shown resilience thanks to prudent macroeconomic management (flexible exchange rate, active inflation targeting regime; effective fiscal rule), and a sound financial sector.

In early 2022, the country was expected to be negatively impacted by the war and the associated sanctions, given the strong economic linkages with Russia and the increase in global commodity prices. However, the economy has performed better than anticipated, supported by strong domestic demand and large money transfers and visitors from Russia. It is unclear whether these inflows are temporary and could be reversed.

Armenia's long-standing structural bottlenecks include closed borders with two of its four neighbors, low productivity and firm competitiveness, and skills mismatches.

Recent developments

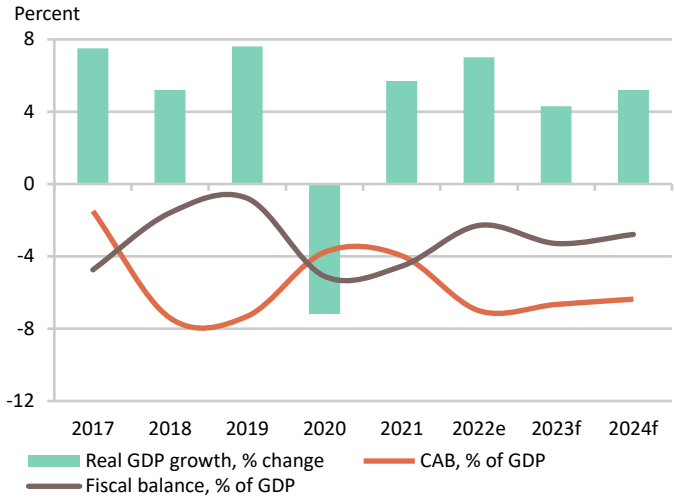
Contrary to expectations, the economic rebound has continued in 2022, with real GDP growing by 11 percent (yoy) during the first half of 2022. This was mostly driven by services (16 percent growth, yoy), in particular tourism, finance, and IT. Manufacturing and construction grew by 11 and 22 percent, respectively, while mining contracted by 11 percent, partly reflecting the closure of the Teghut mine in mid-March 2022 following the Ukraine-Russian war. According to the official statistics, agriculture contracted in real terms by 1.8 percent (yoy), partly reflecting constraints relating to land and irrigation.

After some moderation in late 2021, inflation picked up again in early 2022, and reached 10.3 percent (yoy) in June 2022, prior to easing to 9.3 percent in July. Food and fuel price increases have contributed to about two-thirds of total inflation in the year to date. In response, the Central Bank of Armenia (CBA) has increased the policy rate three times in 2022, to 9.5 percent.

During the first half of 2022, the budget balance has remained in surplus, at 0.9 percent of the annual projected GDP, compared to a planned deficit of 1.5 percent. In this period, total revenues grew by 24 percent (yoy) in nominal terms while expenditures grew by just 5 percent (yoy), a decline in real terms. While capital expenditures have increased by 30 percent, recurrent expenditures just grew by 3 percent, partly due to some savings in the procurement of goods and services. While faster growth in outlays is expected during the second half of the year, the budget is likely to remain under-executed.

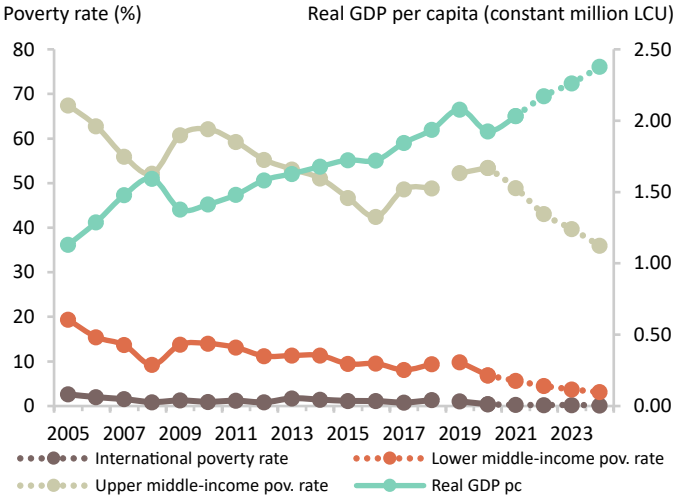
The current account deficit (CAD) has widened in the first half of 2022, as goods import growth has outpaced exports (49 vs. 36 percent, yoy), driven by higher food and fuel import prices and the economic recovery. Remittances declined in nominal terms, but this was compensated by a 2.5-fold increase in total net money

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



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

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



Source: World Bank. Notes: see Table 2.

transfers from abroad (mostly driven by Russia). The net positive arrivals (single entry) of Russian visitors in this period increased by about 21 percent compared to the same period in 2019 (pre-pandemic). FDI increased by 4.5-fold in the first quarter of 2022, mostly driven by investments into the financial sector. As a result of these trends, international reserves increased to USD 3.5 billion by end-July (4.7 months imports). After a short depreciation period at the onset of the Ukraine war, the dram has recovered vis-à-vis the USD and by mid-August it was 18 percent stronger (yoy), while remaining almost flat against the Ruble.

The unemployment rate declined to 14.8 percent by end-March 2022 (compared to 16.7 percent in March 2021).

Outlook

The strong economic performance in recent months has led to an upgrade of the growth forecast for 2022 to 7 percent. Growth is expected to be supported by services, and, to a lesser extent, by industry. The slowdown in trading partners will likely result in slower growth in 2023. Agriculture growth, on the other hand, is expected to remain flat in 2022, while picking up in the medium term, supported by policies in the government's five-year program.

The deficit is expected to be lower than planned in 2022 (at around 2 percent of GDP). As the economy decelerates in 2023, the fiscal stance may loosen, with consolidation expected to continue in 2024 and 2025. Public debt (excluding CBA) is expected to decline by the end of 2022 below the fiscal rule's statutory limit of 60 percent of GDP.

The CAD is projected to widen in 2022 due to weaker external demand and rising import prices and will remain elevated in the medium term, at above 6 percent of GDP.

Inflationary pressures are expected to ease in the remainder of 2022 and in the coming years, as external price pressures subside and inflation targeting helps keep expectations anchored.

Based on the forecasted macroeconomic impact, poverty could reach 43.1 percent of the population in 2022 (measured by the upper middle-income poverty line of $6.85). Poverty is forecasted to continue declining due to strong economic performance. However, the higher food and energy prices may have a negative distributional impact, disproportionately hurting the poor. Moreover, the impacts can have a long-lasting effect, as lower-income households may be forced to reduce food consumption and investments in assets, hampering human capital accumulation.

Downside risks include continued or heightened clashes with Azerbaijan, a protracted Ukraine conflict, a slowdown in main trading partners, and monetary tightening in advanced economies. On the upside, the significant influx of international visitors from Russia, if sustained, could provide a longer-term boost to the economy.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	7.6	-7.2	5.7	7.0	4.3	5.2
Private Consumption	11.5	-13.9	3.7	8.9	4.2	5.4
Government Consumption	12.9	9.2	8.4	-4.1	4.4	7.1
Gross Fixed Capital Investment	4.4	-1.5	6.3	18.3	8.1	7.1
Exports, Goods and Services	16.0	-33.5	16.6	16.3	8.7	9.2
Imports, Goods and Services	11.6	-31.5	12.9	18.6	9.0	9.7
Real GDP growth, at constant factor prices	7.7	-6.8	5.5	7.0	4.3	5.2
Agriculture	-5.8	-3.7	-0.6	0.0	2.0	3.5
Industry	10.5	-2.5	3.4	3.6	4.5	5.1
Services	9.7	-9.6	8.0	10.3	4.6	5.5
Inflation (Consumer Price Index)	1.4	1.2	7.2	8.5	6.7	4.8
Current Account Balance (% of GDP)	-7.3	-3.8	-4.0	-7.0	-6.7	-6.4
Net Foreign Direct Investment Inflow (% of GDP)	1.7	0.7	2.5	2.7	2.9	3.2
Fiscal Balance (% of GDP)	-0.8	-5.1	-4.6	-2.3	-3.3	-2.8
Debt (% of GDP)[a]	53.7	67.4	63.4	61.3	61.0	59.9
Primary Balance (% of GDP)	1.6	-2.4	-2.0	0.3	-0.8	-0.4
International poverty rate ($2.15 in 2017 PPP)[b,c]	1.0	0.4	0.2	0.2	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	9.8	6.9	5.7	4.5	3.7	3.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	52.3	53.5	48.9	43.1	39.7	36.0
GHG emissions growth (mtCO2e)	5.5	-10.8	7.3	7.1	6.8	6.5
Energy related GHG emissions (% of total)	59.9	56.3	60.5	62.1	63.5	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/ Includes Governement and CBA debt.
b/ Calculations based on ECAPOV harmonization, using 2020-ILCS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

AZERBAIJAN

Table 1	2021
Population, million	10.2
GDP, current US$ billion	54.6
GDP per capita, current US$	5367.1
School enrollment, primary (% gross)[a]	95.8
Life expectancy at birth, years[a]	73.1
Total GHG emissions (mtCO2e)	56.7

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

The rebound in economic activity in 2021 continued in the first half of 2022, fueled by strong activity in non-energy sectors. Recovering domestic demand supported growth, while high global energy prices boosted external and fiscal accounts. Risks to the outlook have become balanced. However, the war in Ukraine could increase poverty and inequality given the high food inflation and the larger share of household budgets spent on food among the less well-off.

Key conditions and challenges

Azerbaijan is at a critical juncture in its development journey. The current economic model is unlikely to deliver the growth necessary for Azerbaijan to meet its long-run goals. Azerbaijan's integration into the global economy is largely limited to the energy sector, and relatively inefficient state-owned enterprises remain present in several sectors. In addition, structural headwinds – in the form of declining oil reserves, falling population growth, and an aging population – are expected to dampen long-run growth prospects.

While the poverty rate has been stable at about 5-6 percent over the past decade, households remain vulnerable to shocks. Providing greater access to quality services in higher education and health services is essential to enhance inclusive growth in the longer term.

Accelerating growth is possible by focusing on improving productivity in the non-oil/gas sectors and building human capital. The newly approved socio-economic development strategy emphasizes the need to transition to a private-sector-led economic model and aims at attaining greener growth, inclusion, and social justice, and a more competitive human capital base. Private sector growth will require a level playing field and access to skilled labor.

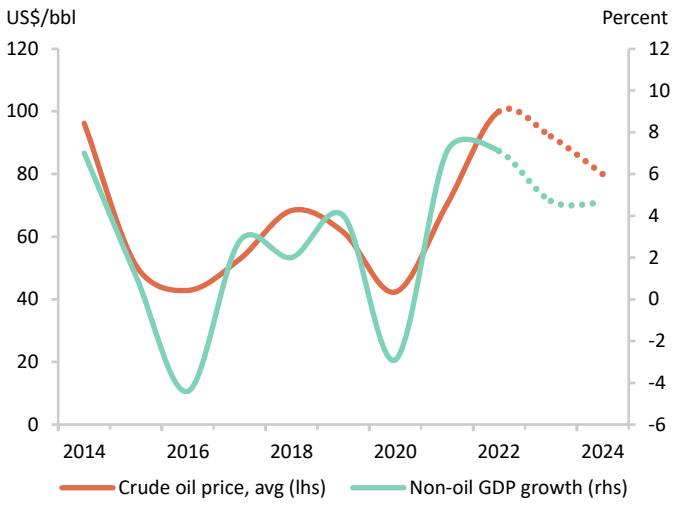
Recent developments

Real GDP expanded by 6.2 percent in the first half of 2022 (yoy). The energy sector edged up, by 0.2 percent (yoy), driven by an expansion in natural gas production, while crude oil production fell. Higher-than-expected growth in the non-energy sector (9.6 percent, yoy) was supported by recovery in traditional services amid removal of COVID-19 restrictions and by increased domestic demand due to the release of pent-up consumption as well as fiscal expansion. The war in Ukraine has had a relatively muted impact on the economy, with some positive effects on the transport sector. Double-digit growth rates were recorded in transport, hospitality, ICT, and non-oil manufacturing.

On the demand side, investments inched up by 0.7 percent during the first half of 2022. Consumption was supported by solid nominal wage growth (13.5 percent, yoy) owing to public sector wage increases, soaring remittance inflows from Russia (2.3 times, yoy), and robust consumer lending.

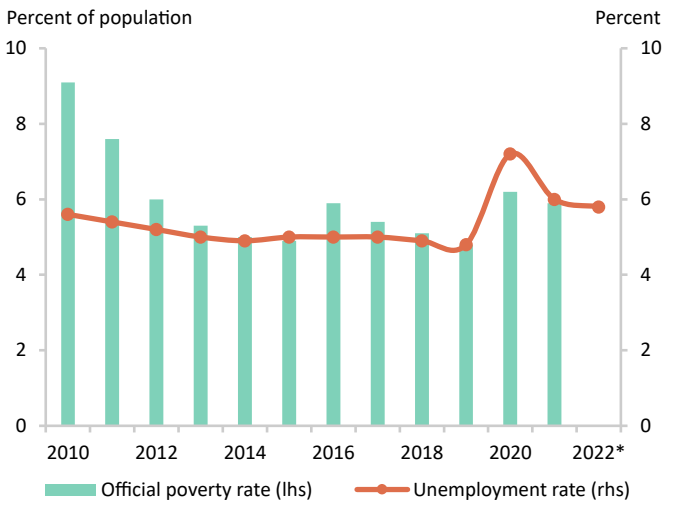
Inflation jumped to 13.7 percent (yoy) by July and has been broad-based, driven by high import prices. Food inflation rose the most, by 20.3 percent (yoy). To counter inflation, the central bank increased the policy rate twice in the first half of 2022, raising it by 50 basis points in total to 7.75 percent, but with muted impact on inflation as the monetary transmission is weak, including due to

FIGURE 1 **Azerbaijan** / Non-oil GDP growth and oil price



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

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



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

dollarization and an underdeveloped inter-bank money market.

The trade balance recorded a surplus of 32.5 percent of GDP in the first half of 2022, supported by high energy prices. Exports doubled compared to a year ago (with 90 percent of the increase in oil and gas exports due to price effects), while imports rose by 18 percent. CBA reserves increased by 4.2 percent while State Oil Fund (SOFAZ) reserves leveled off as higher revenues were offset by the loss in asset value.

The fiscal balance was in surplus of 6 percent of GDP as higher energy prices boosted the fiscal revenues while fiscal spending saw a rise by 12.5 percent in nominal terms (a slight drop in real terms). Higher energy prices prompted the government to revise the budget in June and increase spending by around 2 percent of GDP, largely on public investment.

The financial sector has demonstrated resilience as the credit portfolio expanded steadily while non-performing loans declined to 3.5 percent as of June. The dollarization rate stabilized at 50 percent.

Outlook

Real GDP growth is projected to reach 4.2 percent in 2022, and to slow to an average of 2.7 percent during 2023-24. A moderate decline in crude oil production is expected to be offset by expansion in natural-gas production, with growth in the energy sector stabilizing at 0.1 percent. In non-energy sectors growth is projected to average 4.6 percent during 2023-24 as service sectors' growth will converge to the pre-COVID levels. On the demand side, consumption is expected to moderate as households' real incomes are negatively affected by high inflation, and investments are projected to moderate.

Inflation is projected to ease in 2023 and 2024, while remaining significantly above the CBA's target range of 4+/-2 percent, and is expected to have negative distributional impacts, as the less well-off are disproportionately affected.

High energy prices in the medium term are expected to bolster the external sector, with the current account surplus remaining in double digits. Export growth will remain strong, propelled by high prices, while import growth is expected to ease beyond 2022, in line with the moderation in domestic demand.

The fiscal surplus is projected to moderate gradually over 2022-2024, reflecting the projected path in oil and gas revenues. The new fiscal rule should help to avoid pro-cyclicality during the current commodity boon while reducing non-oil fiscal balance in the medium term.

Implementation of the new socio-economic development strategy is likely to require additional public spending in certain areas, which will need to be reconciled with the fiscal rule.

There are upside risks to the outlook such as the possibility to ramp up natural gas production, enabled by the MoU signed with the EU, and the possible adoption of reforms to foster non-oil sector growth in line with the new socio-economic development strategy. Downside risks include continued or heightened clashes with Armenia, a protracted Ukraine conflict, the slowdown in main trading partners, and monetary tightening in advanced economies.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.5	-4.3	5.6	4.2	2.8	2.6
Private Consumption	4.2	-5.1	7.0	4.5	4.0	3.6
Government Consumption	7.9	4.8	3.8	7.4	4.2	3.1
Gross Fixed Capital Investment	-2.4	-7.1	-6.0	3.0	3.2	3.3
Exports, Goods and Services	1.5	-8.1	5.6	3.2	1.7	1.8
Imports, Goods and Services	2.2	-10.5	2.5	3.2	2.7	2.7
Real GDP growth, at constant factor prices	2.5	-4.4	5.6	4.2	2.8	2.6
Agriculture	7.3	1.9	3.3	1.1	2.0	2.2
Industry	0.4	-5.2	4.1	2.7	1.5	1.3
Services	5.1	-4.4	8.6	7.3	5.0	4.6
Inflation (Consumer Price Index)	2.7	2.8	6.7	12.5	9.5	8.0
Current Account Balance (% of GDP)	9.1	-0.5	15.2	24.5	16.7	13.4
Net Foreign Direct Investment Inflow (% of GDP)	-2.9	-1.5	-4.1	-1.6	-1.1	-1.1
Fiscal Balance (% of GDP)	9.0	-6.5	4.2	9.3	4.3	2.3
Debt (% of GDP)	18.8	18.4	16.2	11.8	10.7	11.0
Primary Balance (% of GDP)	9.7	-5.7	4.8	9.7	4.6	2.6
GHG emissions growth (mtCO2e)	6.2	2.0	5.1	5.2	3.9	4.0
Energy related GHG emissions (% of total)	64.9	63.8	65.2	65.2	65.1	65.3

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

BELARUS

Table 1	2021
Population, million	9.4
GDP, current US$ billion	68.4
GDP per capita, current US$	7294.5
Upper middle-income poverty rate ($6.85)[a]	1.3
Gini index[a]	24.4
School enrollment, primary (% gross)[b]	95.3
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	61.7

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

Recession deepens as exports are hampered by sectoral sanctions and disruptions of trade with Ukraine. As inflation picked up, real interest rates fell, helping to alleviate credit constraints for enterprises, but stretching household budgets. A contraction of economic activity and higher poverty are projected in 2023 as businesses continue to face supply-side bottlenecks, while the effects of policies to support the economy and promote import substitution are yet to materialize.

Key conditions and challenges

In recent years, Belarus's economy has faced a series of external and domestic shocks related to the COVID-19 pandemic and packages of economic sanctions adopted in the aftermath of the disputed 2020 elections and in response to Belarus's involvement in Russia's military invasion of Ukraine. While 2020-21 restrictive measures had a limited negative impact on the economy, the expanded sanction packages of 2022 affect commodities exports, generating a loss of up to one-third of merchandise export revenues, which is equal to about 18 percent of 2021 GDP. Increased trade with Russia (by 23 percent y/y in US$ nominal terms in H1 2022) – driven by higher prices rather than volumes – curb these losses only partially. Yet, preferential gas and oil prices cushion the impact of these external shocks by containing cost pressures generated by sanctions and related supply-side bottlenecks as well as lowering energy bills for industrial consumers.

While businesses seek adaptation to a sanctions-shaped environment, the authorities count on the effects of the 2022 support package for the economy, which includes some business liberalization measures. At the same time, import-substitution policies are expected to alleviate supply-side constraints and boost domestic manufacturing. As the effects of these measures are yet to materialize, GDP is projected to decrease in both 2022 and 2023. However, this scenario is subject to uncertainties related to the ongoing Ukraine-Russia war and its economic repercussions for the country and the region. Also, forecasting is affected by an increasing lack of access to important data, including on the production and trade of sanctioned commodities, the structure of foreign reserves, and fiscal accounts.

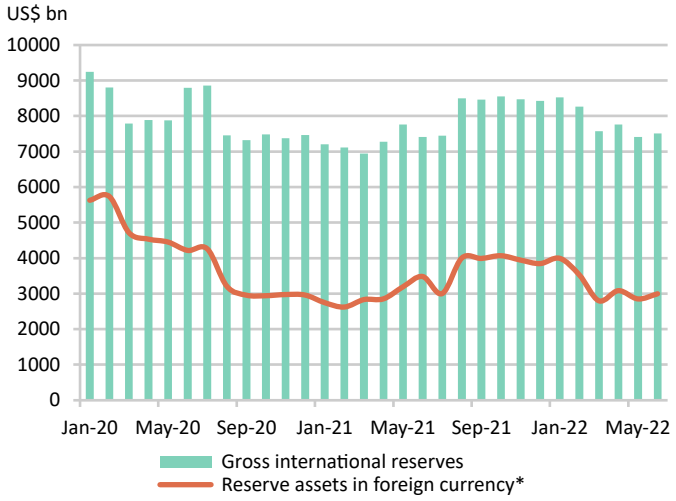
Recent developments

In the first half of 2022, real GDP declined by 4.2 percent y/y as exports continued to fall and domestic demand weakened. Logistics and supply chain constraints led imports to fall faster than exports (7.3 vs 4.4 percent y/y in H1 2022 in nominal US$), improving trade balance and containing exchange rate pressures. After a short-lived depreciation in March, the BYN/US$ rate bounced back, falling below its pre-war level. Sales of FX by non-residents – close to US$900 million on a net basis over January-July 2022 – helped to maintain the exchange rate stable.

CPI inflation picked up in March and remains elevated at 18.1 percent y/y as of July 2022. Higher inflation has lowered real interest rates, but the subsequent increase in corporate borrowing has not translated into higher investment, as companies seek to fund ongoing activities.

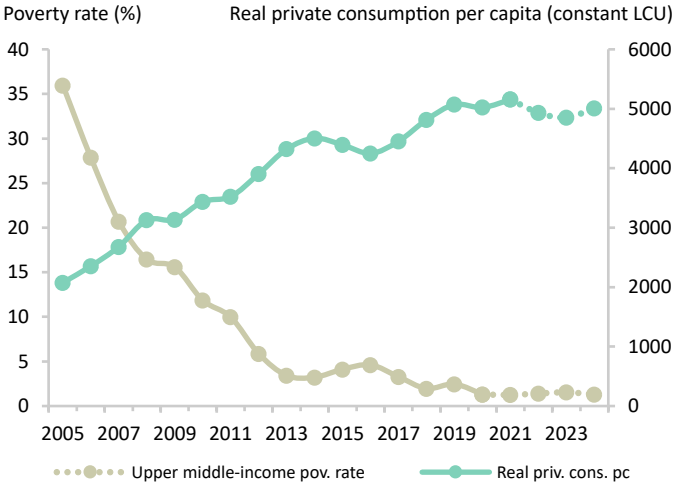
The assessment of fiscal situation is prevented by the lack of publicly available data on budget execution through 2022. The GFS data for Q1 2022 show a considerable

FIGURE 1 **Belarus** / Foreign reserves



Source: NBRB.
Note: *gross reserves net of monetary gold and SDR.

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



Source: World Bank. Notes: see Table 2.

decline in tax revenues from foreign trade, while reduction of other tax revenue occurred on a smaller scale.

In mid-July international rating agencies reported about the sovereign default as interest payments on 2027 Eurobonds were made in the national currency instead of FX and in September Fitch has downgraded four Belarussian sovereign Eurobonds to 'D' and affirmed Belarus's Default Rating at 'RD'. The Ministry of Finance claimed this was due to sanctions preventing bondholders from collecting payments rather than inability to service. Although from the beginning of 2022 gross foreign currency reserves declined by US$962 mln, reaching US$7.56 bn by August 1, they remain equivalent to two months of goods and services imports. However, restricted access to international financial markets makes meeting a US$800 mln principal payment on Eurobonds due 28 February 2023 much more challenging.

Declining real household incomes in 2022 have not yet translated into poverty increase. The number of households below the national poverty line fell in 2021 and remained at 4 percent in Q1 2022, very close to 2021 levels.

Outlook

The outlook is driven by the effects of external restrictions imposed on Belarus's economy and adjustment strategies by businesses and the government. The use of suboptimal transportation routes and financing mechanisms increases transaction costs and weakens the price competitiveness of exports. Sanctions against the financial sector deprive banks of possibilities to borrow from abroad. In this situation, external financing needs could only be met via bilateral borrowing – from Russia and/or affiliated financial institutions. The lack of certain inputs creates constraints for producers, only partially alleviated by 'parallel' imports occurring without the consent of the trademark or copyright holder. Announced import substitution policies – initially focusing on making auto components – are unlikely to address these immediate supply-side bottlenecks.

To finance these policies, authorities seek to attract US$1.5 bn from Russia. Earlier this year, it has been announced that Belarus seeks to place government bonds in Russia at the amount of RUB100 bn, which is equivalent to US$1.5 bn.

In this environment, accommodating monetary policy to support credit expansion, coupled with increased lending through the Development Bank could limit the magnitude of economic downturn, but elevate risks for financial and macroeconomic stability going forward.

Recession will put the growth of real wages on hold, while higher inflation will further bite real household incomes, decreasing purchasing capacity of the population and weakening household consumption. Poverty and household vulnerability are expected to increase in 2022 and 2023.

The medium-term prospects will be shaped by the patterns of adjustment to the sanctions regime and spillovers from the Russian economy, also being affected by various restrictions. To enter new, 'unsanctioned' markets, Belarusian producers have to address numerous challenges related to costs, logistics, and supply chains. Given structural weaknesses accumulated in the past, all these factors make the timing and sustainability of the recovery uncertain.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.4	-0.9	2.3	-6.2	-2.3	2.5
Private Consumption	5.1	-1.4	2.6	-4.5	-1.8	3.1
Government Consumption	0.4	-1.1	-0.5	-1.8	-1.5	1.3
Gross Fixed Capital Investment	6.2	-6.8	-5.6	-12.1	-2.7	4.9
Exports, Goods and Services	1.0	-3.2	9.5	-11.8	2.1	6.2
Imports, Goods and Services	5.2	-7.9	5.8	-13.7	3.5	8.0
Real GDP growth, at constant factor prices	1.5	-0.9	2.3	-6.2	-2.3	2.5
Agriculture	3.0	4.9	-4.2	-2.4	3.5	1.9
Industry	1.4	-0.7	6.5	-7.9	1.5	4.5
Services	1.3	-2.0	0.2	-5.5	-6.3	0.9
Inflation (Consumer Price Index)	4.7	7.4	10.0	18.7	11.9	7.2
Current Account Balance (% of GDP)	-1.8	-0.2	2.6	1.4	0.1	-1.2
Net Foreign Direct Investment Inflow (% of GDP)	2.0	2.1	1.7	3.3	2.2	2.3
Fiscal Balance (% of GDP)	2.5	-1.7	0.0	-1.1	-0.3	0.0
Debt (% of GDP)	37.5	41.1	36.0	50.5	54.6	51.2
Primary Balance (% of GDP)	4.3	0.0	1.6	0.4	1.1	1.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.4	1.3	1.2	1.4	1.5	1.3
GHG emissions growth (mtCO2e)	-2.1	-2.3	-3.4	-7.1	-3.6	1.7
Energy related GHG emissions (% of total)	85.9	85.6	85.2	85.3	85.6	86.1

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 ECAPOV harmonization, using 2020-HHS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

BOSNIA AND HERZEGOVINA

Table 1	2021
Population, million	3.3
GDP, current US$ billion	21.3
GDP per capita, current US$	6517.2
Life expectancy at birth, years[a]	77.5
Total GHG emissions (mtCO2e)	22.9

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

After accelerating to 7.5 percent in 2021, real GDP growth is expected to slow to 4.0 percent in 2022. Inflation, meanwhile, surged to 16.7 percent in July 2022 (yoy) driven by food and energy prices, creating risks for poverty reduction. Annual inflation is expected to reach 11 percent in 2022 compared to 2 percent in 2021. Delayed structural reforms could take off following the general election in October 2022.

Key conditions and challenges

BiH has been a potential EU candidate country since 2016. To become a candidate country, 14 reform priorities need to be addressed as endorsed by the EU Council in December 2019. These priorities reflect reforms in the areas of democracy, the rule of law and fundamental rights, and public administration. In parallel, economic criteria for accession require more progress on the fragmentation of the internal market and of the state institutional set-up, on the oversized public sector, and on weak state supervisory and regulatory institutions.

The authorities built fiscal buffers prior to the pandemic by running fiscal surpluses between 1 and 3 percent of GDP from 2015 to 2019. These surpluses helped rein in the current account deficits, financed by FDI inflows, and contributed to macroeconomic stability.

Macroeconomic stability has been maintained over the past decade largely facilitated by three economic anchors: the currency board linked to the euro, the state-wide collection of indirect taxes through ITA, and EU membership prospects. Despite real income growing around 3 percent annually since 2015, per capita GDP has remained at one-third of the EU27 average. Faster convergence toward the EU27 average will be difficult to achieve with the country's low investment rates and growth model that relies on private consumption.

The pandemic, the Russia-Ukraine war, and persistent internal political tensions have inflicted a significant cost on BiH's economy. As a result, BiH is unlikely to catch up with the pre-pandemic forecasted growth levels.

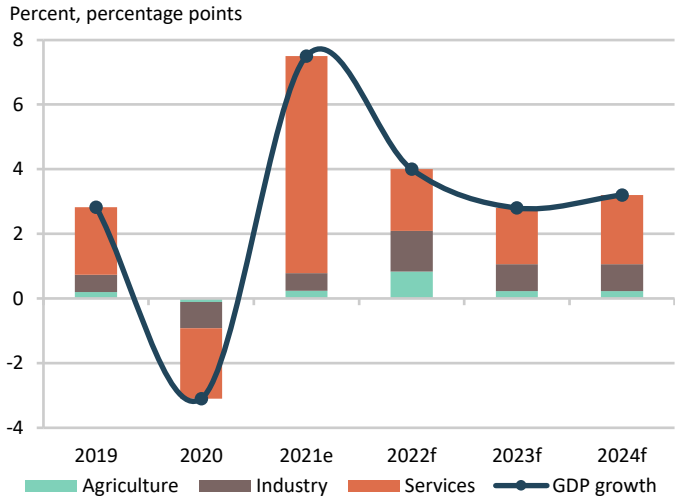
Implementation of structural reforms remains sluggish due to political frictions, pressures from frequent elections, corruption that pervades all levels of society, and fragmentation of responsibilities between the two entities and cantons. Because of the resulting poor welfare prospects, BiH exhibits one of the highest emigration rates in the Western Balkans.

Recent developments

Real GDP rebounded 7.5 percent in 2021, and strong economic activity continued in H1 of 2022 with real output growing 5.9 percent (yoy), with investments surging 24 percent, while private consumption stayed robust, supported by remittances and credit growth.

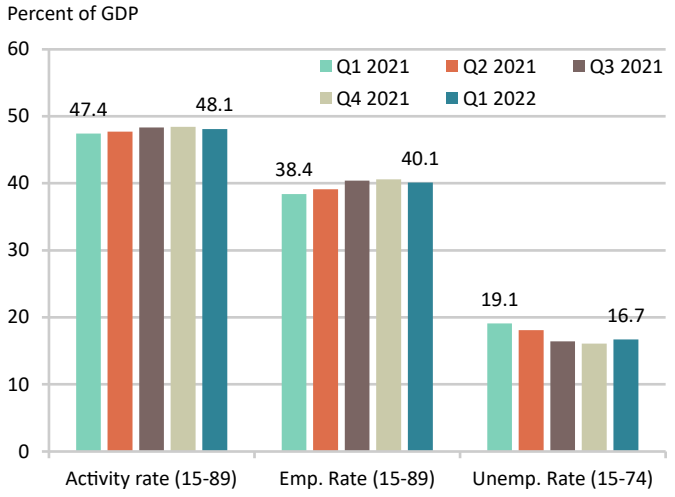
Inflation jumped to 12.3 percent during January-July of 2022 compared to 0.4 percent during the same period last year, weakening real disposable income. Sharply rising inflation was mainly driven by higher food and transport prices, which surged to 25 percent and 34 percent respectively in July 2022 (yoy), putting disproportionate stress on lower

FIGURE 1 Bosnia and Herzegovina / Real GDP growth and contributions to real GDP growth, 2019-2024



Sources: BiH Agency for Statistics (BHAS) and World Bank staff calculations.

FIGURE 2 Bosnia and Herzegovina / Labor market indicators, 2021-2022



Sources: LFS 2021 - 2022 report and World Bank staff calculations.

income groups, and generating risks of poverty reduction in 2022.

Nevertheless, improvements in labor market participation and the employment rate continued throughout the first half of 2022, although high unemployment persists at about 17 percent.

Stronger tax revenues supported by high inflation was more than offset by higher spending, which is expected to result in a fiscal deficit of 1.2 percent of GDP in 2022.[1] This compares to a deficit of 0.3 percent of GDP last year, and 5.3 percent of GDP in 2020. Expenditures in 2022 are driven by social measures softening the inflationary impact on households and pre-election spending, including wage hikes and robust growth in capital expenditures. Public debt hovers around 35 percent of GDP.

Adverse terms of trade helped widen the merchandise deficit by 46 percent in the first half of 2022. The current account deficit is therefore expected to broaden to 3.4 percent of GDP in 2022 compared to 2.3 percent in 2021. External financing largely entails net FDI inflows, mainly into the foreign-owned banking sector, which remained stable during the first half of 2022 as authorities in both entities acted swiftly to address concerns surrounding one Russian bank affected by sanctions.

1/ BiH draft Global Fiscal Framework for 2022-2024 and World Bank staff estimates.

Outlook

Real GDP is set to decelerate to 4.0 percent in 2022 as private consumption growth halves due to weakening real disposable income. Over the medium term, real output growth is projected to reach 3.2 percent by 2024 driven largely by private consumption supported by remittances and a tightening labor market. Investment in energy and infrastructure (windmills, Corridor Vc, etc.) will add to the growth stimulus over the medium term, although not to the same extent as in 2021 and 2022. Strong exports are likely to be offset by higher imports in part for infrastructure projects. As general elections are completed, and results implemented, the attention of policy makers could turn to the structural reform agenda for EU accession.

Phased-out pre-election spending and one-off expenditures in response to the price shock will be in part offset by higher interest payments. However, a return to fiscal surplus is expected by 2024.

Considering energy market disruptions by the war in Ukraine, inflationary pressures are now assumed to last longer than initially expected. Hence, inflation is projected at close to 11 percent in 2022, stabilizing in 2023-24 at rates seen prior to the pandemic, at around 2 percent and lower.

Downside risks dominate the outlook. Protracted effects of the war in Ukraine could have a negative impact on aggregate demand through depressed consumer and business confidence. Furthermore, war-related uncertainties and sanctions can dampen the recovery in the EU, adversely impacting demand for BiH exports, except for energy. Adverse labor market developments across the EU could also limit remittances inflows (about 8 percent of GDP), which support private consumption. Finally, geopolitical risks could further aggravate domestic political frictions with adverse consequences for the much-needed structural reform push.

TABLE 2 Bosnia and Herzegovina / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.8	-3.1	7.5	4.0	2.8	3.2
Private Consumption	2.8	-4.5	4.0	2.0	2.5	2.3
Government Consumption	2.6	0.5	6.1	0.5	0.7	0.5
Gross Fixed Capital Investment	2.4	-20.9	35.5	25.1	3.9	2.7
Exports, Goods and Services	-0.3	-8.5	5.0	10.0	7.0	7.2
Imports, Goods and Services	0.2	-13.4	8.0	12.0	5.0	3.5
Real GDP growth, at constant factor prices	2.8	-3.1	7.5	4.0	2.8	3.2
Agriculture	2.9	-1.5	3.4	3.5	3.1	3.1
Industry	1.9	-3.0	2.0	2.6	3.2	3.2
Services	3.2	-3.3	10.2	4.6	2.6	3.2
Inflation (Consumer Price Index)	0.6	-1.1	2.0	11.0	2.0	0.5
Current Account Balance (% of GDP)	-2.9	-3.9	-2.3	-3.4	-5.7	-5.4
Net Foreign Direct Investment Inflow (% of GDP)	3.5	2.0	3.3	3.0	3.2	3.4
Fiscal Balance (% of GDP)	1.9	-5.3	-0.3	-1.2	-0.3	0.3
Debt (% of GDP)	34.5	40.2	37.8	35.6	35.2	34.9
Primary Balance (% of GDP)	2.8	-4.0	1.0	-0.4	0.5	1.1
GHG emissions growth (mtCO2e)	-5.7	-8.1	2.4	3.6	1.4	1.3
Energy related GHG emissions (% of total)	86.8	85.8	85.7	86.1	86.1	86.0

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

BULGARIA

Table 1	2021
Population, million	6.9
GDP, current US$ billion	80.2
GDP per capita, current US$	11664.6
International poverty rate ($2.15)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	2.8
Upper middle-income poverty rate ($6.85)[a]	7.2
Gini index[a]	40.3
School enrollment, primary (% gross)[b]	85.9
Life expectancy at birth, years[b]	73.6
Total GHG emissions (mtCO2e)	48.1

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

Following robust growth in the first half of 2022, the Bulgarian economy is set to slow down in line with global and regional trends. The spike of inflation on energy and food prices is already outpacing wage growth and may increase poverty. The fiscal position remains strong but is likely to worsen in the remainder of 2022, as new anti-inflationary measures take effect. Political instability may weaken the reform agenda and reduce the country's ability to fully absorb EU funds.

Key conditions and challenges

The long-term challenges facing Bulgaria include negative demographic trends, institutional and governance weaknesses and suboptimal public services, with large variation in quality and access across the regions. Institutional gaps have also hindered private sector expansion as they lead to resource misallocation away from the most productive firms. Progress on inclusive growth and shared prosperity has been limited given high rates of poverty and inequality of incomes and opportunities. The latter are reinforced by the lowest level of relative intergenerational mobility of education in the EU-27, meaning that the education of children is highly correlated with that of their parents and the education system does little to give children from disadvantaged backgrounds a better start in life. In addition, inadequacies in the targeting, coverage and generosity of the social security system limit its role as a redistributive mechanism. Tackling these challenges will require enforcement of the rule of law and good governance, investment in human capital, and removal of hindrances to competition and private investment while improving public investment management. Prompt eurozone accession – officially targeted for 2024 - can also contribute to faster convergence to EU living standards.

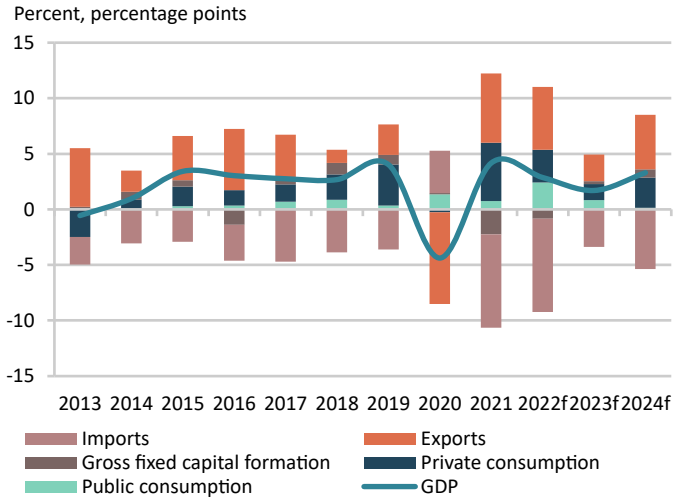
More recently, the shock of the war in Ukraine has had an adverse impact on Bulgaria, with the key channels of influence being imported price inflation and security of natural gas supply. After Russia's Gazprom – previously the dominant gas provider to Bulgaria – unilaterally cut supplies in April 2022, the government has been trying to secure alternative supplies. Uncertainty on the sufficiency of gas for the coming heating season remains, however. Even if a potential shortage will not have a significantly disruptive impact on the economy, it may inflict high costs on several industrial consumers, as well as household consumers of gas and heating, and force emergency switching to alternative energy sources.

Recent developments

GDP growth exceeded expectations in the first half of 2022, with the economy expanding by 4.5 percent y/y. The main growth driver on the expenditure side remains final consumption on the back of labor market recovery, coupled with increased government spending. The labor market continued to trend back towards its pre-Covid readings, with the employment rate up by 0.3pp y/y to 53.7 percent in Q2 of 2022, and unemployment down by 0.9pp to 4.7 percent. Yet, investment continues to disappoint with negative growth rates. The export expansion was outpaced by import growth, leading to widening trade and current account deficits.

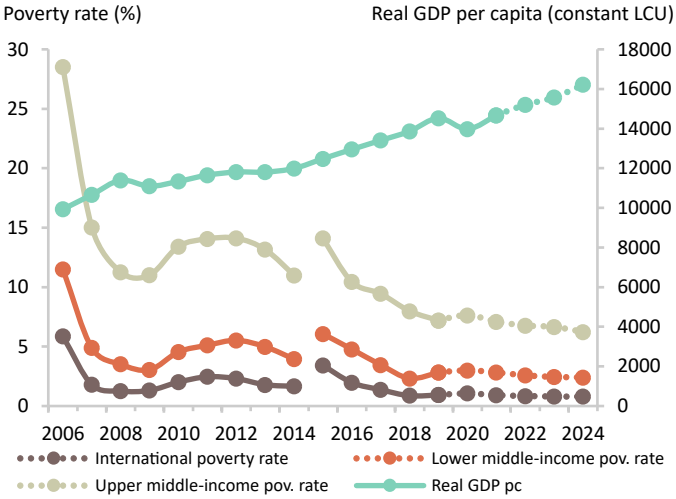
Bulgaria had one of the highest inflation rates among EU countries with the CPI

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



Sources: World Bank and Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see Table 2.

reaching 17.3 percent y/y in July. Imported inflation of tradable energy and food prices was the key factor behind the recent inflationary spike. The WB-estimated core inflation (i.e., energy and food prices excluded) has also picked up as a result of second-round effects, reaching 9.1 percent y/y in July. Given that the nominal wage growth (11.6 percent), on average, has already been falling behind y/y inflation (13.1 percent) in the first half of 2022, purchasing power is likely to be eroded.

The fiscal position remained strong in the first seven months, but a worsening of the general government balance is expected going forward. Following a BGN 1.65bn surplus in the year to August (1.1 percent of the government's GDP projection), recently passed anti-inflationary measures – including indirect tax reductions for energy consumers, pension increases and energy price subsidies - will impact negatively both on the revenue and the expenditure sides of the budget in the coming months. The projected slowdown of the economy in H2 is also to tone down revenue growth.

Outlook

Bulgaria's growth projection for 2022 has increased to 2.9 percent on better-than-expected performance in the year to date. Growth deceleration is forecasted to start in H2 of 2022 and continue in 2023, in line with global and EU trends. Going forward, reforms and investment under the National Recovery and Resilience Plan and the EU Multiannual Financial Framework will help sustain growth. Yet, risks remain titled to the downside and further downward revisions are likely in case of prolonged supply and price shocks in international markets.

Inflation is projected to remain elevated and end 2022 in double digits, with a gradual reduction in 2023. The fiscal deficit is likely to expand to 4.2 percent of GDP due to the expected slowdown of the economy and recently approved anti-inflationary measures. The current account deficit is also expected to widen in 2022, to 2.7 percent of GDP, as import prices soar.

Amidst better-than-expected growth for 2022, poverty as measured by the US$6.85 2017PPP poverty line is projected to decline from 7.1 percent in 2021 to 6.8 percent in 2022. Despite that, the potential for downside risks remains high, particularly in the context of the war in Ukraine. Rising food and energy prices continue to put pressure on poorer Bulgarians who spend a disproportionately high share of their income on these items. Social assistance and wages not keeping pace with inflation will further undermine the purchasing power of households. Poverty is projected to remain relatively unchanged at 6.7 percent in 2023, though downside risks are likely to persist.

Separately, Bulgaria's outlook is marred by the latest bout of political instability that started with a no-confidence vote against the government in June. Early elections are scheduled on October 2, which will reveal whether the country will attain some degree of political stability.If not, the political crisis will linger as it did in 2021, which may well negatively impact the pace of absorption of EU funds and structural reforms, slowing Bulgaria's convergence towards average EU incomes.

TABLE 2 Bulgaria / 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	-4.4	4.2	2.9	1.7	3.3
Private Consumption	6.0	-0.4	8.0	4.3	2.1	3.9
Government Consumption	2.0	8.3	4.0	13.2	4.1	0.7
Gross Fixed Capital Investment	4.5	0.6	-11.0	-4.8	1.5	4.6
Exports, Goods and Services	4.0	-12.1	9.9	8.5	3.4	6.9
Imports, Goods and Services	5.2	-5.4	12.2	11.3	4.2	6.5
Real GDP growth, at constant factor prices	3.7	-4.5	3.6	2.9	1.7	3.3
Agriculture	4.1	-3.3	6.1	5.4	1.8	4.0
Industry	-0.1	-8.2	6.6	7.4	5.2	7.9
Services	5.2	-3.2	2.4	1.1	0.4	1.4
Inflation (Consumer Price Index)	3.1	1.7	3.3	14.4	6.8	3.6
Current Account Balance (% of GDP)	1.9	-0.1	-0.4	-2.7	0.1	1.4
Net Foreign Direct Investment Inflow (% of GDP)	2.0	4.5	1.7	4.4	2.1	3.6
Fiscal Balance (% of GDP)	-1.0	-2.9	-2.9	-4.2	-3.3	-2.5
Debt (% of GDP)	20.1	24.8	25.1	28.6	29.5	28.0
Primary Balance (% of GDP)	-0.4	-2.4	-2.4	-3.9	-3.0	-2.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.9	1.1	0.9	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.8	3.0	2.8	2.6	2.4	2.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	7.2	7.6	7.1	6.8	6.6	6.2
GHG emissions growth (mtCO2e)	-2.7	-3.4	7.3	3.7	3.6	4.1
Energy related GHG emissions (% of total)	82.7	80.5	78.0	76.7	74.7	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/ Calculations based on ECAPOV harmonization, using 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

CROATIA

Table 1	2021
Population, million	3.9
GDP, current US$ billion	67.7
GDP per capita, current US$	17402.4
International poverty rate ($2.15)[a]	0.3
Lower middle-income poverty rate ($3.65)[a]	0.6
Upper middle-income poverty rate ($6.85)[a]	2.4
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	93.2
Life expectancy at birth, years[b]	77.7
Total GHG emissions (mtCO2e)	16.4

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

GDP in Croatia continued to strongly expand in the first half of 2022 despite high and rising inflation and geopolitical tensions. Exports of goods and services maintained double-digit growth, and domestic demand remained robust. Looking ahead, economic activity is likely to slow down towards the end of the year and in 2023 with rising uncertainties in external environment and inflation weighing on real incomes and external demand. Poverty is expected to have declined to 1.6 percent in 2022.

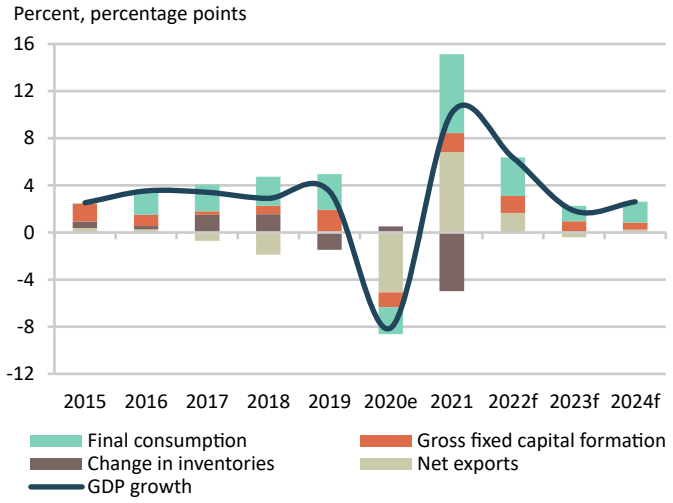
Key conditions and challenges

Croatia is set to join the eurozone and the Schengen area in 2023. While these achievements are expected to strengthen the country's resilience and bring long-term economic benefits, raising potential growth will still primarily depend on prudent national policies. Croatia's relatively low productivity growth remains a key obstacle for faster convergence towards the average EU income levels. Data suggests that the sectoral composition of Croatia's economy and relatively large role of low-skilled services such as tourism explain only a small part of the lagging productivity. The main challenges lie within sectors and are related to market frictions and barriers to competition between firms as well as low investment in R&D and low technology adoption rates. This highlights the need to increase the dynamism of the Croatian business environment, reduce market inefficiencies, level the playing field, and promote investment. In addition, demographic forecasts suggest that strengthening long-term growth will also require policies to mitigate the negative economic impact of a declining and aging population. Some of these challenges will be tackled through reforms included in the National Recovery and Resilience Plan and investments finance from different EU funds. While the economy is expected to continue growing over the medium-term, albeit at a subdued pace, risks to the outlook are tilted to the downside. The main challenges pertain to the implications of the war in Ukraine, particularly, gas imports from Russia, decline in real incomes as a result of rising inflation, monetary policy tightening, rising financing costs, and uncertainty. In addition, a slowdown in key trading partners like Germany could also have a negative impact on exports. Furthermore, monetary tightening by the ECB might be stronger than currently expected. Lower growth and higher inflation would require additional fiscal support, with negative consequences for the elevated debt level.

Recent developments

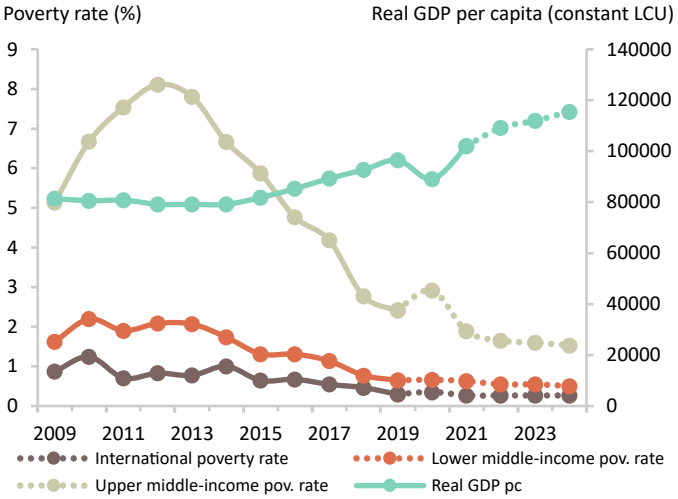
After a marked rebound in 2021, real GDP in Croatia continued to expand strongly in the first half of 2022. The country benefited from the reopening of economies after the COVID-19 lockdowns, with pent-up demand and consumer savings built up during the pandemic boosted tourism, the most important sector in the economy. Exports of goods and domestic demand also remained strong despite rising global uncertainties and increasing prices. Employment continued to increase with the largest job gains in tourism and ICT. The growth in nominal wages accelerated but not enough to offset the negative impact of inflation on real incomes. The annual increase in CPI reached 12.3 percent in July, showing that underlying

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



Sources: CROSTAT and World Bank.

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



Source: World Bank. Notes: see Table 2.

price pressures remain strong and broad-based. The largest contribution came from food and energy which surged by around 20 percent. Despite real exports growing strongly, the current account deficit widened in the first half of the year, following a deterioration in the terms of trade, which can largely be linked to the increase in food and energy prices. The fiscal deficit, on the other hand, narrowed in the first half of 2022 due to robust revenue growth and a reduction in pandemic-related support to firms and households. The government has, however, introduced fiscal support schemes to ease the negative economic and social impact of soaring energy prices from April this year, which will add up to 1.0 percent of GDP. Additional support package worth 4.2 percent of GDP was announced in September, but its fiscal implications are expected to be contained. Improved fiscal performance and the increase in nominal GDP led to a reduction in the debt-to-GDP ratio to 74.3 percent in May 2022 compared to 79.6 percent at the end of 2021.

Soaring food and energy prices hurt consumers, especially the poorest and most vulnerable who spend above 60 percent of their budget on these essentials. Worries about the economy, food prices, and energy prices are almost universal. Results from the World Bank's Rapid Assessment Survey in April 2022 show that more than 90 percent of Croatians expressed these concerns. Nearly 80 percent of Croatians stated they would cut back spending. The fiscal support packages introduced earlier this year could help. Although economic growth is strong, poverty will decline only modestly from 1.9 percent in 2021 to 1.6 percent in 2022.

Outlook

In the backdrop of a strong first-half economic performance and indications that tourism could exceed pre-pandemic levels, real GDP growth in 2022 is expected at 6.4 percent. However, economic activity is likely to moderate by the end of the year and the weak growth is projected to carry over to 2023, before returning to the pre-pandemic trend in 2024. The strong growth in the export of goods and services witnessed in 2021 and 2022 is also expected to moderate with weaker growth prospects in the EU and globally. Personal consumption is likely to continue to increase next year but at a decelerated pace given the erosion of real incomes. Meanwhile, investments will be supported by the EU funds. However, risks are tilted to the downside due to high uncertainty, a slowing global economy, and potentially costlier financing. Inflation is expected to decline gradually with improvements in the supply chain and base effects, but CPI growth might remain relatively elevated and reach 2 percent only after 2024. The current account balance is projected to remain in surplus owing to continued growth in exports and an eventual improvement in the terms of trade. At the same time, the fiscal deficit is projected to stay below 2 percent of GDP, as additional increases of public sector wages, social benefits, and the health care budget are expected. Nonetheless, the public debt-to-GDP ratio is expected to remain firmly on a declining trend, given still favorable interest-growth rate differential.

Positive economic growth projection translates in poverty reduction in the next couple of years. However, after a fall to 1.6 percent in 2022 due to strong growth and government support measures, poverty is expected to decrease only marginally over the following two years, reaching 1.5 percent by 2024. The poorest Croatians remain vulnerable to the high level of food and energy prices.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.5	-8.1	10.2	6.4	1.8	2.6
Private Consumption	4.1	-5.3	10.0	4.4	1.1	2.5
Government Consumption	3.3	4.1	3.1	3.0	3.2	1.5
Gross Fixed Capital Investment	9.8	-6.1	7.6	7.1	4.6	2.8
Exports, Goods and Services	6.8	-22.7	33.3	25.0	3.4	5.1
Imports, Goods and Services	6.5	-12.3	14.7	21.5	4.1	4.7
Real GDP growth, at constant factor prices	3.6	-6.3	8.8	6.6	1.8	2.6
Agriculture	1.8	3.6	5.5	3.5	3.0	3.3
Industry	4.8	-1.6	6.7	3.5	1.2	3.0
Services	3.3	-8.4	9.8	7.8	1.9	2.4
Inflation (Consumer Price Index)	0.8	0.2	2.6	10.1	3.9	2.3
Current Account Balance (% of GDP)	3.0	-0.1	3.3	2.2	1.8	1.7
Net Foreign Direct Investment Inflow (% of GDP)	6.1	1.4	4.8	5.2	2.5	3.2
Fiscal Balance (% of GDP)	0.2	-7.3	-2.9	-1.8	-1.4	-1.8
Debt (% of GDP)	71.1	87.3	79.6	70.9	67.7	66.1
Primary Balance (% of GDP)	2.4	-5.3	-1.3	-0.5	-0.2	-0.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.3	0.3	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.6	0.7	0.6	0.5	0.5	0.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	2.4	2.9	1.9	1.6	1.6	1.5
GHG emissions growth (mtCO2e)	-1.1	-12.8	4.6	3.0	1.0	0.9
Energy related GHG emissions (% of total)	86.8	85.1	84.7	84.4	83.8	83.1

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 ECAPOV harmonization, using 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

GEORGIA

Table 1	2021
Population, million	3.7
GDP, current US$ billion	18.7
GDP per capita, current US$	5039.4
International poverty rate ($2.15)[a]	5.8
Lower middle-income poverty rate ($3.65)[a]	21.4
Upper middle-income poverty rate ($6.85)[a]	58.3
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	99.4
Life expectancy at birth, years[b]	73.9
Total GHG emissions (mtCO2e)	17.4

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

Growth averaged double digits during the first half of 2022, and employment is recovering. In addition to robust domestic demand, Georgia has benefited from a strong influx of money transfers from Russia, as well as from the recovery of tourism. The growth forecasts for 2022 have been upgraded, while the current account deficit is expected to narrow. Significant risks persist, although they have become more balanced.

Key conditions and challenges

Over the past decade, Georgia has had a successful development record, underpinned by prudent economic management. Growth averaged 4 percent per annum between 2011 and 2021. The poverty rate declined from 69 percent in 2011 to 53 percent in 2021 (using the international upper-middle-income line at $6.85 per capita per day 2017 PPP).

Nevertheless, structural challenges persist notably weak productivity and difficulties to create high-quality jobs. Many Georgians in rural areas remain engaged in low-productivity agriculture. Human capital formation remains weak, and poor learning outcomes and skills are a problem for doing business and firm growth.

Due to trade openness and reliance on income from tourism, Georgia is vulnerable to external and global shocks, as shown by recent events. High dollarization and dependency on external savings increase the risks associated with currency depreciation. Still, the swift post-pandemic rebound and the recovery from the initial impact of the Ukraine war and associated sanctions have demonstrated the growing resilience of Georgia's economy.

Recent developments

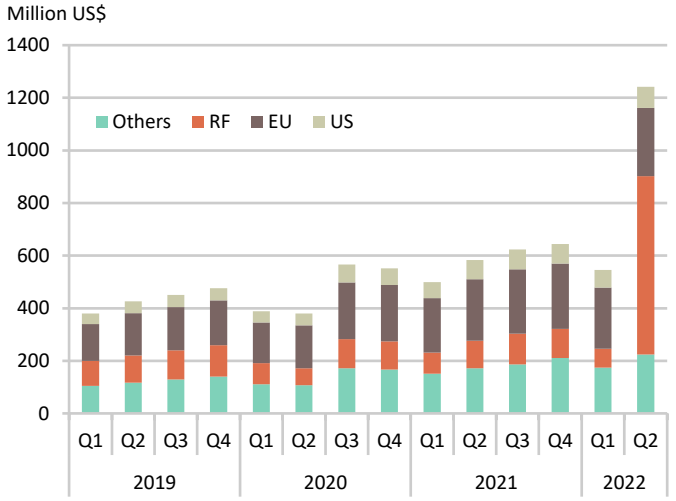
Economic activity has been stronger than expected, with real GDP growth estimated at 10.5 percent (yoy) in the first half of 2022. Growth has been broad-based, driven by transport, energy, hotels and restaurants, and industry. Construction permits increased by 15.6 percent during the first half of 2022 (yoy), suggesting a recovery in domestic investment.

After unemployment increased to 20.6 percent in 2021, labor markets have started to recover, with unemployment decreasing to 18.1 percent in Q2 2022.

After peaking in June, inflation has eased slightly, reaching 10.9 percent (yoy) in August. Higher food and energy prices (as well as utility tariffs) account for most of the inflation this year. According to high-frequency surveys from May 2022, about three-quarters of the respondents from low-income households reported having reduced food consumption in response to rising prices. The National Bank of Georgia (NBG) has kept the monetary policy rate unchanged since March, at 11 percent, after gradually increasing the rate since March 2021 by a total of 300 bps.

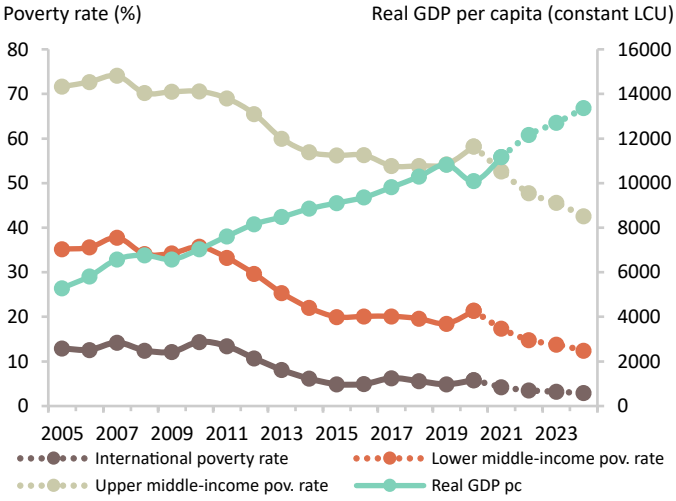
During January-July 2022, exports grew by 36 percent (yoy) in nominal terms. Merchandise exports growth was driven by both increased demand for key commodities (copper ore, ferroalloys, nitrogen fertilizers) and higher prices. Imports expanded by 34 percent (yoy), leading to the widening of the trade deficit by 33 percent (yoy). This has been partly compensated by the recovery in tourism arrivals and a surge in net volume of money transfers (69 percent, yoy) driven by inflows from Russia. These comprise both remittances and transfers (Figure 1) from non-nationals.

FIGURE 1 **Georgia** / Money inflow by country of origin



Source: National Bank of Georgia.

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



Source: World Bank. Notes: see Table 2.

Banking sector indicators remain healthy. Return on assets (ROA) and return on equity (ROE) reached 3.1 percent and 24.9 percent by end-July, respectively. NPLs declined to 1.9 percent in July, from 2.3 percent in December 2021.

Tax collection by the general government increased by 33.6 percent (yoy) during the first half of 2022, supported by the recovery in consumption. Meanwhile, public expenditures grew by 9.3 percent (yoy) in nominal terms during the first half of 2022, (a reduction in real terms). The fiscal deficit during January-June was about 0.6 percent of GDP, overperforming the fiscal consolidation path planned for the year. The public debt stock has continued to decline, benefiting from the contained deficit and the appreciation of the lari.

Outlook

Projections have been upgraded on account of the strong performance recorded during 2022 so far, with growth projected to reach 8.8 percent by the end of the year. In the medium term, growth is expected to stabilize around potential.

Inflation will remain in double digits in 2022, although price pressures are expected to diminish towards the end of the year. Inflation would decline in 2023 and beyond, as international oil prices and supply-side bottlenecks ease. The long-term fixed-price contracts for gas supply and a shared border with Russia are expected to help offset any commodity price spikes. Monetary policy is expected to remain tight until inflationary pressures subside. Inflation is likely to have regressive impacts, disproportionately affecting lower-income households and those reliant on incomes from social assistance. These may have longer-term welfare impacts through losses in human capital and other assets.

On the external side, despite the widening trade deficit, the current account balance is expected to improve in 2022, supported by tourism and by the large net money inflows. This unanticipated windfall from the conflict is nonetheless expected to subside by the end of the year.

Following its temporary suspension in the aftermath of the COVID-19 outbreak, the government of Georgia is expected to comply with the fiscal rule by 2023. The authorities intend to reduce government debt to around 40 percent over the medium term while also increasing the share of domestic debt to close to 30 percent, which would reduce FX vulnerabilities and support capital market development. The authorities are also pursuing further tax administration improvements and a reduction in tax expenditures.

Risks to this outlook are broadly balanced. On the downside, persistent inflation coupled with the tightening of global financial conditions could impact the lari, potentially affecting macro-financial stability due to the high levels of dollarization. The Russian economy could also suffer a more pronounced slump next year, affected by protracted conflict and sanctions, which would negatively affect tourism and remittances in Georgia. Domestic political uncertainty could increase volatility and affect business confidence, as well as the pace of planned reforms. On the upside, money inflows could last longer than initially expected, and Georgia could benefit from some trade diversion as transport corridors are reconfigured.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.0	-6.8	10.4	8.8	4.2	5.0
Private Consumption	7.2	8.8	8.7	6.6	2.2	3.8
Government Consumption	5.7	7.1	7.7	-4.8	4.8	5.2
Gross Fixed Capital Investment	-0.1	-16.5	-7.6	8.4	0.1	3.1
Exports, Goods and Services	9.8	-37.6	30.5	20.0	12.0	13.0
Imports, Goods and Services	6.6	-16.6	12.8	13.0	6.0	9.0
Real GDP growth, at constant factor prices	5.1	-6.6	10.3	8.8	4.2	5.0
Agriculture	0.7	8.1	0.1	3.0	5.0	4.0
Industry	2.7	-6.8	5.9	6.0	5.0	4.0
Services	6.3	-8.1	12.9	10.2	3.9	5.4
Inflation (Consumer Price Index)	5.0	5.2	9.6	10.6	7.0	4.0
Current Account Balance (% of GDP)	-5.5	-12.4	-10.5	-7.5	-6.6	-6.4
Net Foreign Direct Investment Inflow (% of GDP)	6.0	3.5	5.9	6.1	4.8	5.0
Fiscal Balance (% of GDP)	-3.4	-9.8	-7.1	-3.2	-2.8	-2.6
Debt (% of GDP)	41.8	60.1	49.4	42.3	40.4	40.1
Primary Balance (% of GDP)	-2.2	-8.2	-5.8	-1.9	-1.6	-1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	4.8	5.8	4.2	3.5	3.2	2.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	18.5	21.4	17.4	14.8	13.8	12.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	54.2	58.3	52.7	47.7	45.6	42.6
GHG emissions growth (mtCO2e)	2.9	-3.4	2.0	3.4	3.7	1.4
Energy related GHG emissions (% of total)	54.0	53.8	55.0	57.3	59.3	60.3

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

KAZAKHSTAN

Table 1	2021
Population, million	19.0
GDP, current US$ billion	197.1
GDP per capita, current US$	10387.9
Upper middle-income poverty rate ($6.85)[a]	14.3
Gini index[a]	27.8
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	71.4
Total GHG emissions (mtCO2e)	270.2

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

GDP growth is projected to decelerate to 3 percent in 2022 as real incomes are squeezed by high inflation and disruptions caused by the war in Ukraine. Rising inflation negatively impacts low-income households, putting at risk the prospects of poverty reduction. In 2023, the growth momentum is expected to strengthen and inflation to moderate. Stronger slowdown in major trading partners economies and disruptions in oil transportation pose downside risks to the outlook.

Key conditions and challenges

Since the 2000s Kazakhstan has seen impressive economic growth driven by the first generation of market-oriented reforms, abundant mineral resources extraction, and strong FDI. Sustained economic growth has transformed the country into an upper middle-income economy, commensurately raising living standards and reducing poverty.

This progress, however, masks vulnerabilities and unevenness in the country's development model. Slowing economic growth, growing inequality and elite capture, and weak institutions reflect the flaws of the resource-based and state-led growth model and raise the risk that Kazakhstan could become stuck in the "middle-income trap".

The January protests have strengthened the authorities' resolve to push for reforms. Disruptions arising from war in Ukraine have strengthened efforts to diversify trade and logistics routes. Kazakhstan needs to strengthen competition and human capital, and improve public sector and SOEs performances. The country should also initiate reforms in carbon and energy pricing, strengthen social protection, and invest in climate adaptation.

Recent developments

Growth slowed in 2022, mainly due to the negative spillovers from the war in Ukraine. It reached 3.4 percent yoy in H1, from 4.1 percent in 2021. Household spending is expected to have weakened in H1 as inflation accelerated and real incomes contracted by 2.5 percent yoy over May to July. Retail sales growth slowed to 1.2 percent yoy in the same period. Investment grew by 3.6 percent yoy in H1 as FDI rebounded in the oil and gas sector after two years of decline. On the supply side, manufacturing and services both contributed to growth.

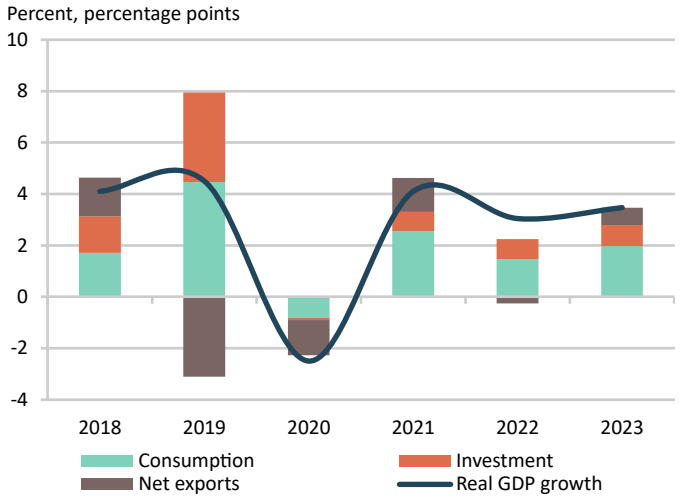
A sharp increase in international oil, gas and metal prices were a boon to exports, driving a trade balance improvement and flipping the current account into surplus in H1 2022 (of US$6.6 bn, compared to a deficit of US$2.8 bn in H1 2021).

Consumer price inflation reached 16.1 percent yoy in August, almost double the rate a year earlier, driven by rising costs of food. The authorities tightened monetary policy and imposed price caps on staple products and limited fuel and utility price increases. Since January, the tenge exchange rate against U.S. dollar depreciated 10 percent.

The central bank raised the policy rate in July to 14.5 percent, its fourth hike this year, and scaled up interventions in the FX market. FX reserves, as a result, fell by 4.8 percent y-o-y in August but remain comfortable.

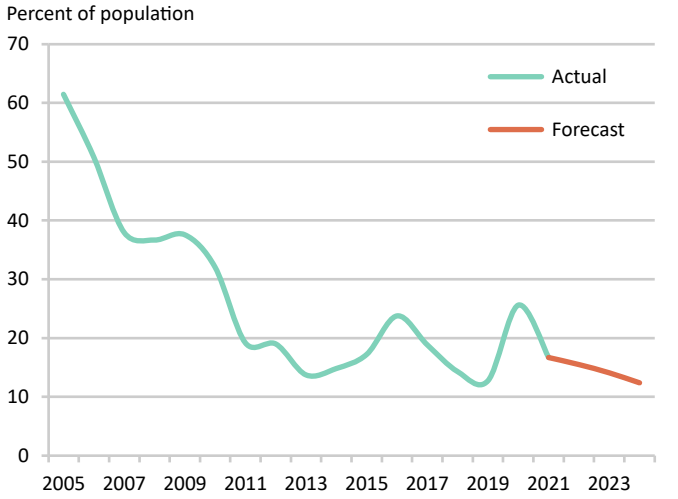
After the social unrest in January, the government introduced fiscal support measures estimated at 3 percent of GDP, to be financed partly by additional withdrawals from National Oil Fund. These measures include increased spending on social programs, transfers to local governments, infrastructure and food security oriented projects. As a result, the fiscal deficit in 2022 is projected to remain little changed at 2.6 percent of GDP.

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



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

FIGURE 2 Kazakhstan / Poverty rate, percent of population living on less than $6.85 (PPP) per day



Source: World Bank staff estimates.

The banking system has proved resilient so far. With sanctions on Russia from March, subsidiaries of Russian banks experienced difficulties with FX transactions and ultimately sold their subsidiaries to Kazakh banks and institutions. In July, bank loan growth to households slowed (especially for mortgages), while lending to firms have contracted in real terms. Weakening economy has started affecting banks' asset quality, with NPLs increasing to 3.8 percent in July.

Official unemployment rate remained unchanged at 4.9 percent and real wages rose by 8.9 percent in Q2, despite high inflation. The poverty rate is expected to decline further to 15.5 percent in 2022 from a high of 25.6 observed in the midst of the pandemic. The poverty line for Kazakhstan was updated from the previous $5.5 in 2011 PPP to a new $6.85 level based on 2017 PPP.

Outlook

There are several downside risks to the growth outlook. The Ukraine war could result in the shutdown of the Caspian Pipeline Consortium (which carries about 80 percent of Kazakhstan's oil exports) leading to large economic and fiscal revenue losses. Inflationary pressure may further erode incomes and exacerbate social tensions. Tightening global financial conditions could increase risk aversion, reduce inflows of FDI, and put pressure on the tenge exchange rate.

Economic growth is expected to decelerate to 3 percent in 2022, as economic activity has been affected by lower-than-expected production of oil, high inflation and monetary policy tightening that is constraining consumer spending and private sector borrowing.

Inflation is expected to moderate through 2023 but remain above the target range, which may warrant tighter monetary policy.

In 2023-24, GDP growth is expected to accelerate to 3.5 and 4.0 percent (below expectations prior to the war in Ukraine), aided by additional oil coming on stream from the Tengiz expansion project. The outlook is conditional on the assumption that crude oil shipment through the CPC pipeline will not be disrupted. Consumer spending is expected to gather steam as inflation subsides, whereas exports are projected to remain subdued, due to weakening demand from China and the eurozone. The current account is expected to return to balance over 2023 and 2024 as commodity prices stabilize and demand for imported capital and consumer goods strengthen. The poverty rate is expected to continue to decline in 2023-24, as growth picks up and inflation subsides.

The government plans to reduce budget expenditures and embark on a long-delayed consolidation plan. While expenditure is projected to fall to pre-pandemic levels, efforts to raise in tax collection and a crack-down on graft in the customs system are expected to increase tax revenues. Thus, the fiscal deficit is expected to decrease to 2.2 percent of GDP in 2023 from 2.6 percent this year.

The authorities are seeking to accelerate reforms to combat corruption and money-laundering, strengthen competition and reduce the influence of vested interests and monopolies, and increasing human capital.

TABLE 2 Kazakhstan / 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	-2.5	4.1	3.0	3.5	4.0
Private Consumption	6.1	-3.8	5.1	3.2	3.7	3.8
Government Consumption	15.5	12.8	-1.1	1.7	0.8	0.9
Gross Fixed Capital Investment	13.8	-0.3	2.6	3.3	3.4	4.0
Exports, Goods and Services	2.0	-12.1	2.0	1.4	3.8	5.0
Imports, Goods and Services	14.9	-10.7	-2.7	3.0	3.3	3.6
Real GDP growth, at constant factor prices	4.5	-2.5	3.9	3.1	3.5	4.0
Agriculture	-0.1	5.6	-2.2	2.3	2.6	2.6
Industry	4.1	-0.4	3.6	2.1	3.6	5.1
Services	5.2	-4.5	4.6	3.9	3.6	3.4
Inflation (Consumer Price Index)	5.3	6.8	8.0	14.0	8.2	6.3
Current Account Balance (% of GDP)	-4.0	-3.8	-2.9	2.1	0.4	0.8
Net Foreign Direct Investment Inflow (% of GDP)	3.1	-3.4	-0.9	-2.2	-2.6	-2.5
Fiscal Balance (% of GDP)	-1.3	-3.3	-2.7	-2.6	-2.2	-1.9
Debt (% of GDP)	19.6	24.9	23.7	23.9	24.1	23.9
Primary Balance (% of GDP)	-0.3	-2.2	-1.5	-1.1	-0.8	-0.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.7	25.6	16.7	15.5	14.1	12.4
GHG emissions growth (mtCO2e)	-1.4	4.3	-4.7	1.3	1.5	2.2
Energy related GHG emissions (% of total)	76.4	76.6	75.5	76.1	76.3	76.7

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 ECAPOV harmonization, using 2018-HBS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

KOSOVO

Table 1	2021
Population, million	1.8
GDP, current US$ billion	9.2
GDP per capita, current US$	5209.0
Upper middle-income poverty rate ($6.85)[a]	34.2
Gini index[a]	29.0
Life expectancy at birth, years[b]	71.1

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

Global inflationary pressures interrupted Kosovo's boisterous recovery path. Real GDP growth is expected to decelerate to 3.1 percent in 2022 following a slowdown in investment and private consumption. Exports continued to boost growth. In the current context, support to mitigate the impact of surging energy and food prices should be targeted towards the most vulnerable. Over the medium-term, accelerated implementation of structural reforms in energy, education, social protection, and healthcare is critical to enhance inclusive and sustainable growth.

Key conditions and challenges

With a history of strong growth compared to peers, Kosovo exits the COVID-19 crisis facing a renewed imperative: addressing key structural bottlenecks to enhance competitiveness and support sustainable and inclusive growth. During the past years, Kosovo experienced economic growth with limited firm-level productivity growth and higher-quality job creation, in a context of persistent structural informality and high trade deficit. Given the initial low base, new post-pandemic momentum in exports could be leveraged to break the circle of consumption-driven growth that relies on diaspora inflows.

Low labor force participation and employment, especially among women, continue to remain a strong binding constraint to growth and poverty reduction. The labor market continues to be also characterized by informality and skills mismatches: firms increasingly report difficulties in filling vacancies.

Outdated power generation capacity remains a key source of vulnerability. Rising energy import costs represent a key challenge for 2022 and could adversely impact the fiscal position given the higher need to subsidize electricity imports. Kosovo has a good track record of prudent fiscal management. However, without access to international financial markets, resources to cover growing development needs are limited. Continued public investment under-spending is a lost opportunity to close faster the looming infrastructure gap.

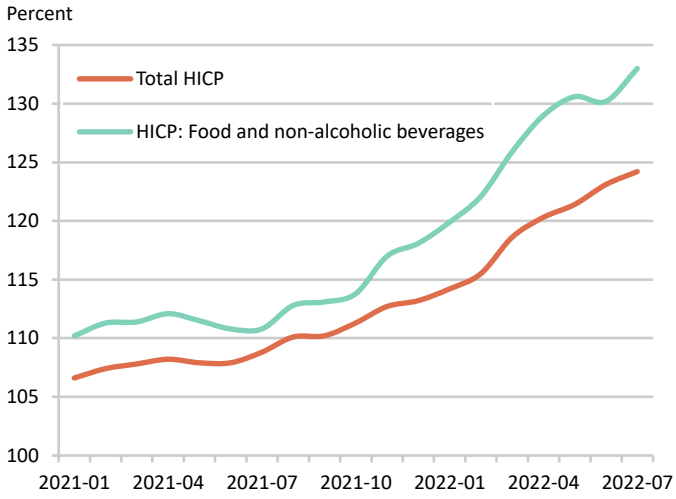
As a unilaterally Euroized economy, Kosovo has limited room to mitigate the impact of rising inflation, exacerbated by the war in Ukraine. Despite high levels of spending on social protection, the social assistance scheme is inflexible and can provide only limited protection for the most vulnerable. Rising inflation is also exerting upward wage pressures. Persistence of energy and food price pressures could further erode disposable incomes and hurt more the less well-off who spend a larger share of their budget on these essential items.

Recent developments

After reaching a record of 10.5 percent in 2021, GDP growth moderated to 3.2 percent in H1 of 2022, driven by domestic demand and exports. On the production side, the service sector – driven by remittances, credit growth, and higher public transfers – was the main contributor to economic growth. Inflation soared reaching 13 percent (y-o-y) in August 2022, triggered by an increase in import prices. Food and transport price increases surpassed 20 percent by August 2022, disproportionally impacting the most vulnerable.

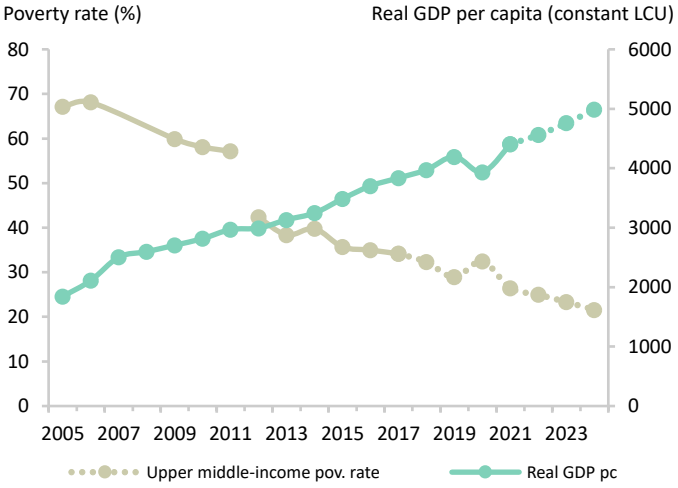
The average number of pension contributors for the first half of 2022 suggests an increase of 8 percent (y-o-y) in formal employment. For the same period, the number of

FIGURE 1 **Kosovo** / Consumer price inflation



Source: Kosovo Statistics Agency.

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



Source: World Bank. Notes: see Table 2.

registered job-seekers at employment centers dropped by 32 percent (y-o-y).

Exports – particularly for manufactured goods – increased by 29.4 percent (y-o-y) in July. Diaspora-driven service exports also increased by 46 percent by May; and travel data suggest a positive momentum continued during the summer season. Against a significant increase in prices, merchandise imports – which represented 53.4 percent of GDP in 2021 –increased nominally by 26 percent until July 2022, further exacerbating Kosovo's structurally high trade deficit. After declining by 0.3 percent (y-o-y) between January and June, remittance inflows have plateaued.

Supported by inflation and formalization, total tax revenues increased by 15.4 (y-o-y) percent until end-August, 2022. Current spending increased by 17.6 percent for the same period and is expected to continue increasing as the government implements over 4.5 percent of GDP in inflation-mitigation and energy subsidy measures. Capital spending remained exceptionally low with an execution rate of 17 percent by end-August, and almost 30 percent lower than a year before.

The banking sector remained stable, with the annual change in loans at 18 percent in July. Bank capital buffers and asset quality remain adequate, with non-performing loans remaining stable at 2.1 percent.

Outlook

GDP growth in 2022 is expected to slow down below potential to 3.1 percent. Inflationary pressures are expected to subdue purchasing power, slowing private consumption growth. Net exports are expected to drive growth. On the other hand, investment - driven by a plunge in public capital spending and a slowdown in construction - should subtract from growth. On the production side, services – supported by higher diaspora demand, credit growth, and public transfers - are expected to be the main driver of growth. After a significant reduction in 2021, poverty is expected to marginally decline in 2022, but the continuation of inflationary pressures could lead to a stagnation of poverty rates.

The medium-term outlook remains positive. However, it is also mired by downside risks related to food and energy price increases and upward pressures on interest rates.

Consumer inflation is expected to average 12.1 percent in 2022, before moderating gradually over the medium-term. With high import inflation leading to a nominal increase in the level of trade imbalances, and with slowing remittances, the current account is expected to deteriorate until 2023. In the medium-term, non-debt creating FDIs and external lending will be the key source of financing for the current account.

The fiscal deficit is expected to reach 0.8 percent of GDP in 2022. Further spending on energy subsidies could, however, increase the deficit. Over the medium-term, compensation of employees, transfers, and a gradual improvement in capital investment execution, are expected to drive spending and push the fiscal deficit above 2 percent of GDP.

Over the medium-term, there is a pressing need to preserve fiscal buffers by containing spending on untargeted transfers to respond to the changing macroeconomic environment, and accelerate implementation of structural reforms in energy, education, social protection, and healthcare to enhance inclusive and sustainable growth.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.8	-5.3	10.5	3.1	3.7	4.2
Private Consumption	5.6	2.5	7.6	0.5	1.9	3.4
Government Consumption	10.1	2.1	9.1	3.0	5.1	2.0
Gross Fixed Capital Investment	2.9	-7.6	10.7	-2.3	8.5	5.9
Exports, Goods and Services	7.6	-29.1	78.7	11.5	6.0	8.0
Imports, Goods and Services	4.5	-6.0	32.8	1.4	5.2	5.5
Inflation (Consumer Price Index)	2.7	0.2	3.4	12.1	4.0	3.0
Current Account Balance (% of GDP)	-5.7	-7.0	-8.3	-11.3	-13.1	-12.3
Net Foreign Direct Investment Inflow (% of GDP)	2.7	4.2	3.9	3.7	4.9	5.0
Fiscal Balance (% of GDP)	-2.9	-7.6	-1.3	-0.8	-1.6	-2.1
Debt (% of GDP)	17.0	22.0	21.5	20.9	21.9	23.2
Primary Balance (% of GDP)	-2.6	-7.1	-0.9	-0.4	-1.1	-1.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	28.9	32.4	26.4	25.0	23.3	21.6

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 ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

KYRGYZ REPUBLIC

Table 1	2021
Population, million	6.7
GDP, current US$ billion	8.3
GDP per capita, current US$	1235.8
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	18.7
Upper middle-income poverty rate ($6.85)[a]	67.6
Gini index[a]	29.0
School enrollment, primary (% gross)[b]	102.6
Life expectancy at birth, years[b]	71.8
Total GHG emissions (mtCO2e)	10.1

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

The economy has so far proved more resilient than expected to spillovers from Russia's war in Ukraine. Growth accelerated to 7.7 percent in January-July 2022 and is projected to be 4 percent in 2022. Inflation has increased and is expected to reach 15 percent in 2022 and moderate thereafter. The fiscal deficit is projected to widen this year but decline to under 3 percent of GDP in the medium term.

Key conditions and challenges

The Kyrgyz Republic has experienced volatile growth in the past decade. The economy remains heavily dependent on gold production (10 percent of GDP and 35 percent of exports), remittances (25 percent of GDP), and foreign aid.

The Kyrgyz economy was heavily impacted by the COVID-19 pandemic in 2020 as GDP contracted by 8.4 percent and the poverty profile deteriorated. The last two years have also seen significant political and governance upheavals, with a new Constitution shifting back to a presidential form of governance, and snap parliamentary and presidential elections. Political uncertainties continue to hamper the government's ability to implement reforms. The nationalization of the largest gold producer, Kumtor Gold Company, dented investor confidence. New risks have emerged following Russia's war in Ukraine and subsequent sanctions on Russia.

While there has been some progress towards fiscal consolidation in recent years, broadening the tax base and improving the public spending efficiency remain key challenges. The private sector is hindered by an excessive bureaucratic burden. Accelerating economic growth will require stronger institutions and policies to foster private sector growth, spur international trade, and improving the commercial soundness of the energy sector.

Recent developments

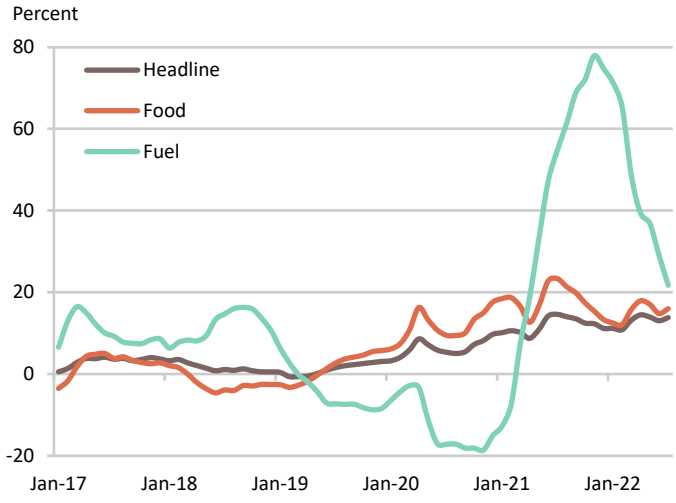
The Kyrgyz economy has so far proved more resilient than expected to the spillovers of the war in Ukraine. Real GDP grew 7.7 percent during January-July, yoy, driven by gold production (43.1 percent growth, yoy), agriculture (8.4 percent), construction (3.6 percent), and services (3.5 percent). Domestic demand was supported by remittance inflows (7.5 percent growth in US$ terms) from Russia, aided by a strong Russian ruble.

Gold was mainly purchased by the Central Bank, reducing gold exports in the first half of the year. As a result, total exports declined by 40.5 percent, yoy, while imports grew by 68.7 percent, yoy, mainly driven by fuel and consumer goods. This led to an increase in the current account deficit to an estimated 15 percent of GDP. The Central Bank also sold US$217 million of forex reserves in Q1 to avoid sharp fluctuations of the Som and purchased US$46 million in Q2. As of end-June 2022, gross reserves are about 5 months of imports.

Inflation increased to 13.8 percent in July from 11.2 percent in December 2021, driven by global food and fuel prices. To combat inflation, the Central Bank gradually raised the policy rate from 8 to 14 percent between December and March. Credit growth slowed to 9.6 percent in June 2022 from 11.8 percent in December 2021, mainly due to a decline in FX loans.

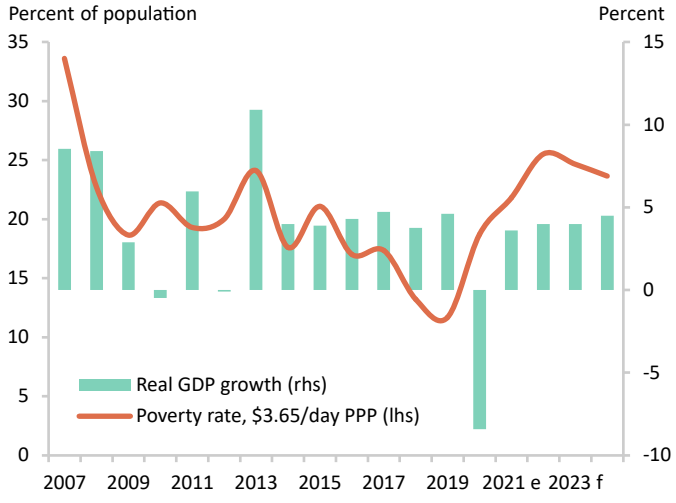
The fiscal position was solid in the first 7 months of 2022. The budget ran a surplus of 1.4 percent of GDP, slightly better than

FIGURE 1 **Kyrgyz Republic** / Headline, food and fuel inflation



Source: Kyrgyz authorities.

FIGURE 2 **Kyrgyz Republic** / Actual and projected poverty rate and real GDP growth



Source: Kyrgyz authorities and World Bank staff.

the previous year. Total revenues increased to 45.9 percent of GDP from 38.6 percent a year ago, driven by higher tax receipts. At the same time, spending increased to 44.5 percent of GDP from 37.2 percent a year ago driven mainly by capital outlays. The surplus, along with the appreciation of the Som, helped reduce public debt to below 50 percent of GDP in July 2022.

The COVID-19 pandemic increased the poverty rate from 11.7 percent in 2019 to 18.7 percent in 2020 (at the US$3.65 a day, 2017 PPP). Poverty is estimated to have deteriorated further in 2021, mainly due to increased food prices, lower real incomes, and limited job opportunities. High inflation is the most significant immediate concern for the welfare of the population. The public sector salary increases in April and August 2022 and enhancement to the social assistance program (targeted to the poor), have softened the negative impact of the food price increase on the population.

Outlook

GDP growth for 2022 is expected to be 4 percent, because of moderate growth of the gold sector in the second half of the year. On the demand side, consumption will be supported by remittances and investments spurred by high public outlays, while net exports are expected to contribute negatively to growth. GDP growth is expected to remain at 4 percent in 2023 and 4.5 percent in 2024, assuming that the economy adjusts to the spillovers from the Russian sanctions.

Inflation is expected to remain elevated at about 15 percent by end-2022, driven by further food and energy price increases. With the Central Bank expected to keep its policy rate at the current level to bring inflation down to its target range of 5-7 percent, inflation is projected to gradually moderate to 7 percent by end-2024.

The current account deficit is projected to be 12.7 percent of GDP in 2022, reflecting the fall in gold exports, with a decline in 2023-24 reflecting an export revival.

The fiscal deficit is expected to widen in 2022 due to the increases in social transfers and public sector salaries in H2 2022. The deficit is expected to narrow to under 3 percent of GDP over 2023-24 mainly thanks to higher revenues from the mining sector and containment of expenses.

High food prices and job insecurity will continue to be the most significant challenge that impact and deepen poverty in 2022. The poverty rate will likely increase up to 25.5 percent (3.65$ a day, 2017PPP). The government's measures, such as increases in pensions and scaling up and extension of the coverage of the social protection program targeted to the poor will help to mitigate the adverse effects produced by the loss of labor incomes and higher inflation.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.6	-8.4	3.6	4.0	4.0	4.5
Private Consumption	0.8	-8.3	13.5	3.6	4.0	4.3
Government Consumption	0.5	0.9	0.3	0.7	0.8	0.6
Gross Fixed Capital Investment	7.1	-16.2	-3.6	14.7	14.0	11.3
Exports, Goods and Services	16.2	-27.3	24.5	12.1	12.0	12.5
Imports, Goods and Services	6.1	-28.0	39.1	14.0	14.3	12.1
Real GDP growth, at constant factor prices	3.6	-8.4	3.6	3.9	4.1	4.5
Agriculture	2.5	0.9	-5.0	4.4	2.0	2.5
Industry	6.6	-7.0	7.2	10.0	8.7	8.0
Services	3.2	-16.5	10.4	0.7	3.5	4.4
Inflation (Consumer Price Index)	1.1	6.3	11.9	15.2	8.0	6.0
Current Account Balance (% of GDP)	-12.1	4.8	-8.7	-12.7	-11.8	-10.2
Net Foreign Direct Investment Inflow (% of GDP)	3.8	-7.5	7.0	1.9	2.7	2.6
Fiscal Balance (% of GDP)	-0.5	-4.2	-0.3	-3.2	-3.0	-2.8
Debt (% of GDP)	51.6	67.7	60.3	55.2	52.3	50.9
Primary Balance (% of GDP)	0.5	-2.9	1.4	-1.7	-1.6	-1.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	1.3	1.3	1.2	1.2	1.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	11.7	18.7	21.8	25.5	24.7	23.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	63.7	67.6	67.3	67.0	66.6	66.2
GHG emissions growth (mtCO2e)	-7.8	-20.9	-6.7	-5.3	1.1	-0.1
Energy related GHG emissions (% of total)	69.5	64.0	62.0	61.4	61.8	60.7

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 ECAPOV harmonization, using 2009-KIHS, 2019-KIHS, and 2020-KIHS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2009-2019) with pass-through = 0.87 based on GDP per capita in constant LCU.

MOLDOVA

Table 1	2021
Population, million	2.6
GDP, current US$ billion	13.7
GDP per capita, current US$	5233.5
International poverty rate ($2.15)[a]	0.0
Lower middle-income poverty rate ($3.65)[a]	0.4
Upper middle-income poverty rate ($6.85)[a]	14.7
Gini index[a]	26.0
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	72.0
Total GHG emissions (mtCO2e)	13.9

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

The war in Ukraine and the recent drought have brought significant challenges to the Moldovan economy. Trade disruptions, lower foreign inflows, and high inflation have a significant toll on private consumption and investment. GDP will contract by 0.7 percent in 2022, with a slow recovery in the subsequent years provided that the war does not escalate further. Over eleven thousand people are projected to fall below the poverty line.

Key conditions and challenges

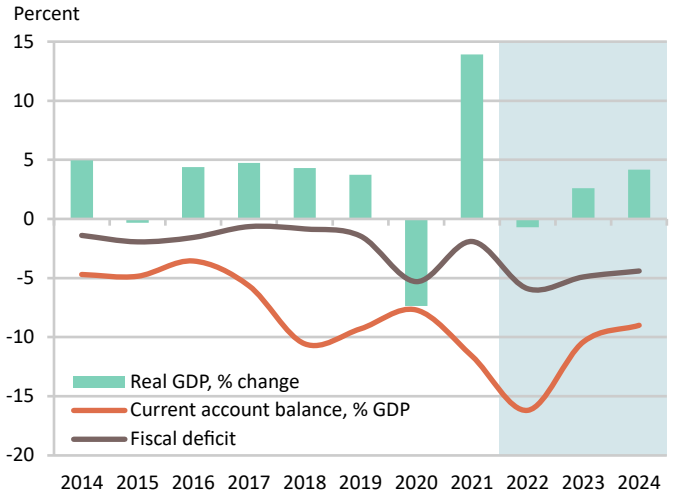
Moldova's economic outlook after the Covid-19 pandemic and robust recovery in 2021 has been overtaken by the war in Ukraine and a rapid surge in inflation. Russia's invasion of Ukraine poses major threats to the economic prospects of Moldova through the overall stability of the macro-fiscal framework, trade and remittances channels, and increasing geopolitical risks undermining domestic and foreign investment appetite. Key infrastructure networks are primarily connected to Ukraine despite recent efforts to better connect the country to the EU. The surge in inflation represents the biggest challenge for authorities. Monetary policy faces a trade-off between controlling inflation and supporting economic activity, as well as potential pressure on the domestic currency while maintaining sufficient levels of international reserves. Moldova's fiscal position is confronted with the need to mitigate the eroding purchasing power of the households due to inflation with the need to support the ambitious medium-term reform program to address low productivity growth, persistent structural and governance weaknesses, significant state-owned enterprises footprint, low competition, uneven playing field, and tax distortions. Extreme weather events and the propagation of economic and energy shocks have been a traditional risk for a small open economy like Moldova. Persistent inequality of opportunity limits the ability of low-income households to access public services, reducing their resilience and cementing low intergenerational mobility. Moldova remains one of the poorest countries in Europe.

Recent developments

GDP expanded by 1.1 percent in the first quarter of 2022 due to a strong export performance (36.9 percent). Investment declined by 6.1 percent due to a deterioration of confidence as the war escalated and the monetary policy tightened. On the production side, trade, financial activities, and health were the most buoyant sectors, while spillovers from the war have started affecting the manufacturing sector.

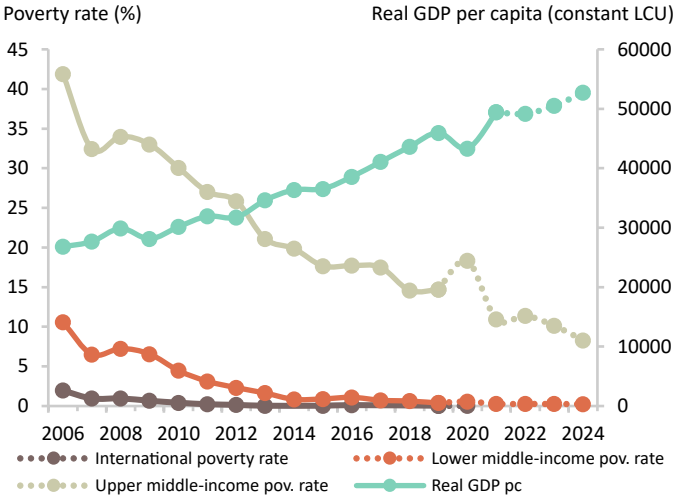
The monetary stance has tightened significantly since 2021 when the policy rate was just 2.5 percent and now it has reached 21.5 percent. The scope was to counteract high food and energy prices, culminating with an inflation rate of 33.6 percent in July 2022, and stabilize the exchange rate, which has lost 8 percent of its value against USD since the beginning of the war. The current account deficit doubled in the first quarter of 2022, reaching 17.1 percent of GDP as the cost of energy imports expanded quickly, while remittances

FIGURE 1 Moldova / Actual and projected macroeconomic indicators



Source: Author's calculations based on national statistics.

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



Source: World Bank. Notes: see Table 2.

decreased by 9.4 percent. The CAB deficit was financed primarily by reserve assets and FDI. The external debt marginally decreased and reached 64 percent of GDP.

The fiscal position proved to be resilient with a deficit was smaller than expected in the first half of 2022 (1.2 percent of GDP) thanks to an increase in revenues by 19.4 percent. Spending has increased by 18 percent, driven by social spending (30 percent) and subsidies (39 percent). As a result, public and publicly guaranteed debt decreased to 30 percent of GDP, with the authorities refinancing only the existing debt.

Amidst a more favorable labor market conditions, poverty using the US$6.85 2017PPP poverty line is projected to have fallen from 18.3 percent to 10.9 percent in 2021. Recovery in the labor market continued into the first quarter of 2022 with the number of employed up by 3.8 percent and the number of unemployed down by around 30 percent.

Outlook

GDP growth is expected to contract in 2022. The negative impact on private consumption and investments is partly compensated by a positive contribution from net exports and a large fiscal impulse. Growth is expected to slowly rebound to 2.6 percent in 2023 and reaching potential only in 2024. High inflationary pressures will persist throughout 2022 and 2023 with the inflation rate remaining above the NBM target of 5 percent +/-1.5 percent. Current account is expected to be higher than in the pre-Covid period reflecting high import prices and will rely on financing from foreign debt instruments.

The fiscal deficit is estimated to reach 5.9 percent of GDP in 2022 and remains higher than pre-Covid-19, as the authorities will need to protect the population from increasing prices, support the refugees and bolster investments and the reform program. As a result, public debt is expected to increase but stabilize just above 40 percent of GDP in the medium term.

Poverty as measured by the US$6.85 2017PPP poverty line is expected to increase from 10.9 percent in 2021 to 11.4 percent in 2022. With growth anticipated to accelerate in 2023, poverty is projected to fall to 10.1 percent in 2023.

Downside risks remain high due to Moldova's proximity to the war in Ukraine and the uncertainties related to energy or natural gas prices and supplies. With the cold season approaching, inflationary pressures could further erode consumer confidence and deteriorate the twin deficits. High input costs and dry weather conditions may reduce agricultural yields, resulting in additional inflationary pressures and dumped economic activity. Despite a 40 percent increase in deposits, escalation of the conflict may put under stress the banking system, which still has to fully recover from the 2014 banking fraud. Finally, higher interest rates may pose roll-over risks on the domestic market.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.7	-7.4	13.9	-0.7	2.6	4.2
Private Consumption	3.2	-8.3	15.5	0.6	3.7	4.4
Government Consumption	1.3	3.1	3.8	2.6	1.3	2.1
Gross Fixed Capital Investment	11.9	0.4	1.7	-1.2	3.3	4.3
Exports, Goods and Services	8.2	-9.6	17.5	15.9	4.1	4.3
Imports, Goods and Services	6.2	-5.0	19.2	10.2	4.6	3.9
Real GDP growth, at constant factor prices	4.0	-7.6	15.6	-0.8	2.6	4.2
Agriculture	-2.3	-26.4	45.0	-5.4	6.0	6.3
Industry	7.1	-4.3	8.3	0.3	2.2	4.9
Services	4.3	-4.8	13.6	-0.2	2.0	3.4
Inflation (Consumer Price Index)	4.7	4.1	5.1	30.1	12.5	6.2
Current Account Balance (% of GDP)	-9.3	-7.7	-11.6	-16.2	-10.4	-9.0
Net Foreign Direct Investment Inflow (% of GDP)	4.2	1.3	1.6	0.4	1.4	2.5
Fiscal Balance (% of GDP)	-1.4	-5.3	-1.9	-5.9	-4.9	-4.4
Debt (% of GDP)	27.5	36.4	33.8	38.2	39.7	41.7
Primary Balance (% of GDP)	-0.7	-4.5	-1.1	-4.6	-3.7	-3.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.0	0.0				
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.4	0.5	0.3	0.3	0.3	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	14.7	18.3	10.9	11.4	10.1	8.3
GHG emissions growth (mtCO2e)	0.8	-5.6	8.9	-1.1	1.8	2.7
Energy related GHG emissions (% of total)	63.6	63.5	65.4	64.8	65.1	65.8

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 ECAPOV harmonization, using 2019-HBS. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

MONTENEGRO

Table 1	2021
Population, million	0.6
GDP, current US$ billion	5.9
GDP per capita, current US$	9438.7
Upper middle-income poverty rate ($6.85)[a]	18.5
Gini index[a]	36.9
School enrollment, primary (% gross)[b]	101.7
Life expectancy at birth, years[b]	75.9
Total GHG emissions (mtCO2e)	3.3

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

While still recovering from the pandemic, Montenegro is facing renewed headwinds. Growth is estimated at a strong 6.9 percent in 2022, led by private consumption. Inflation surged to new highs but its adverse impact on the cost of living was largely mitigated by an increase in real disposable incomes. Due to the tax reform and increased social spending, the fiscal deficit is expected to widen to 5 percent of GDP in 2022. High public debt and a deteriorating global environment require near-term fiscal consolidation.

Key conditions and challenges

The pandemic has exposed Montenegro's vulnerabilities to external shocks. These stem from the open and service-based nature of the economy and its small size, but also from the country's choice of strategies and policies. While the economy had a strong recovery in 2021, growing by 13 percent, it remains below its 2019 level and is now facing new challenges from global geopolitical and economic uncertainties.

Given unilateral euroization, Montenegro relies on fiscal policy and structural reforms to maintain macroeconomic stability. However, the debt-financed highway construction, the pandemic, and a lack of commitment to fiscal targets have increased fiscal vulnerabilities and increased public debt, which peaked at 105 percent of GDP in 2020. Despite a significant decline to 84 percent of GDP in 2021, public debt remains high.

In January 2022, Montenegro started implementing a tax reform program that aims to reduce inequalities and increase growth in the medium term. It removes healthcare contributions, introduces personal income tax allowance, progressive personal and corporate income taxation, and increases the net monthly minimum wage from €250 to €450. The program also poses significant fiscal risks, further amplified by the Parliament's rejection of several revenues compensating measures and additional increases of social spending resulting in a wider-than-planned fiscal deficit in 2022 and beyond. An adopted increase of the minimum monthly pension from €150 to over €250 (effective September 2022), without compensating reform measures, is further weakening pension system sustainability and equity.

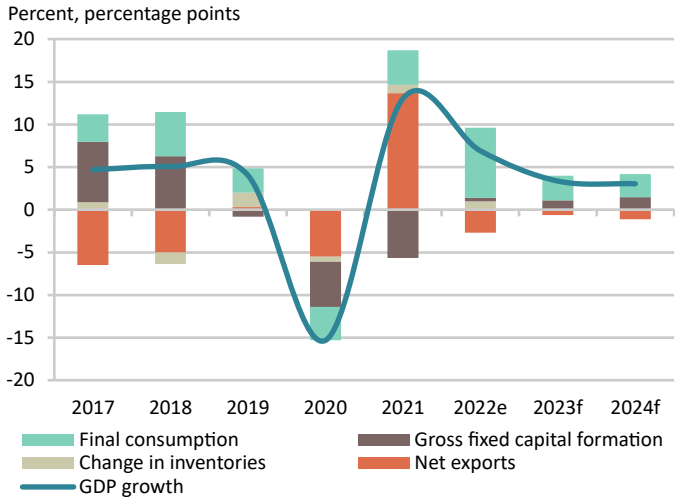
In August, there was a vote of no confidence in the government - the second government to collapse in 2022. The complexity and fragility of the political landscape exacerbates already high uncertainties, slows the reform process, and diverts focus from imminent economic challenges. Prudent fiscal policy based on continuous public debt reduction and policies to support growth is of critical importance in such environment.

Recent developments

In 2022, economic activity was driven by an increase in real disposable incomes owing to further recovery in tourism, employment growth, and household lending. As a result, by June, retail trade grew by 20 percent y/y, while the number of tourist overnights increased by 150 percent y/y, reaching 91 percent of the 2019 level. However, industrial production declined by 2.3 percent as unfavorable hydrological conditions affected electricity generation.

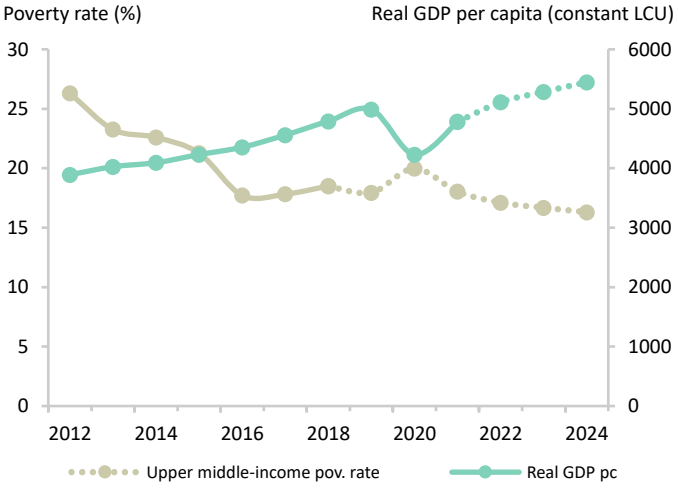
Administrative data show employment reached a record high in July. The registered unemployment rate declined from 22 percent in July 2021 to 16 percent in

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



Sources: MONSTAT and World Bank.

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



Sources: World Bank. Notes: see Table 2.

July 2022. Poverty (income below $6.85/day in 2017PPP) is projected to decline to 17.1 percent in 2022.

Inflation peaked at 15 percent y/y in August, led by a surge in food (26.2 percent y/y) prices. The inflationary impact on households has been largely mitigated by a wage increase through the tax reform program.

The financial sector is performing well. By July, lending and deposits increased by 4.4 and 20.4 percent y/y, respectively. The average capital adequacy ratio was at 18.9 percent, while non-performing loans increased to 6.9 percent of total loans from 6.3 percent a year earlier.

By June, the growth of exports outpaced that of imports, supported by further tourism recovery and higher metal and electricity prices. Net income accounts further reduced the current account deficit, which was largely financed by net FDI and reserves.

Shortfall in social security contributions and personal income tax, new spending commitments (child and mothers' benefits, pensions), clearance of health insurance arrears, and high capital spending are expected to drive an increase in the fiscal deficit from 1.9 percent of GDP in 2021 to an estimated 4.9 percent of GDP in 2022. Public debt is estimated to remain high at 73.4 percent of GDP in 2022.

Outlook

The unfavorable global economic outlook and high uncertainty are weighing on Montenegro's recovery prospects. Growth is expected to moderate to 3.4 percent in 2023 and further to 3.1 percent in 2024, as private consumption growth slows. The projections do not assume that the remaining sections of the highway will start by 2025, as fiscal space is limited. Tourism is expected to continue recovering in 2023, although deteriorating growth prospects in the EU and the region can slow its recovery.

Inflation is expected to decelerate to 5.9 percent in 2023 and further to 2.6 percent in 2024. While higher energy prices are disproportionally affecting the poor, they are also supporting a reduction in the trade deficit as Montenegro's growing electricity capacities are used for energy exports. These factors, together with exports of tourism and transport services are projected to support a reduction in the current account deficit to 9.7 percent of GDP in 2024. The fiscal balance is expected to moderate over the medium term but will remain elevated at 4 percent of GDP in 2023 and 2.7 percent of GDP in 2024, due to higher social and capital spending. As a result, public debt will stay high at around 72 percent of GDP in 2023 and 2024. Given the tightening of global financial conditions and Montenegro's sizable financing needs of around 9 percent of GDP in 2023, Montenegro will require very careful debt management and stronger control over its expenditures.

The outlook is surrounded with multiple downside risks. High geopolitical uncertainties and swelling global inflation weaken growth prospects in Montenegro and its trading partners. Inflationary pressures are accelerating monetary tightening which translates into more expensive external financing. Political instability and delays in government formation are major domestic risks. The severity of challenges ahead requires strong political commitment and actions to mitigate these risks.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.1	-15.3	13.0	6.9	3.4	3.1
Private Consumption	3.1	-4.6	4.0	9.1	3.1	2.9
Government Consumption	1.0	0.8	0.5	0.2	0.0	0.5
Gross Fixed Capital Investment	-1.7	-12.0	-12.3	1.2	3.3	4.4
Exports, Goods and Services	5.8	-47.6	81.9	27.1	5.1	4.1
Imports, Goods and Services	2.7	-20.1	13.7	18.6	3.8	3.6
Real GDP growth, at constant factor prices	4.2	-14.4	13.2	6.9	3.4	3.1
Agriculture	-2.2	1.1	-0.5	-2.0	0.1	0.1
Industry	5.6	-12.0	0.3	2.0	4.0	4.5
Services	4.5	-16.9	19.9	9.4	3.6	2.9
Inflation (Consumer Price Index)	0.4	-0.3	2.4	12.3	5.9	2.6
Current Account Balance (% of GDP)	-14.3	-26.1	-9.2	-10.2	-10.3	-9.7
Net Foreign Direct Investment Inflow (% of GDP)	6.2	11.2	11.7	10.3	9.0	7.9
Fiscal Balance (% of GDP)	-2.7	-11.0	-1.9	-4.9	-4.0	-2.7
Debt (% of GDP)	76.5	105.3	84.0	73.4	72.7	71.9
Primary Balance (% of GDP)	-0.5	-8.3	0.5	-3.3	-2.2	-0.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	17.9	20.0	18.0	17.1	16.7	16.3
GHG emissions growth (mtCO2e)	2.5	-17.4	3.9	2.6	0.4	0.6
Energy related GHG emissions (% of total)	69.3	65.8	67.8	69.3	69.7	69.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2015-SILC-C and 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2014-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

NORTH MACEDONIA

Table 1	2021
Population, million	1.8
GDP, current US$ billion	13.9
GDP per capita, current US$	7556.6
International poverty rate ($2.15)[a]	3.4
Lower middle-income poverty rate ($3.65)[a]	7.1
Upper middle-income poverty rate ($6.85)[a]	20.8
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.7
Total GHG emissions (mtCO2e)	11.3

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

As the war in Ukraine and the energy crisis dim growth prospects, inflation is heading towards all-time highs, disproportionately eroding real incomes of the poor. With limited fiscal space, elevated public debt, and increased cost of financing, fiscal support needs to target the most vulnerable. Monetary policy tightened to tame inflationary pressures. Medium-term growth is expected to moderate, but risks are significantly tilted to the downside.

Key conditions and challenges

Just as the economy started to recover from a pandemic-induced recession, the energy crisis and the war in Ukraine cut the recovery short and amplified inflationary pressures in early 2022. Energy and food prices have soared, while the minimum wage increase of 18.5 percent in March 2022 further fueled inflationary expectations. Double-digit inflation is weighing on economic growth prospects and is exacerbating balance sheet vulnerabilities for both sovereign and corporate borrowers. Poverty reduction (using the upper middle income class poverty line of US$6.85/day at 2017 PPP) is likely to stall in 2022 given rising food and energy prices that hurt the poor relatively more, as they spend a larger share of their income on these items.

Although non-performing loans do not yet point to increased insolvency, worsening firm performance is affecting the outlook for the banking sector. Sequential crises have markedly reduced fiscal space for additional emergency support. The recent shocks have worsened fiscal sustainability and reduced fiscal space for supporting growth in North Macedonia. General government spending with the roads company reached 40 percent of GDP; yet, low spending efficiency and high mandatory spending (80 percent of spending) undermine the contribution of spending to growth. At the same time, revenues at 32 percent of GDP are still below the EU peers' average. Public debt remained elevated at 61 percent of GDP at the end of 2021, amidst sharply increasing financing costs.

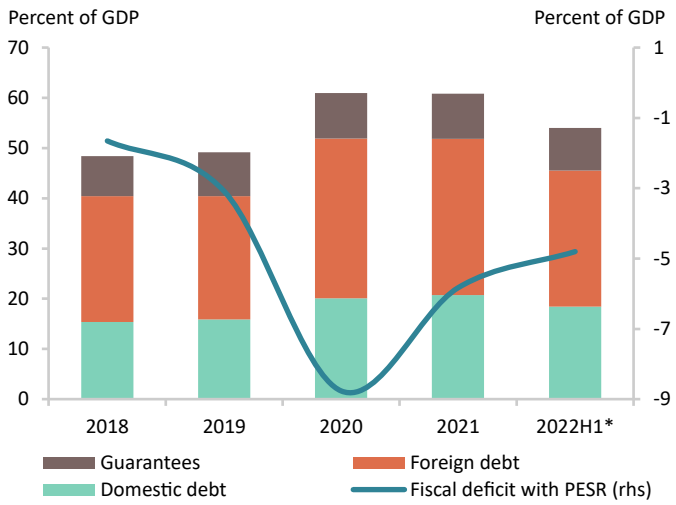
The focus of the reform agenda needs to be geared towards boosting tax compliance, restructuring spending while launching the green transition, improving the efficiency of public investment management, and ensuring the resilience of the financial sector. Given limited fiscal resources, widespread state aid through direct budget transfers, temporary subsidies, and broad tax exemptions that are not cost-effective or sustainable, should be revised and redirected toward long-term growth-supporting spending.

Recent developments

After a 4-percent growth in 2021, output increased by 2.6 percent in H1 2022, helped by a continued recovery in investments and a moderate consumption stimulus. Imports surged, leading net exports into negative territory. Growth was driven by services, as industry struggled, and construction saw a further decline in activity.

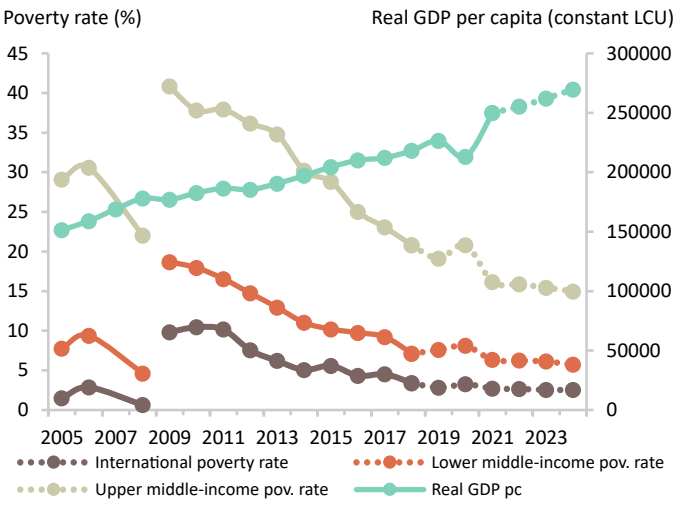
The census-adjusted activity rate declined to 55.3 percent in Q2 2022, led by a drop in female participation. The employment rate stood at 47.3 percent in Q2 2022 and remained below the pre-pandemic peak. The unemployment rate decreased to 14.5 percent, but the youth unemployment rate remained high at 30.9 percent.

FIGURE 1 **North Macedonia** / Fiscal performance



Sources: North Macedonia State Statistics Office, Ministry of Finance, and World Bank staff calculations. Note: * Central government on a 12-month rolling basis.

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



Source: World Bank. Notes: see Table 2.

The banking sector remained stable, but the liquidity and the capital adequacy ratios decreased to 20.5 and 17 percent in Q1 2022, respectively. Credit growth continued at 9.7 percent in July 2022, led by accelerated corporate and mortgage lending. Consumer price inflation surged to 16.8 percent in August 2022, with food and energy prices rising by more than 20 percent. To tame inflation expectations, the Central Bank increased the main policy rate four times within a year to 2.5 percent until August 2022. The pegged exchange rate remained stable with FX interventions to contain sustained pressures, leading to a more than 20 percent loss of reserves since mid-2021.

With the supplemental budget in May, the government's projected fiscal deficit for 2022 increased by 1 p.p. to 5.3 percent of GDP, marked by a rise in current expenditures along with cuts in capital expenditures. Total revenues surged by close to 14 percent y-o-y helped by inflation which led to a decline in public and publicly guaranteed debt towards 55.4 percent of GDP in June 2022. However, expenditure arrears remained high at 3 percent of GDP in Q2 2022 owing to health sector, state enterprises, and local governments.

Outlook

Output growth over the medium term is expected to moderate and downside risks remain elevated. The 2022 growth forecast is downgraded further to 2.1 percent as the energy and Ukraine crisis continue to take a toll on the domestic economy. Disruptions related to the war in Ukraine, overstretched supply chains, mounting inflationary and wage pressures and the intensifying energy supply crisis continue to weigh on the outlook. The baseline scenario is built on the assumption that the impact of the energy crisis and the war in Ukraine on the domestic economy will gradually subside while inflationary pressures tail off over the forecast horizon. However, the underlying assumptions are significantly tilted to the downside, dampening growth, and lifting inflation at the same time. With looming stagflation risks, the country will need to start delivering on reform promises that can reinvigorate the potential growth momentum over the medium term. Policy efforts need to be geared towards restoring fiscal and financial sustainability whilst building social and climate resilience that will reduce the country's vulnerability to shocks and revamp the country's long term growth prospects. At the current juncture, heightened political uncertainty and a parliamentary impasse, following the results of the local elections and a removal of obstacles for opening the EU accession negotiations, amidst a food and energy crisis, may lead to delays in reforms implementation needed to boost potential growth and consolidate public finances. Moreover, lower domestic and external demand, high input costs and liquidity shortages could lead to further layoffs and increase poverty, stretching already tight public finances. Finally, tightening financial conditions may affect financing options and costs going forward.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.9	-6.1	4.0	2.1	2.7	2.9
Private Consumption	3.7	-4.5	5.9	6.2	2.9	2.8
Government Consumption	2.5	6.4	4.1	1.0	0.3	0.2
Gross Fixed Capital Investment	8.7	-14.8	6.8	20.0	8.0	8.0
Exports, Goods and Services	8.9	-10.9	12.3	11.0	7.2	6.1
Imports, Goods and Services	9.5	-10.0	12.9	16.5	7.0	6.0
Real GDP growth, at constant factor prices	3.8	-5.2	2.5	2.1	2.7	2.9
Agriculture	0.1	-3.2	-1.2	1.8	2.0	1.5
Industry	3.4	-9.1	-2.4	1.6	4.8	5.3
Services	4.4	-3.9	4.7	2.3	2.1	2.2
Inflation (Consumer Price Index)	0.8	1.2	3.2	12.1	6.1	3.0
Current Account Balance (% of GDP)	-3.3	-3.4	-3.5	-9.8	-5.0	-3.0
Net Foreign Direct Investment Inflow (% of GDP)	3.2	1.5	3.7	3.3	3.4	3.4
Fiscal Balance (% of GDP)	-2.1	-8.3	-5.4	-5.2	-4.1	-3.6
Debt (% of GDP)	49.2	61.0	60.8	59.4	59.9	61.4
Primary Balance (% of GDP)	-1.0	-7.1	-4.1	-3.9	-2.6	-2.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.8	3.2	2.7	2.7	2.5	2.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	7.6	8.1	6.3	6.2	6.1	5.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	19.1	20.8	16.1	15.9	15.4	14.9
GHG emissions growth (mtCO2e)	8.6	-2.4	2.7	1.1	0.7	-0.2
Energy related GHG emissions (% of total)	71.9	71.5	72.6	72.9	72.9	72.6

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 ECAPOV harmonization, using 2019-SILC-C. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

POLAND

Table 1	2021
Population, million	37.8
GDP, current US$ billion	661.7
GDP per capita, current US$	17487.0
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	0.5
Upper middle-income poverty rate ($6.85)[a]	1.6
Gini index[a]	30.3
School enrollment, primary (% gross)[b]	97.2
Life expectancy at birth, years[b]	76.6
Total GHG emissions (mtCO2e)	308.1

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

Poland's GDP grew 7 percent in the first half of 2022 as investment surprised to the upside and the boom in private consumption continued. The risk of a technical recession is looming, however, due to strong inflationary pressures and policy uncertainties. The war in Ukraine continues to affect the economy, through commodity prices, trade, and confidence effects channels. The large influx of displaced Ukrainians. The share of the population at risk of poverty is expected to remain elevated through 2024.

Key conditions and challenges

The well-diversified Polish economy has proven to be one of the most resilient in the EU, recovering strongly in 2021 after a relatively small contraction in GDP of 2.2 percent in 2020.

A sound macroeconomic framework, effective absorption of EU investment funds, a sound financial sector, better access to long-term credit, and access to European labor markets have supported long-term inclusive growth and poverty reduction. Strong domestic labor markets and increases in median and bottom 40 real incomes have supported private consumption. With an improving business environment, Poland integrated well into regional value chains (RVCs). Higher private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

The full economic impact of the ongoing COVID-19 remains uncertain as new variants emerge amidst a vaccination rate of 67 percent of the adult population.

The unprecedented policy response to mitigate the impacts of the COVID crisis and high inflation have narrowed the available policy space.

Increased spending and tax expenditure efficiency is needed to rebuild fiscal buffers, accommodate higher spending on health, defense, the green transition, and to prepare for the growing fiscal burden arising from aging. Over the medium term, a key challenge is a tightening labor supply made more acute by the aging population. The large influx of displaced people from Ukraine could help address the labor market tightness. Achieving decarbonization commitments is another challenge. Institutional strengthening is needed for sustained and inclusive growth and for narrowing regional disparities.

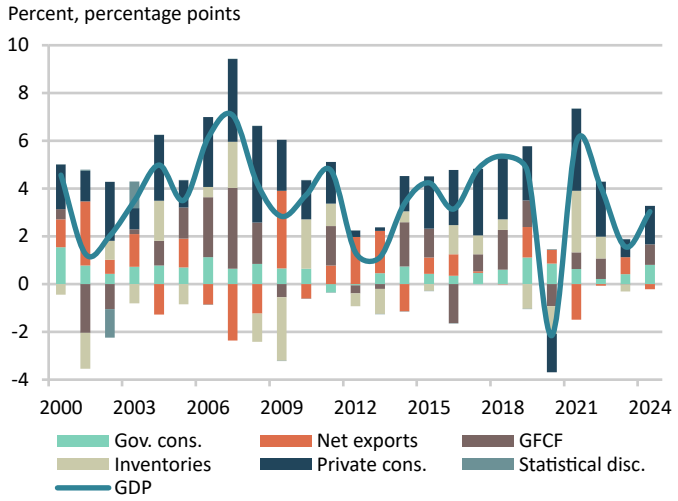
Recent developments

Economic growth remained strong in the first half of 2022, well above potential GDP growth, expanding nearly 7 percent year-on-year. This follows a 5.9 percent GDP recovery in 2021 from the COVID-related 2020 recession. Household consumption expanded by 6.4 percent year-on-on-year in the first half of 2022, investment rose 6.2 percent, and there was a significant contribution to growth from rebuilding of inventories..

Private consumption benefitted from the tight labor market with continued employment growth, record low unemployment, increased labor force participation and strong wage growth. It was also supported by pent-up demand and demand from the nearly 1.4 million displaced Ukrainians in Poland. High capacity utilization and strong corporate balance sheets supported investments so far.

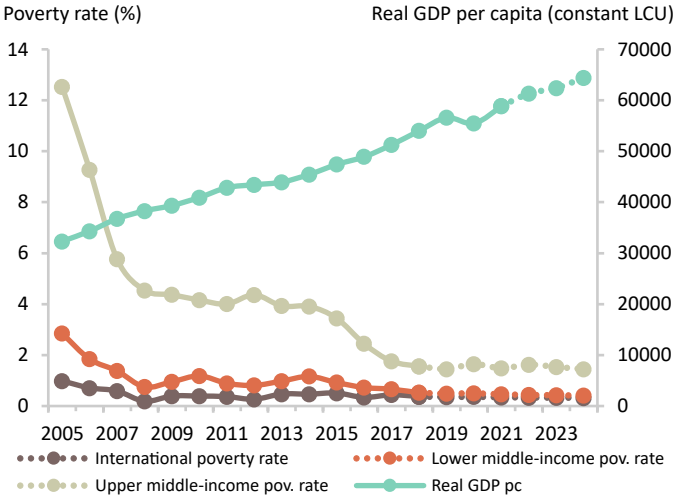
Robust domestic demand growth fueled import growth while supply side disruptions and lower external demand from Russia, Ukraine, and Belarus weighed on

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



Sources: GUS and World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

export growth, jointly contributing to a negative contribution from net exports.

Inflation has continued to accelerate markedly since mid-2021, reaching more than 16 percent in August, sharply higher than the targeted range. Hikes in energy and agricultural commodities as well as continued disruptions in supply chains fueled inflation. Price increases continued to accelerate notwithstanding the fiscal package aimed at limiting inflation.

High inflation triggered a faster than expected monetary policy tightening, with the central bank raising its reference rate by 665 basis points since October 2021. Meanwhile, the zloty depreciated 15.4 percent so far this year.

Temporary protection was given to 1.4 million Ukrainian refugees, granting them temporary residence and access to the labor market and key public services (health, education), social assistance, and housing.

The current account widened sharply to 3.9 percent of GDP in the year-to-June 2022, on account of sharply higher import prices in particular for energy and intermediate goods. The trade account recorded a 2.7 percent of GDP deficit over this period, compared with a 2.4 percent surplus during the year-to-June 2021. Meanwhile, the primary income account deficit increased slightly to 5 percent of GDP over this period, on account of strong foreign investors' income from capital investments in Polish enterprises.

The unwinding of the large 2020 fiscal stimulus and the strong increase in tax revenues brought the general government deficit to 1.9 percent of GDP in 2021, down from 6.9 percent of GDP in 2020.

Poverty rates declined in 2021, reversing the rise linked to the COVID-19 pandemic in 2020; the Gini coefficient of inequality however continued the upward trajectory visible since 2017.

The financial sector remains well capitalized and has limited direct exposure to Russia, Ukraine, or Belarus.

Outlook

Economic growth is expected to decelerate to 4 percent in 2022 and to 1.6 percent in 2023, on account of high inflation, monetary policy tightening, negative confidence effects related to the war in Ukraine, and slowing demand in key trading partners.

Supply-side disruptions, high input costs, and uncertainty related to the war in Ukraine will affect private investments. The National Recovery and Resilience Plan is expected to support public investment, but any delays in disbursements represent a downside risk.

Higher energy and food prices will weigh on household demand and will affect heavily poorer segments, who devote 50 percent of their monthly spending on food and energy. Minimum wage growth is expected to be outstripped by inflationary pressures, leading to a decline in the real minimum wage in 2022, which will be moderated by the phased adjustment of the minimum wage in 2023. While measures under the Anti-inflation Shield, 14th-month pension, and energy subsidies will soften household impacts, the share of the population at risk of anchored relative poverty is expected to remain elevated at 1-2 percentage points above 2021 levels.

Sharply higher import prices and larger primary income outflows are expected to result in a deterioration in the current account deficit to 4.2 percent of GDP in 2022, with a moderate improvement over 2023-2024 as terms of trade improve.

The fiscal deficit is expected exceed 3.5 percent of GDP, as a result of the structural tax reform (Polish Deal), the temporary impact of the anti-inflation measures, and the public assistance provided to Ukrainian refugees. The fiscal cost of these packages is estimated at 1 percent, 1.7 percent, and 0.4 percent of GDP respectively in 2022. With increased geopolitical risks, defense spending is also expected to increase over the coming years.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.7	-2.2	5.9	4.0	1.6	3.0
Private Consumption	3.9	-2.8	6.0	4.0	1.3	2.8
Government Consumption	6.5	4.9	3.4	1.2	2.4	4.5
Gross Fixed Capital Investment	6.1	-4.9	3.8	4.9	-0.1	4.9
Exports, Goods and Services	5.2	0.0	11.8	3.4	4.0	4.8
Imports, Goods and Services	3.0	-1.1	15.9	3.7	3.0	5.5
Real GDP growth, at constant factor prices	4.6	-2.2	5.6	4.0	1.6	3.0
Agriculture	-0.8	13.9	1.9	1.9	1.1	1.2
Industry	2.2	-4.3	11.4	5.1	3.0	3.3
Services	6.0	-1.7	2.9	3.6	0.8	3.0
Inflation (Consumer Price Index)	2.3	3.4	5.1	13.2	10.1	4.9
Current Account Balance (% of GDP)	0.5	2.9	-0.7	-4.2	-3.6	-2.3
Net Foreign Direct Investment Inflow (% of GDP)	2.0	2.1	3.8	3.6	2.2	2.4
Fiscal Balance (% of GDP)	-0.7	-6.9	-1.9	-3.6	-3.5	-2.6
Debt (% of GDP)	45.6	57.1	53.8	51.7	49.3	47.5
Primary Balance (% of GDP)	0.6	-5.6	-0.8	-2.2	-1.9	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.4	0.4	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	0.5	0.5	0.5	0.4	0.4	0.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.4	1.6	1.5	1.6	1.5	1.4
GHG emissions growth (mtCO2e)	-5.2	-6.2	2.6	-0.5	-2.5	-1.7
Energy related GHG emissions (% of total)	91.6	91.7	91.3	91.0	90.7	90.4

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/ Calculations based on ECAPOV harmonization, using 2008-EU-SILC and 2019-EU-SILC. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2007-2018) with pass-through = 1 based on GDP per capita in constant LCU.

ROMANIA

Table 1	2021
Population, million	19.2
GDP, current US$ billion	284.9
GDP per capita, current US$	14872.7
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	5.1
Upper middle-income poverty rate ($6.85)[a]	11.3
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	87.5
Life expectancy at birth, years[b]	74.4
Total GHG emissions (mtCO2e)	71.7

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

The Romanian economy performed better than expected, growing at 5.8 percent in the first half of 2022 on the back of robust private consumption performance and early signs of investment recovery. Prospects depend on the evolution of the war in Ukraine and its impact on the European economy. The fiscal deficit is on a downwards trend, but it remains elevated. Poverty is expected to decline to 11.7 percent in 2022.

Key conditions and challenges

Romania has achieved impressive success in growth and prosperity over the past two decades. However, the shocks induced by the COVID-19 pandemic and the war in Ukraine exposed the structural vulnerabilities of the economy, including persistent poverty and disparities in economic opportunity across regions and between urban and rural areas, structural rigidities in the product and labor markets, weaknesses in fiscal policy and significant institutional constraints hindering the efficient use of resources.

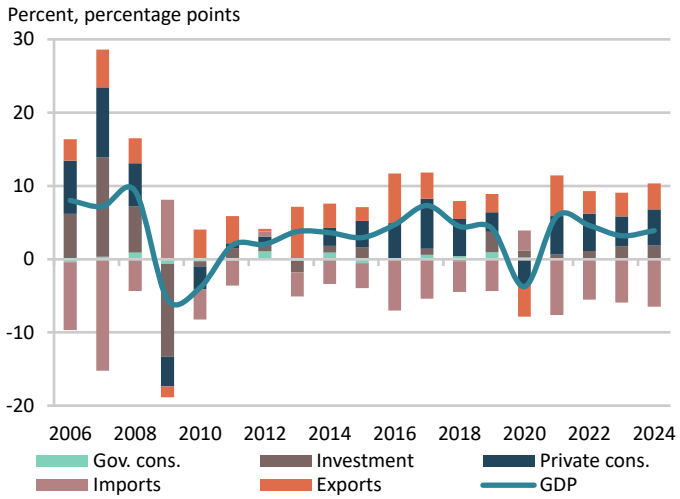
Poor and vulnerable households have been disproportionally affected by rising food and energy prices, despite the capping of gas and electricity prices to reduced levels, until March 2023, for households with lower average monthly consumption. The strong economic rebound helped reduce the share of the Romanian population living on less than $6.85 a day at 2017 PPP prices to 11.7 percent in 2022 from 12.1 percent in 2021.

The key challenges in the short term are to contain the socio-economic effects of the conflict in the region and the COVID-19 flare-ups. Significant inflationary pressures led to monetary policy tightening, following an accommodative stance. Elevated external imbalances add to the currency pressures and markets' risk aversion. Maximal and effective absorption of the EU Multiannual Financial Framework and Next Generation EU funds alongside reforms supported by these programs will be crucial to a sustainable recovery while aiding fiscal consolidation efforts.

Recent developments

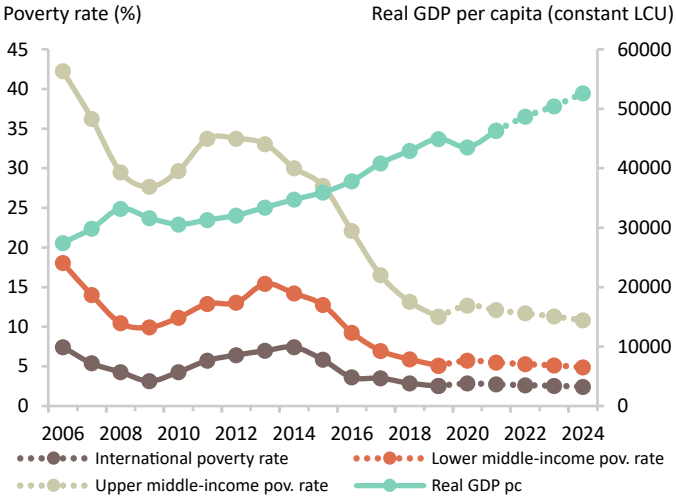
The Romanian economy grew by 5.8 percent in H1, 2022, supported by strong private consumption (up 7.5 percent y-o-y) in response to the phasing-out of COVID-19 restrictions, higher wages, and lower unemployment. Investment showed signs of recovery (up 2.2 percent y-o-y) boosted by new construction works. Robust private consumption coupled with global value chain disruptions and the terms of trade shock led to a widening goods trade deficit. The primary income balance also deteriorated, adding to the already sizable current account deficit. On the supply side, growth was led by the ICT sector (up 23.9 percent y-o-y), which benefited from businesses adopting digital technologies. Construction bounced back (up 2.8 percent y-o-y), supported by the revival of the non-residential buildings segment. The economic recovery and labor supply constraints reduced unemployment to 5.3 percent in June 2022 from the height of the COVID-19 pandemic of 6.7 percent in June 2020. Labor shortages coupled with higher inflation led to wage increases, with nominal net wages up by 12.3 percent y-o-y in June 2022. Meanwhile, annual inflation accelerated to 15 percent in July 2022, led by soaring electricity, gas, and central

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

heating prices (up 35.6 percent). Inflationary pressures prompted the National Bank of Romania to gradually increase the monetary policy rate to 5.5 percent in early August 2022. Nevertheless, private sector credit growth remained strong, up by 17.5 percent y-o-y in June 2022, led by loans to non-financial corporations.

The fiscal deficit decreased to 1.7 percent of GDP in H1, 2022, 1.2 percentage points lower than in the same period of last year. Higher revenues (up 22.9 percent y-o-y), especially from VAT (up 26.6 percent y-o-y), off-set the 14.3 percent y-o-y increase in expenditure, but fiscal pressures remain significant as recurrent expenditure and energy subsidies could swell the deficit this year.

An economic and employment rebound meant that most workers have returned to work, helping to bring household labor income close to the pre-crisis level. However, the Rapid Household Survey in June 2022 showed that 75 percent of Romanians were still worried about the economy. Moreover, rising food and energy prices have depleted households' real purchasing power, especially among the poor and vulnerable. Nearly 90 percent of households in the bottom 40 percent indicated they would have to sacrifice other expenses to cope with food and energy inflation. The war in Ukraine and further disruptions to the global supply chains will continue to affect the economies of host countries for Romanian migrants, reducing remittances. Thus, despite economic and employment recovery, poverty is expected to have declined only modestly to 11.7 percent in 2022 and remains above the pre-crisis level.

Outlook

The economy is projected to expand by 4.6 percent in 2022, with projections subject to a high degree of uncertainty. A global slowdown and a possible recession in the main trading partners could impact Romania's growth in 2023. Growth prospects hinge on several factors, including the new COVID-19 flare-ups, the dynamics of inflation, especially related to energy and food prices, and the severity of the conflict in the region and its impact on the European economy in which Romania is strongly integrated. Romania's capacity to absorb the EU funds will be critical to a sustainable, green, and inclusive recovery process. The sizable investment and reforms under the Resilience and Recovery Facility, the multiannual financial framework 2021-2027, and other EU-funded programs should partially mitigate the impact of higher interest rates and uncertainty on private investment. The sizable funds should also alleviate some of the fiscal pressures resulting from the war and heightened energy and food prices. Over the medium term, fiscal deficits will remain elevated. The fiscal consolidation efforts remain critical and should address the large structural deficit, which requires reforms to strengthen revenue mobilization and increase spending efficiency.

Poverty is projected to decline to the pre-crisis level by 2024. However, rising food and energy prices and declining remittance incomes could mean a longer recovery process for vulnerable population segments in the coming years. A protracted war in Ukraine may significantly weaken growth and lead to an increase in poverty in the short run.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.2	-3.7	5.9	4.6	3.2	3.9
Private Consumption	3.9	-5.1	7.9	7.6	5.8	6.9
Government Consumption	7.3	1.8	0.4	1.1	0.9	0.8
Gross Fixed Capital Investment	12.9	4.1	2.3	3.9	6.9	7.0
Exports, Goods and Services	5.4	-9.4	12.5	6.5	6.7	7.1
Imports, Goods and Services	8.6	-5.2	14.6	9.8	10.0	10.3
Real GDP growth, at constant factor prices	4.0	-3.5	5.6	4.6	3.2	3.9
Agriculture	-5.0	-14.9	13.5	-7.5	6.0	2.1
Industry	-0.1	-2.2	3.7	0.8	1.3	3.4
Services	7.1	-3.2	6.1	7.4	3.9	4.2
Inflation (Consumer Price Index)	3.8	2.6	5.1	13.3	9.7	4.8
Current Account Balance (% of GDP)	-4.9	-5.0	-7.0	-9.2	-7.9	-6.8
Net Foreign Direct Investment Inflow (% of GDP)	2.3	1.4	3.0	3.6	3.7	3.7
Fiscal Balance (% of GDP)	-4.3	-9.3	-7.1	-6.6	-5.6	-4.7
Debt (% of GDP)	35.3	47.2	48.8	51.2	52.5	53.3
Primary Balance (% of GDP)	-3.2	-7.9	-5.6	-4.9	-4.0	-3.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.5	2.9	2.7	2.6	2.5	2.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.1	5.7	5.5	5.3	5.1	4.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	11.3	12.7	12.1	11.7	11.3	10.8
GHG emissions growth (mtCO2e)	-1.9	-10.4	2.2	2.6	2.4	2.3
Energy related GHG emissions (% of total)	91.9	92.1	92.2	92.6	92.9	93.1

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 ECAPOV harmonization, using 2009-EU-SILC and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection based on elasticities calibrated on 2009-2019 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.

RUSSIAN FEDERATION

Table 1	2021
Population, million	144.1
Upper middle-income poverty rate ($6.85)[a]	4.1
Gini index[b]	36.0
School enrollment, primary (% gross)[c]	104.2
Life expectancy at birth, years[c]	71.3

Sources: WDI, MPO, Rosstat.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent value (2020).
c/ WDI for School enrollment (2019); Life expectancy (2020).

Russia's economy will contract by 4.5 percent in 2022, less than initially expected thanks to the strong fiscal response and the surge in energy prices which helped increase fiscal revenues. The economy has experienced a sharp drop in imports, and a fall in real incomes. The recession will continue in 2023 due to the sanctions and reduced fiscal expansion. Thereafter the economy is expected to stabilize. However, medium to long-term growth is expected to be very low as Russia has lost access to key sources of productivity.

Key conditions and challenges

The sanctions imposed on Russia following its war in Ukraine are having significant adverse economic impacts, albeit less severe in the short term than first expected. The initial shock was mitigated by the authorities' strong fiscal response (3 percent of GDP), capital controls, monetary tightening, swift action to stem financial sector risks, as well as high FX inflows driven by the surge in global commodity prices. The combination of smaller accessible international reserves (as half of Russia's US$630bn international reserves were frozen because of sanctions), the suspension of its fiscal rule, and the reduction in domestic non-oil/gas revenues, all imply that Russia is now more exposed if fossil fuel prices and/or volumes fall as the global economy cools down. Moreover, the sanctions have led to a dramatic drop in total imports, restricting access to new technologies and equipment, and external financing, and thereby dampening medium- to long-term growth prospects.

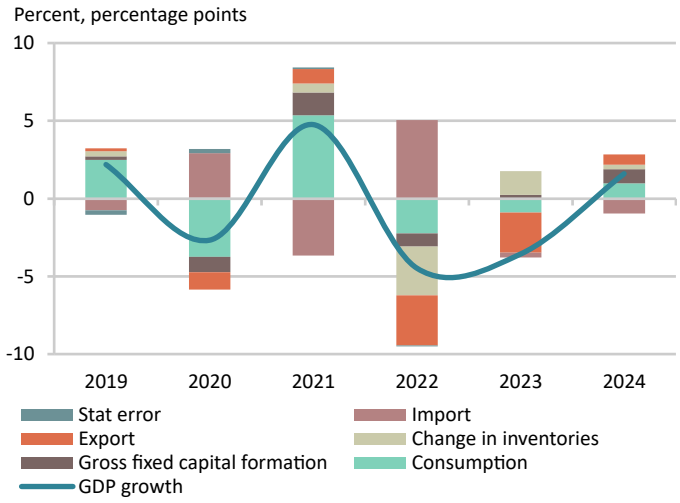
Recent developments

Following the Russian invasion of Ukraine, GDP dropped by 4.1 percent (yoy) in Q2, as the shocks to confidence, transaction systems, and supply chains led to a collapse in domestic demand and export volumes. As the ruble depreciated sharply and inflation spiked, lower real wages contributed to a deep, sustained decline in retail sales volumes—a proxy for private consumption—which remains 9 percent lower by July (yoy). Investment is also estimated to have fallen, exacerbated by the departure of many foreign investors.

The drop in domestic demand would have been even greater had the government not mitigated the impact with a fiscal support package amounting to 3 percent of GDP, including boosting social benefits, providing subsidized loans and tax breaks, and raising minimum wages. The increase in expenditures was financed by oil/gas revenues (25.1 percent up in real terms January–August, yoy), and a reduction in the federal budget surplus to US$1.9 billion from US$14.5 billion over the same period. This has exacerbated the vulnerability of Russia's public finances to a drop in global energy prices and/or volumes—as non-oil/gas revenues dropped by 14.7 percent in real terms yoy and the federal non-oil deficit grew to US$106.9 billion from US$59.2 billion last year.

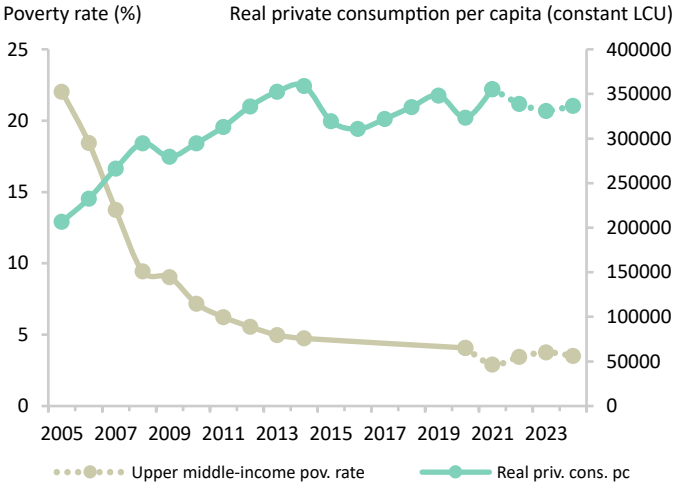
After an initial spike to 17.8 percent yoy in May, the rebound in the ruble and falling domestic demand led to a gradual but steady consumer price deflation to 14.3 percent yoy by August. With price pressure easing, the central bank more than unwound the monetary tightening (to 20 percent) it introduced in February, cutting the policy rate to 7.5 percent by mid-September.

FIGURE 1 Russian Federation / Real GDP growth and contributions to real GDP growth



Sources: Rosstat and World Bank.

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



Source: World Bank. Notes: see Table 2.

The current account surplus reached US$183 billion over January to August 2022, triple its level the year before, as surging commodity prices and lower imports more than compensated for a fall in export volumes and discounts on Russian oil. Imports from some countries including Turkiye and India grew but did not offset the sharp drop in imports from sanctioning countries, resulting in an overall contraction of 22 percent in Q2, yoy. Oil export volumes fell slightly (by 0.4 mb/d in August - IEA) as exports to China, India, and Turkiye largely offset reductions to sanctioning countries. Gas export volumes to the EU, China, and Turkey fell 37 percent amidst Russia's unilateral changes in contract terms and pipeline shutdowns. The surplus was matched by substantial capital outflows by non-residents (US$62bn) and residents (US$68bn, which may include sales of official reserves), which have been registered as large financial inflows in several countries in the neighboring region.

Since a brief crash in February, the ruble more than recovered because of capital controls and current account strength and has been stable since. Russia's international reserves have fallen about 10 percent (US$65bn) since the start of the war.

Official unemployment is near record lows at 3.9 percent (sa) and employment increased by 0.4 percent (yoy) but real wages have weakened by 3.2 percent to June (yoy), possibly reflecting increasing labor demand to substitute for lost capital and technology. The official poverty rate was 13.0 percent in H1 2022, similar to its level in the same period in previous years.

Outlook

The outlook is developed under assumptions that the war and sanctions will continue as in recent months. GDP is expected to decrease by 4.5 percent in 2022 and by a further 3.6 percent in 2023, as the economy continues to contract due to the impact of sanctions, including those coming into force at the end of this year (notably the EU partial oil ban and to a lesser extent the oil price cap). A declining economic base and higher expenditure are expected to turn the general government surplus into a 1.8 percent deficit in 2022. Consumption recovery will be weak this year as real wages remain subdued and further fiscal stimulus is limited as the authorities strive to limit the size of the deficit, including by increasing taxes. Looser monetary policy will have limited positive effect on credit growth as the banking sector faces large losses and uncertainty. The EU's ban on Russian oil will reduce exports in H2 2022 and 2023. Agriculture is expected to expand 1.8 percent in 2022, industrial production to contract by 2.2 percent, and services to contract the most deeply.

Moderate growth is expected in 2024 as the economy stabilizes from the sanctions shock and sees a gradual recovery in domestic demand and exports. Potential growth is expected to be very low—if not negative—as Russia has lost access to key sources of productivity, which will increasingly hamper economic growth and poverty reduction.

Consumer price inflation will rise to 13.9 percent over 2022 and remain above the Central Bank's target of 4 percent until 2024. Russia's banking system experienced a significant loss of 1.5 trillion rubles during H1 2022, 13 percent of its aggregate capital, which, while not jeopardizing banking sector solvency, may hamper its ability to support the economy.

Poverty is expected to increase to nearly 4 percent (UMIC poverty rate) in 2023, while meager growth in 2024 will preclude poverty reduction.

Russia is vulnerable to lower demand for, and prices of, energy and extractives commodities, which may manifest through weaker global growth. Additional risks arise from the partial mobilization announced in September, which could dampen domestic demand, and increase labor market and financial sector pressures.

TABLE 2 Russian Federation / 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	-2.7	4.8	-4.5	-3.6	1.6
Private Consumption	3.8	-7.3	9.5	-4.7	-2.4	1.6
Government Consumption	2.4	1.9	1.5	2.1	1.6	1.0
Gross Fixed Capital Investment	1.0	-4.6	6.9	-3.9	-5.6	3.2
Exports, Goods and Services	0.7	-4.1	3.5	-12.3	-9.1	1.6
Imports, Goods and Services	3.1	-11.9	16.9	-20.8	3.3	5.0
Real GDP growth, at constant factor prices	2.2	-2.4	4.6	-4.4	-3.6	1.6
Agriculture	3.5	0.2	-1.3	1.8	1.4	1.4
Industry	1.6	-2.3	4.9	-2.2	-3.1	1.3
Services	2.4	-2.7	4.9	-5.9	-4.2	1.7
Inflation (Consumer Price Index)	4.5	3.4	6.7	13.9	5.9	4.5
Fiscal Balance (% of GDP)[a]	1.9	-4.0	0.8	-1.8	-2.1	-3.1
Debt (% of GDP)	14.3	20.0	17.9	15.0	15.7	17.0
Primary Balance (% of GDP)[a]	2.7	-3.2	1.7	-0.8	-1.0	-2.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	0.0	4.1	2.9	3.5	3.8	3.5
GHG emissions growth (mtCO2e)	2.4	-4.1	0.8	-7.9	-3.2	0.6
Energy related GHG emissions (% of total)	91.6	91.5	90.6	91.2	90.2	89.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. 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 refer to general government balances.
b/ Calculations based on ECAPOV harmonization, using 2020-HBS. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2020) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

SERBIA

Table 1	2021
Population, million	6.9
GDP, current US$ billion	63.0
GDP per capita, current US$	9180.9
Upper middle-income poverty rate ($6.85)[a]	12.1
Gini index[a]	34.5
School enrollment, primary (% gross)[b]	97.7
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	59.8

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

The Serbian economy continued to grow in 2022 despite major challenges, domestic and from abroad. Poverty incidence declined to an estimated 10.5 percent. Growth is expected to decelerate in 2023 and the risks to the growth outlook are clearly tilted to the downside. Poverty reduction is expected to stagnate as well, as income gains are eroded by high inflation and rising food prices in particular.

Key conditions and challenges

After a strong recovery in 2021 several domestic and international factors caused an economic slowdown. Growth in 2022 is forecasted at 3.2 percent with risks tilted to the downside. The key challenge is the performance of the Serbian energy sector and availability of electricity and gas in the winter of 2022/23. Another challenge will be the availability of financing the fiscal deficit since interest rates increased significantly over recent months and subscription rates to auctions of T-bills remain low. Inflation is on the rise, eroding the incomes of the poor in particular.

Over the medium term, the Serbian economy is expected to slow down and return to the pre-pandemic growth levels only after 2024. However, Serbia still faces challenges that limit its potential growth both in the short and medium to long term. Most importantly, Serbia needs to further remove bottlenecks for private sector investment including toward greener growth. These include a deteriorating governance environment, a lack of infrastructure, and an unreformed education sector, which creates skills mismatches in the labor market. With limited space for future stimulus packages, structural reforms are needed to bring the economy back to sustained growth, boost jobs and incomes and strengthen resilience to shocks.

Recent developments

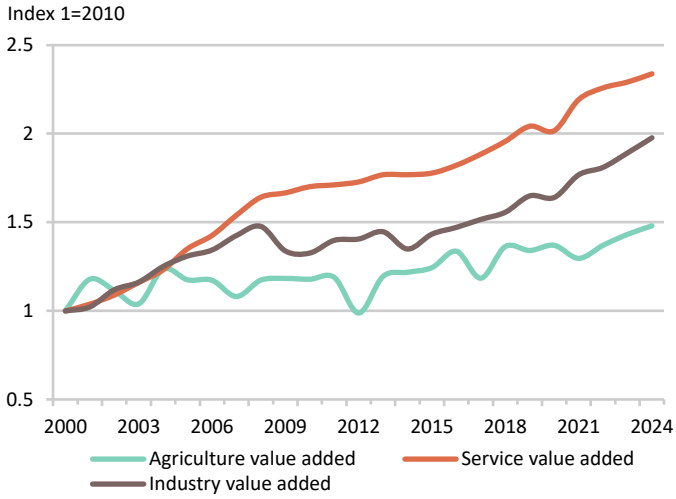
Solid GDP growth in Q1 and Q2 (4.3 and 3.9 percent, y/y) was driven by consumption and better-than-expected export performance. As a result, the employment rate increased and reached a record level of 50.9 percent, and unemployment declined, to 9.2 percent in Q2 2022. Wages increased by 13.5 percent in nominal terms in the first half of the year compared to the same period of 2021.

Poverty (defined as income under $6.85/day in 2017 PPP) is estimated to have declined slightly from 12.2 percent in 2020 to 10.5 percent in 2021. Wage subsidies and cash transfers to citizens helped to avert a spike in poverty in 2020. In 2021, poverty reduction resumed due to strong economic growth and improving labor market conditions, though it was partly countered by an output decline in agriculture, rising inflation at the end of the year, and the phasing out of government support programs.

Inflation has increased despite the introduction of price controls related to food and energy. It reached 12.8 percent in July 2022. In the same month, food prices were 20.3 percent higher than a year earlier. Rents for housing increased at a similar level (20.5 percent). Over the summer months, the government decided to increase the prices of electricity and gas which will push inflation even higher and increase the costs of living.

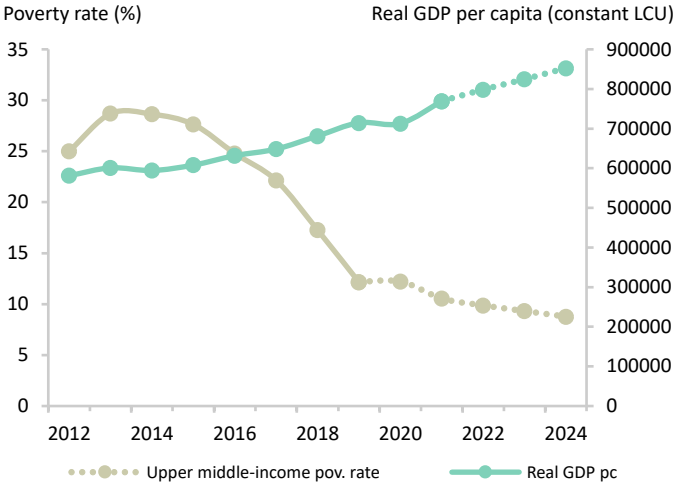
Budgetary revenues overperformed in 2022 thanks to higher than planned

FIGURE 1 **Serbia** / Value added by sector



Source: World Bank staff calculations.

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



Source: World Bank. Note: see Table 2.

collection of VAT and CIT. In the first half of the year, total revenues were higher by 15.2 compared to the same period of 2021. Over the same period, expenditures increased by 13 percent. As a result, the consolidated fiscal deficit decreased significantly in 2022 reaching an estimated 0.2 percent of GDP in the first half of the year. Public debt remained broadly stable throughout 2022 and stood at around 57 percent of GDP.

The current account deficit (CAD) is widening in 2022 (increase by 370 percent in the first half of 2022 compared to the same period of 2021). The CAD reached EUR 2.7 billion in the first half of 2022 compared to EUR 0.6 billion in the same period of 2021 (or 4.4 percent of GDP in H1 2022 compared to 1.1 percent of GDP in H1 2021).This deterioration, by and large, was driven by a major increase in energy imports (of EUR 2.2 billion).

Outlook

The Serbian economy was expected to continue to grow at around 4-4.5 percent annually before the war in Ukraine and increases in international prices started. The growth was expected to be underpinned by broad-based growth in consumption, investment, and trade. However, the war in Ukraine, increase in international commodity prices, drought, and breakdowns in operations of EPS thermal power plants in 2021/2022 have brought projected growth downwards. Growth for 2022 is now expected to reach 3.2 percent, still driven primarily by consumption. Further downward revisions are possible depending on the performance of the energy sector and the impact of the poor agriculture season.

Over the medium term, the economy is expected to grow steadily at around 3 percent annually, supported by consumption and investment. Foreign direct investment is expected to continue playing a key financing role as Serbia continues to integrate into EU-centric manufacturing value chains. Inflation is expected to decline gradually as commodity prices normalize. The banking sector is expected to remain resilient, although NPLs (at 3.3 percent in June 2022) may face upward pressure if downside risks materialize.

Poverty reduction is expected to gradually decline or stagnate in 2022. The war in Ukraine continues to pose a significant downside risk for household welfare in Serbia. While Serbia's economy is expected to continue to grow, contributing to income growth for households, rising inflation will limit purchasing power. Particularly, rising energy prices would disproportionately affect the poor. Poverty in 2022 is projected at 9.9 percent, slightly lower than its 2021 level, though it could be revised upward depending on the length and severity of the war's economic impacts. The pace of labor market recovery remains critical for resumed poverty reduction.

The outlook also crucially depends on the domestic reform agenda and its implementation. In particular, the ongoing crisis in the domestic energy sector serves to highlight the importance of effective oversight and management of state-owned enterprises, as well as the risks to public finances associated with contingent liabilities.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.3	-0.9	7.4	3.2	2.7	2.8
Private Consumption	3.7	-1.9	7.6	4.6	4.1	3.7
Government Consumption	2.0	2.9	2.6	3.8	4.5	2.7
Gross Fixed Capital Investment	17.2	-1.9	12.5	5.0	2.8	4.4
Exports, Goods and Services	7.7	-4.2	19.4	8.0	5.0	5.0
Imports, Goods and Services	10.7	-3.6	19.3	9.0	6.2	5.8
Real GDP growth, at constant factor prices	4.4	-0.8	7.3	3.2	2.7	2.8
Agriculture	-1.7	2.2	-5.4	-5.5	4.5	3.4
Industry	5.9	-0.6	7.8	1.0	4.5	4.5
Services	4.4	-1.2	8.7	5.3	1.6	1.9
Inflation (Consumer Price Index)	1.9	1.6	4.0	11.5	9.2	3.7
Current Account Balance (% of GDP)	-6.9	-4.1	-4.4	-10.2	-9.4	-8.0
Net Foreign Direct Investment Inflow (% of GDP)	7.7	6.3	6.8	6.0	5.8	5.7
Fiscal Balance (% of GDP)	-0.2	-8.0	-4.1	-4.0	-2.7	-1.7
Debt (% of GDP)	52.8	57.8	57.2	58.1	58.2	56.5
Primary Balance (% of GDP)	1.8	-6.0	-2.4	-2.3	-0.7	0.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.1	12.2	10.5	9.9	9.3	8.8
GHG emissions growth (mtCO2e)	0.6	-3.3	0.0	-0.5	3.1	2.7
Energy related GHG emissions (% of total)	74.1	73.5	73.4	73.4	74.1	74.7

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 ECAPOV harmonization, using 2014-EU-SILC and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2014-2019) with pass-through = 0.6 based on GDP per capita in constant LCU.

TAJIKISTAN

Table 1	2021
Population, million	9.8
GDP, current US$ billion	8.7
GDP per capita, current US$	897.1
International poverty rate ($2.15)[a]	6.1
Lower middle-income poverty rate ($3.65)[a]	25.7
Upper middle-income poverty rate ($6.85)[a]	66.4
Gini index[a]	34.0
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	71.3
Total GHG emissions (mtCO2e)	19.7

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

Contrary to earlier expectations, the economy grew by 7.4 percent year-on-year (y/y) in the first half of 2022, despite the war in Ukraine. Full-year GDP growth is expected at 4.2 percent. This is expected to result in a reduction in poverty. Medium-term growth prospects will remain muted unless the government adopts substantive structural reforms.

Key conditions and challenges

Over the last decade (2011–21), Tajikistan experienced strong economic performance, with a growth rate averaging above 7 percent. Growth has translated into improved living standards, with the poverty rate falling from 32 percent in 2009 to an estimated 14.6 percent in 2021 (at the international poverty line of $3.65 a day; 2017 PPP). Yet, Tajikistan remains the poorest economy in the ECA region, with a GNI per capita of US$1,150 (Atlas method) in 2021.

With its young and fast-growing population, Tajikistan has enormous economic potential. To unlock key constraints, the government needs to expedite structural reforms to strengthen the rule of law, increase public sector efficiency and transparency, and promote private sector development through a better investment climate, trade connectivity, access to finance, and competition framework, especially in the telecom, aviation, and energy sectors. It will also be critical to enhance environmental resilience and ensure sufficient investment into human capital and better protection for poor households.

Recent developments

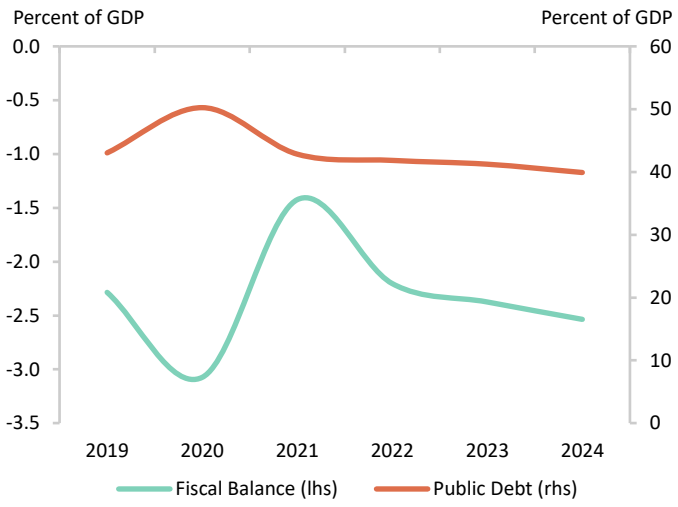
Tajikistan's economy grew 7.4 percent year-on-year (y/y) in the first half (H1) of 2022, led by strong household consumption and private investment, whereas exports remained flat. Strong remittance inflows proved to be the main driver of robust domestic demand as a result of the increase in the number of labor migrants and a favorable exchange rate (as the appreciation of the Russian Ruble increased the value of remittances). Led by services and industry, the economy reported a broad-based expansion of output across sectors.

The trade deficit widened to 26.7 percent of GDP in H1 this year compared with 17.6 percent a year earlier. Strong demand for consumption and investment goods drove imports. In contrast, global price surges for minerals and strengthening Russian demand for agricultural products offset the 40 percent decline in export of precious metals (following substantial inventory sales over the past two years). Foreign private investment was about 25 percent higher y/y, albeit from a low base in 2021. External buffers remain adequate at about 8 months of import cover as of June 2022.

The sale of food reserves, the postponement of increases in utility tariffs, and the limited depreciation of the somoni contained headline inflation at 8.3 percent y/y ending in June. The somoni broadly followed the path of the ruble – i.e., initially depreciating at the onset of the war in Ukraine and later re-gaining value against major currencies.

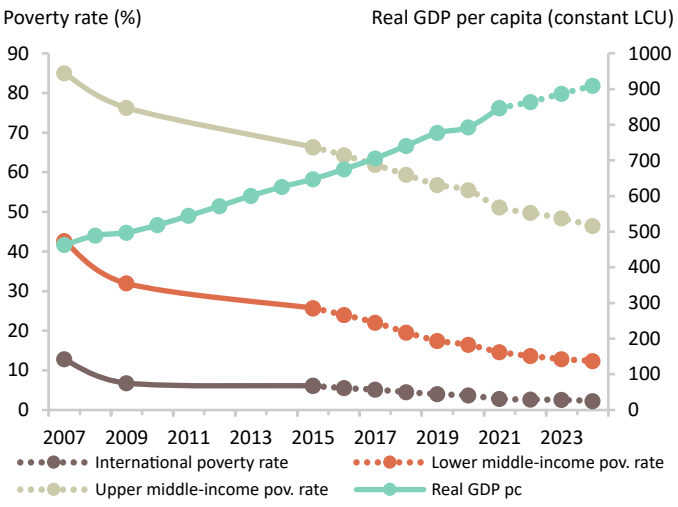
The authorities balanced the government budget in the first half of the year. Vigorous domestic activity and import expansion led tax and non-tax receipts to exceed targets. The share of social sectors

FIGURE 1 Tajikistan / Fiscal balance and public debt



Source: World Bank staff estimates and projections.

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



Source: World Bank staff estimates.

(education, healthcare, and social protection) in total budgetary spending remained at 40 percent. Aided by development partners, the authorities plan to increase social allocations sustainably to assist vulnerable households. In line with the long-term development strategy, public investment was focused on energy and transport. At about 40 percent of GDP, and in light of its low export earnings, Tajikistan's risk of external and overall public debt distress remains high.

The liquidation of problem banks, Tajiksodirotbank and Agroinvestbank, has improved the banking sector indicators. By June 2022, the share of non-performing loans in total loans declined from 13.4 percent to 11.4 percent a year ago, and the ratio of capital to risk-weighted assets, at 25.1 percent, was more than double the minimum requirement of 12 percent. During the first 7 months of 2022, household wages and self-employment income declined, with the share of households receiving income declining from about 14 to 10 percent and those receiving self-employment and agricultural income declining from 12 to 7 percent, respectively. However, this decline in income was mitigated by resilient remittances. After a slight decline in March, the share of households receiving remittance income rebounded sharply and stood at 16 percent by July.

In July, the share of respondents to the "Listening-to-Tajikistan" (L2T) survey who self-classified themselves as "poor" stood at around 42 percent (up from 39 percent in June), and the share of respondents assessing local economic conditions as "good" stood at 82 percent (nearly unchanged over the same period in 2021). Although L2T reported an overall improvement in food security in H1 2022, most food insecurity (going a whole day without eating; being hungry but not eating; running out of food; and eating less) remained concentrated among low-income respondents.

Outlook

Economic performance is expected to be stronger than initially anticipated in 2022. Full-year GDP growth is expected to be 4.2 percent. Inflation is expected to remain in single digit for the year as a whole.

The 2022 fiscal deficit is expected at 2.2 percent of GDP, subject to lower remittances, weaker growth, and a ramp-up in countercyclical expenditures in the year's second half. To ensure the sustainability of public finances, the authorities plan to keep the medium-term fiscal deficit at around 2.5 percent of GDP.

External and domestic risks weigh on the economic growth prospects. Geopolitical risks are elevated due to the ongoing war in Ukraine, the unresolved border dispute with the Kyrgyz Republic, and the uncertain political situation in neighboring Afghanistan. While intensifying sanctions on Russia could hamper inward remittances, on the positive side Tajikistan may be able to further increase the export of agricultural products to Russia, and textiles, precious metals, and minerals to other countries.

Domestic risks primarily relate to political challenges in advancing private sector reforms, promoting public sector transparency and accountability, and addressing vulnerabilities in the social and environmental sectors.

Poverty is expected to fall from an estimated 14.6 percent in 2021 to 13.6 percent in 2022.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	7.4	4.4	9.2	4.2	4.8	4.5
Private Consumption	5.0	3.4	8.0	3.6	6.1	5.6
Government Consumption	0.7	2.3	7.1	2.0	3.3	4.4
Gross Fixed Capital Investment	8.9	-4.6	15.0	9.6	5.7	8.3
Exports, Goods and Services	21.5	21.8	35.0	-17.5	4.8	3.5
Imports, Goods and Services	6.4	-0.4	25.0	-9.0	6.0	4.5
Real GDP growth, at constant factor prices	8.7	4.3	9.0	4.2	4.8	4.5
Agriculture	7.1	8.8	6.6	3.5	3.0	3.0
Industry	13.6	9.7	22.0	4.5	4.0	4.0
Services	4.9	-4.0	-5.2	4.2	7.4	6.3
Inflation (Consumer Price Index)	8.0	8.6	9.0	8.5	8.2	7.8
Current Account Balance (% of GDP)	-2.2	4.3	8.4	4.2	3.9	3.2
Net Foreign Direct Investment Inflow (% of GDP)	-2.3	-0.4	-0.4	-1.0	-1.7	-2.3
Fiscal Balance (% of GDP)	-2.3	-3.1	-1.4	-2.2	-2.3	-2.4
Debt (% of GDP)	43.1	50.3	42.9	41.9	41.3	39.9
Primary Balance (% of GDP)	-1.4	-2.3	-0.5	-1.0	-1.1	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	4.0	3.7	2.8	2.7	2.5	2.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	17.5	16.4	14.6	13.6	12.8	12.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	56.8	55.5	51.1	49.8	48.4	46.5
GHG emissions growth (mtCO2e)	5.3	2.4	10.8	6.6	6.8	6.9
Energy related GHG emissions (% of total)	44.2	44.9	47.0	48.3	49.8	51.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on ECAPOV harmonization, using 2015-HSITAFIEN. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

TÜRKIYE

Table 1	2021
Population, million	84.1
GDP, current US$ billion	814.5
GDP per capita, current US$	9679.1
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	2.2
Upper middle-income poverty rate ($6.85)[a]	12.6
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	97.1
Life expectancy at birth, years[b]	77.9
Total GHG emissions (mtCO2e)	499.2

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

Robust economic activity in the first half of 2022 was driven by strong private-sector and export performance and loose monetary policy despite soaring inflation, a weakening currency, and a widening current account deficit. GDP growth is expected to moderate to 4.7 percent in 2022, with a risk investor confidence may falter, intensifying pressure on the Lira and corporate and bank balance sheets. Despite a strong jobs recovery, post-Covid poverty rates are receding slowly as lower-income households' budgets are hit by rising energy and food prices.

Key conditions and challenges

The authorities continue to loosen monetary policy to stimulate the economy, cutting interest rates six times since September 2021, while intervening in currency markets and introducing regulatory measures to tackle macroeconomic instability. While the economy grew 7.5 percent yoy in real terms in 2022H1, inflation climbed to a 24-year high, the lira depreciated further, the current account deficit widened, banks' capital buffers declined, and realized and contingent fiscal liabilities are mounting from policy measures seeking to dampen the impact of macroeconomic developments on firms and households. The impact of the Russia-Ukraine war has been modest and largely felt through higher food and energy import costs that added inflationary pressure and widened the current account deficit, while financial inflows from Russia have reportedly increased.

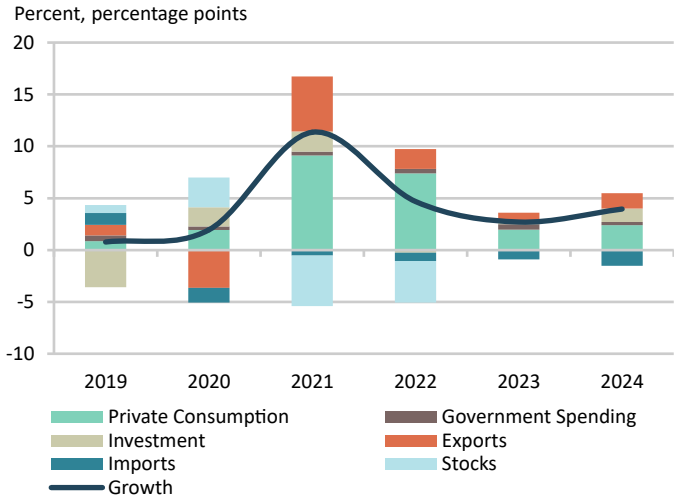
Recent developments

Stronger than anticipated private consumption drove rapid growth in the first half of the year as rising inflation expectations fueled purchases of durables despite inflation eroding real incomes. Merchandise export growth and tourism revenues remained robust, supported by a weaker currency and resilient external demand. The services sector led production side contributions to GDP growth. Although real interest rates remain deeply negative, private investment growth slowed due to price and exchange rate uncertainty and a deteriorating outlook. The manufacturing PMI has remained below the 50.0 threshold since March, and economic confidence has deteriorated in the manufacturing, service, and retail sectors. Despite annual CPI inflation rising for the 15th consecutive month to 80.2 percent in August, with food and non-alcoholic beverage prices rising even faster at 90.3 percent, the central bank lowered the benchmark interest rate to 13 percent in August and 12 percent in September after keeping it at 14 percent since December. According to the September Survey of Market Participants, expected CPI in 12 and 24 months' time remains high at 36.7 and 21.2 percent, respectively.

External pressures are mounting and external buffers remain low. The lira lost a third of its value this year after a sharp decline in 2021, and the nominal current account deficit was 13 times higher in July 2022 than in July 2021 on the back of high energy prices, putting further pressure on the currency. Gross foreign exchange reserves remain low at US$113.7 billion (about 4 months of import coverage) in early September and net reserves excluding swaps between the central bank and other banks remain deeply negative. Credit risk premia, reflected in CDS spreads, surged to a 19-year high in July.

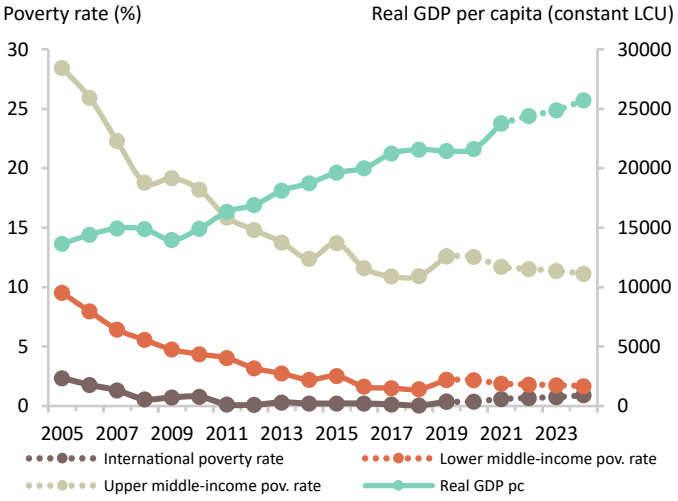
Deteriorating conditions have elevated corporate and financial sector vulnerabilities. While financial regulatory measures helped

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



Sources: Turkstat and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

curb credit growth, and real credit growth is negative, nominal credit growth remains high at 70.2 percent yoy in August. High market risk premia are keeping consumer and commercial lending rates elevated, but measures introduced to penalize banks that lend at high rates brought down commercial lending rates to 21.0 percent (weighted average) by early September. High-interest margins and required holdings of inflation-indexed government securities supported commercial bank profits, which grew over 500 percent yoy in August. However, official numbers show a gradual erosion of banks' capital buffers to 18 percent in July, especially at state banks (16.1 percent in July), despite forbearance measures introduced during the Covid pandemic, due to FX depreciation. Banks increased holdings of government securities to comply with recent regulatory requirements, which, in addition to reserve holdings and currency swaps with the central bank, raise spillover risks between the financial and fiscal sectors. Corporations have deleveraged, but the magnitude of currency depreciation puts pressure on their balance sheets.

Labor market recovery continued into 2022. Employment increased by 1.5 million (or 5.2 percent) between July 2021 and July 2022, with female and youth (ages 15-24) employment expanding faster than average. The labor force participation rate recorded its highest level in nearly three years, reaching 53.1 percent in July. The gross wages/salaries index for formal employees in the industry, construction, trade and service sectors increased in line with CPI inflation in 2022Q2.

Exchange rate depreciation and policies to mitigate the impact of inflation—including public wage increases, VAT cuts on food and energy, and a deposit scheme that compensates holders for lira depreciation—have cost the government significant fiscal resources. However, the central government fiscal deficit narrowed to 1.6 percent of GDP in 2022H1 as high inflation boosted nominal government revenues. Although debt levels remain moderate, the share of FX-denominated central government debt has risen to 68 percent, increasing vulnerability to FX shocks.

Outlook

After expanding 11.4 percent in 2021, the economy is expected to grow 4.7 percent in 2022 and 2.7 percent in 2023. Economic activity is expected to weaken in the second half of 2022 as macroeconomic volatility intensifies, inflation erodes the purchasing power of households that can no longer frontload consumption, and external demand weakens, at the same time as government policies to stimulate the economy ahead of the June 2023 elections continue.

Despite the labor market and economic recovery in 2021, the poverty rate is projected to remain above pre-2019 levels due to persistently high inflation. Inflation affects the lowest income households the most as they spend a higher share of income on items like food that face higher than average inflation. Projections using an updated upper-middle-income country poverty line of $6.85 per person per day (2017 PPP terms) estimate the poverty rate falling from 11.7 percent in 2021 to 11.4 percent in 2022 and 11.1 percent by 2024.

External risks remain elevated given the growing current account deficit, high FX-share of public debt, low FX reserves, high external financing requirements, and continued loosening amid tightening global liquidity. There is a risk investor confidence may falter, intensifying pressure on the Lira, external balances, and corporate and bank balance sheets. Any additional monetary policy loosening could exacerbate external and domestic imbalances and financial stability concerns. Uncertainty around the duration of the Russia-Ukraine war, the Covid pandemic, and the path of rising interest rates in advanced economies further clouds the outlook.

TABLE 2 **Türkiye** / 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	1.9	11.4	4.7	2.7	4.0
Private Consumption	1.5	3.3	15.3	12.0	3.0	3.6
Government Consumption	3.8	2.5	2.6	3.2	4.0	2.4
Gross Fixed Capital Investment	-12.5	7.4	7.4	-1.0	1.0	5.5
Exports, Goods and Services	4.2	-14.4	24.9	8.0	3.5	6.0
Imports, Goods and Services	-5.0	6.7	2.4	4.0	4.5	7.5
Real GDP growth, at constant factor prices	0.9	1.2	11.9	4.7	2.7	4.0
Agriculture	3.3	5.7	-2.9	0.5	1.0	1.5
Industry	-3.0	1.1	13.0	3.5	2.5	4.5
Services	2.5	0.8	13.1	5.7	3.0	4.0
Inflation (Consumer Price Index)	15.2	12.3	19.6	75.0	45.0	32.0
Current Account Balance (% of GDP)	0.7	-4.9	-1.7	-6.3	-4.9	-3.7
Net Foreign Direct Investment Inflow (% of GDP)	0.9	0.6	0.9	0.7	0.7	1.0
Fiscal Balance (% of GDP)	-3.0	-3.9	-2.6	-3.8	-4.4	-3.0
Debt (% of GDP)	32.6	39.7	41.8	36.8	36.1	35.2
Primary Balance (% of GDP)	-0.5	-1.1	0.0	-0.9	-0.5	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.4	0.4	0.6	0.7	0.8	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.2	2.2	1.9	1.8	1.7	1.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.6	12.5	11.7	11.5	11.4	11.1
GHG emissions growth (mtCO2e)	-2.3	-0.8	9.4	2.6	-0.5	1.5
Energy related GHG emissions (% of total)	80.5	79.4	80.0	79.6	79.1	78.8

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 ECAPOV harmonization, using 2011-HICES and 2019-HICES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2011-2019) with pass-through = 1 based on GDP per capita in constant LCU.

UKRAINE

Table 1	2021
GDP, current US$ billion	201.9
Upper middle-income poverty rate ($6.85)[a]	7.1
Gini index[a]	25.6
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	71.2
Total GHG emissions (mtCO2e)	192.8

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

The ongoing Russian invasion in Ukraine continues to inflict substantial economic and social losses due to extensive damages to productive assets and infrastructure, limited market access, and labor force dislocations. Since April, economic activity has started to gradually improve. Nevertheless, in the baseline scenario, Ukraine's GDP is expected to contract by 35 percent in 2022 if the status quo continues until the end of the year without additional economic shocks.

Key conditions and challenges

After Ukraine regained control of Kyivska oblast in April, the active combat is localized mainly in the southern and eastern parts. The war, however, still affects about 20 percent of Ukraine's territory. As of August, the government lost control over two oblasts (2.5 percent share in GDP), while active fighting continued within three other oblasts (15 percent in GDP). 7mn people have become refugees, and another 7mn displaced internally.

With the war continuing, Ukraine is facing three key macro-critical challenges: high fiscal financing needs amidst the inability to mobilize domestic revenues and increasing reliance on monetary financing; deteriorating asset quality in the financial sector; and a weaker external position.

Despite significant efforts to reduce fiscal needs, their size remains large over the medium term. Expenditures have been trimmed to the level of critical public services. Ukraine reached an agreement with external creditors (commercial and majority of bilateral) for a debt payments deferral for two years. However, fiscal financing needs – consisting of the deficit (excluding grants) and debt repayments - are expected to grow from US$4bn per month in 1H22 to US$4.5bn per month in 2H22 (US$2bn excluding military expenditures). In addition, the government could also face the costs of gas purchases by Naftogaz for the heating season (US$2.2 bn) and the most critical reconstruction needs (US$3.4bn).

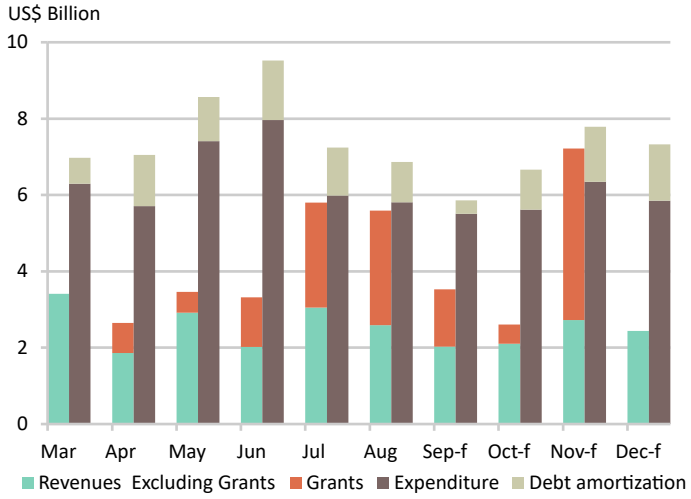
Over the medium run, prospects for attracting additional external funding are uncertain. Donors have committed US$16.7bn of support to Ukraine for 2H2022. These funds, if fully disbursed, are sufficient to cover non-military fiscal needs only, with other expenditures to be covered by monetization, which since the war started reached US$9.7bn in September. In case disbursements are delayed, Ukraine faces a trade-off between continuing monetization or cutting social expenditures further. Both scenarios have negative social impacts.

Recent developments

In Q2 2022, Ukraine's GDP shrank by 37.2 percent YoY, following an estimated 45 percent contraction in March. After the localization of the active combat in April, economic activity has shown signs of improvement, even though it remains much below the prewar level. Consumer price inflation has accelerated rapidly, reaching 23.8 percent YoY in August, with high food price inflation hurting families, particularly the poor.

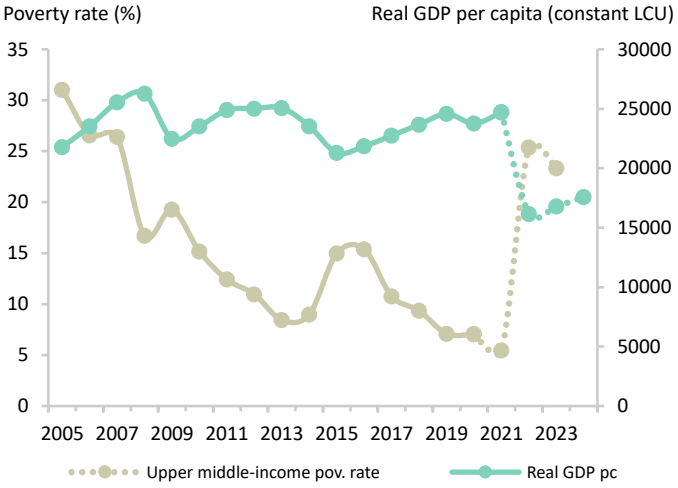
The government has continued providing essential public and social services amidst a significant drop in revenues. Real tax revenues fell by 30 percent YoY during March-June. Although non-essential public spending has been reduced to the minimum, total expenditures have been growing sharply by about 40 percent per month

FIGURE 1 Ukraine / State budget general fund revenue, expenditure, and debt amortization in 2022



Sources: MoF and World Bank estimates. Note: f = forecast

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



Source: World Bank. Notes: see Table 2.

in real terms. The resulting fiscal deficit has been met by a combination of external funding and monetization.

The war generated immediate balance of payments pressures. Exports fell precipitously as the Black Sea ports have been completely closed until July. Despite resumption of agricultural exports via Black Sea ports under the UN-brokered deal, their capacity is rather limited, while imports have recovered fast starting in May. On the capital account, pressures have emerged from the withdrawal of foreign exchange by Ukrainian refugees. Since the beginning of the war, the NBU has spent around US$12bn on currency interventions. This has eroded international reserves, which declined to US$ 22.4bn at the end of July from a prewar level of US$ 29bn. In August reserves improved to US$25.4bn thanks to donor support.

As a result of the war, banks face heightened operational, liquidity, credit, profitability and solvency risks. The recent financial stability report issued by the NBU estimates at least 20 percent losses of the loan portfolio with significant impacts on banks' capital position. The war may also impact the solvency position of nonbanking financial institutions.

Outlook

Even though the active combat is currently localized, the duration of the war is uncertain, and downside risks are high. Our status quo scenario extrapolates estimated economic activity in 3Q22 into the medium term. Thus, assuming the military and economic situation does not change substantially, GDP is expected to contract 35 percent in 2022 with a gradual rebound of 3-4 percent in the medium term. This scenario does not include any potential upside effects of a large reconstruction activity as well as possible downside risks related to a deterioration of the security situation and/or energy shortage during the winter season. Inflation is expected to accelerate to 30 percent by the year-end, and real wages to drop by 10 percent YoY.

The current account is expected to turn negative in 2022 at 0.5 percent of GDP despite large grants accounted as a secondary income. Exports are estimated to decline around 30 percent YoY in 2022 in nominal terms and around 60 percent in real terms with tepid recovery in the medium term. Imports are to recover much faster than exports as restrictions on imports have been lifted since July, while there is a need to purchase gas and other energy resources. In this status quo scenario, the CAD will broaden gradually in the medium term due to an acceleration of imports and only a modest recovery of exports.

The poverty and social impacts of the war will be massive. Under the baseline scenario, the population share with income below the national poverty line may reach nearly 60 percent in 2022, up from 18 percent in 2021. Based on the global line of US$6.85 a day (2017PPP), poverty is projected to increase from 5.5 percent in 2021 to 25 percent in 2022, with high downside risks if the war and energy security situations worsen.

TABLE 2 Ukraine / 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	-3.8	3.4	-35.0	3.3	4.1
Private Consumption	10.9	1.7	7.7	-28.0	10.0	10.0
Government Consumption	-13.6	-0.7	1.8	16.7	5.0	3.0
Gross Fixed Capital Investment	11.7	-21.3	7.6	-80.0	20.0	30.0
Exports, Goods and Services	7.3	-5.8	-10.4	-60.0	40.0	35.0
Imports, Goods and Services	5.7	-6.4	12.7	-40.0	34.0	28.5
Inflation (Consumer Price Index)	4.1	5.0	10.0	30.0	20.0	15.0
Current Account Balance (% of GDP)	-2.7	3.4	-1.1	-0.5	-4.3	-4.5
Fiscal Balance (% of GDP)[a]	-2.1	-5.6	-4.0	-22.8	-18.6	-11.5
Debt (% of GDP)	50.2	60.4	50.7	66.8		
Primary Balance (% of GDP)[a]	1.0	-2.7	-0.5	-19.9	-15.1	-10.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	7.1	7.1	5.5	25.4	23.3	
GHG emissions growth (mtCO2e)	-4.9	-10.2	-2.9	-35.1	-3.3	-1.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal Balance and Primary Balance are excluding grants in 2022-2024.
b/ Calculations based on ECAPOV harmonization, using 2020-HLCS.
c/ Projection using neutral distribution (2020) with pass-through = 1 (High (1)) for 2022 and 0.7 for 2023 based on GDP per capita in constant LCU. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.

UZBEKISTAN

Table 1	2021
Population, million	35.0
GDP, current US$ billion	69.2
GDP per capita, current US$	1980.2
School enrollment, primary (% gross)[a]	100.1
Life expectancy at birth, years[a]	71.8
Total GHG emissions (mtCO2e)	168.0

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

Despite the fallout from the war in Ukraine, Uzbekistan is expected to grow by 5.3 percent in 2022. Fiscal consolidation is continuing albeit on a more gradual trajectory given the need to cushion the impact of new shocks this year. The medium-term outlook remains positive provided that the ambitious ongoing economic reforms will continue to invigorate private sector-led growth.

Key conditions and challenges

Uzbekistan has pursued an ambitious initial set of trade and price liberalization reforms in recent years. However further reforms are needed to continue to spur productivity, private-sector-led growth, and job creation. The focus should shift to addressing weak factor markets, high trade and transit costs, dominant state-owned enterprises, the weak regulatory environment, and further strengthening market incentives and sustainability in agriculture and across the economy.

The government recognizes the need for a more inclusive transition. According to the new national poverty line, about 17 percent of the population was in poverty in 2021. The recent reform efforts to expand the coverage and strengthen the targeting of social assistance will be key to supporting those that may otherwise fall behind.

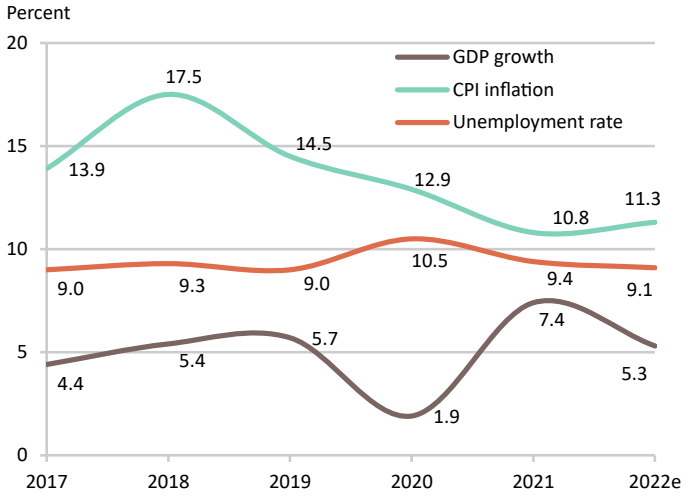
Recent developments

Despite the uncertain regional outlook, GDP grew by 5.4 percent in the first half (H1) of 2022, led by strong remittances, exports, and investments. Real wages increased by more than 6 percent yoy in the second quarter.On the supply side, stronger growth in construction and agriculture partly offset slower growth in industry and services. Investment (mostly in energy production, fertilizers, and infrastructure) grew by 9.4 percent. The value of exports (in US$) grew by 40.5 percent yoy, led by a more than doubling of gold exports. Non-gold exports were 22.5 percent higher, driven by natural gas, textiles, food, machinery, transport, and tourism. Imports expanded by 27.4 percent as prices of imported food and energy rose, as did domestic demand. Food exports were 41 percent higher, machinery and equipment 29 percent, and service imports 65 percent, yoy. Contrary to earlier expectations, remittance inflows doubled as a share of GDP in H1 to 16.7 percent, due to favorable exchange rate movements with the Russian Ruble, and more labor migrants going abroad, mostly to Russia. These drivers narrowed the current account deficit to just 1.4 percent of GDP in H1 2022, compared to 4.8 percent in H1 2021.

The fiscal deficit declined from 5 percent of GDP in H1 2021 to 4.2 percent in H1 2022, supported by higher revenues from gold exports. International reserves increased by $1.5 billion in the year to July to $35.6 billion and remain ample, equivalent to 11 months of imports.

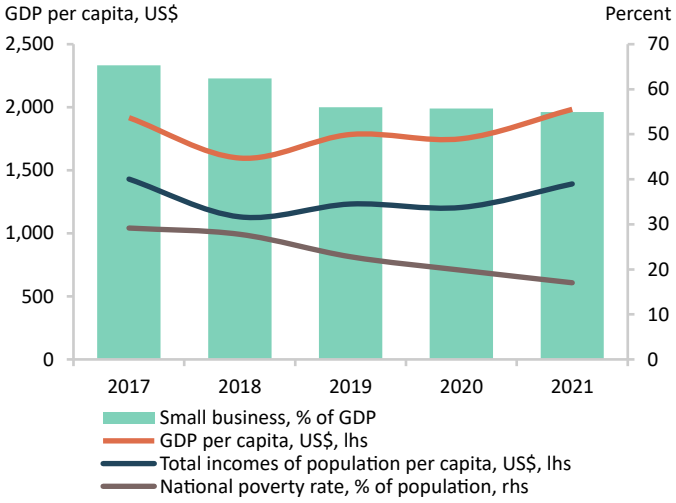
Higher costs of food, fuel, and logistics drove CPI inflation up to 12.3 percent in June 2022 (against 10.9 percent in June 2021). In March-May 2022 the Som depreciated by 7 percent against the US$. In response to exchange rate pressures and an uncertain inflation outlook, the Central Bank (CBU) initially hiked the policy rate by 300 bps to 17 percent. In June and July, the stabilization of the exchange rate, the

FIGURE 1 Uzbekistan / GDP growth, inflation, and unemployment



Source: Uzbekistan official statistics.

FIGURE 2 Uzbekistan / Poverty, GDP per capita, and small business development



Source: Uzbekistan official statistics. Note: The national poverty line is more ambitious (67 percent higher) than LMIC poverty line.

recovery of foreign exchange inflows, and the growth of domestic deposits enabled the CBU to cut the policy rate to 15 percent. Decreasing capital buffers and more cautious lending policies of banks following the war in Ukraine slowed credit growth to 14 percent in end-June 2022 yoy from 23 percent the year earlier. Stricter capital adequacy regulations and increased loan loss provisions enacted in 2021, partly mitigated by stronger profits and recapitalization of a few state-owned banks, reduced the banking sector's total capital adequacy ratio (CAR) slightly, from 17.7 percent at the end-H1 2021 to 17.0 percent at the end-H1 2022, relative to a required CAR of 13 percent. While the banking system remains resilient overall, a few banks are in vulnerable positions, and several are in need of additional loan loss provisions for non-performing loans (NPLs). NPLs spiked from 2 percent in end-2020 to 6.2 percent in August 2021, but gradually decreased since then to 4.9 percent in H1 2022.

Higher remittances contributed to an expected decline in the poverty rate of 1.25 percentage points, to 15.7 percent in 2022. The unemployment rate fell to 8.8 percent in H1 2022, though still elevated among youth and women, and in lagging regions.

Outlook

Growth is expected to slow to 5.3 percent in 2022. Increased logistical challenges linked to sanctions on Russia are expected to dent private consumption growth. Private investment and exports are expected to grow strongly, and the current account balance improve, as Uzbekistan benefits from strong global commodity prices (gold, copper, natural gas) and increasing remittances. FDI is not expected to pick up in 2022, with the trade deficit financed largely by official borrowing.

Higher revenues from commodity exports and slower public investment spending will see the fiscal deficit decline from 6.2 percent of GDP in 2021 to 4.4 percent in 2022, nevertheless higher than the 2022 budget target of 3 percent due to higher social protection, health, education, and infrastructure spending. An anticipated fiscal consolidation by 2023 is now expected to be delayed as targeted social protection increases in response to pressure from rising food price priorities and the impacts of the war in Ukraine. Continued growth and expanded social protection programs are expected to sustain poverty reduction, with the national poverty rate projected to fall to 14.5 percent in 2023, and 12.2 percent in 2024.

Nonetheless, expenditure consolidation is expected to resume in future years, supported by both revenue mobilization and spending efficiency. The government is expected to continue adhering to its overall debt limits, with public debt and total external debt gradually falling to 32 and 55 percent of GDP, respectively, by end-2024.

The risks to the outlook are tilted to the downside, including a prolonged war and further sanctions on Russia, and tighter-than-expected global financial conditions. There is a risk from reform inertia in this more complex phase of economic reforms, that is compounded by the difficult international environment. Potential positive surprises include higher global gold, natural gas, and copper prices and stronger productivity growth arising from ongoing structural reforms.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.7	1.9	7.4	5.3	4.9	5.1
Private Consumption	5.3	0.1	11.6	4.8	4.6	5.3
Government Consumption	5.7	1.4	3.4	8.1	1.6	6.6
Gross Fixed Capital Investment	38.1	-4.4	5.2	9.4	9.0	9.2
Exports, Goods and Services	16.2	-20.0	12.7	18.6	16.1	14.8
Imports, Goods and Services	13.3	-15.0	23.1	18.3	15.6	16.2
Real GDP growth, at constant factor prices	5.7	1.9	7.4	5.3	4.9	5.1
Agriculture	3.1	2.9	4.0	3.7	3.6	3.9
Industry	8.3	2.5	7.9	3.8	4.8	5.1
Services	5.6	0.9	9.2	7.3	5.7	5.8
Inflation (Consumer Price Index)	14.5	12.9	10.8	11.3	10.9	9.6
Current Account Balance (% of GDP)	-5.8	-5.0	-7.0	-3.2	-3.9	-4.0
Net Foreign Direct Investment Inflow (% of GDP)	3.9	2.9	3.0	1.4	2.0	3.1
Fiscal Balance (% of GDP)	-3.9	-4.4	-6.2	-4.4	-3.5	-3.0
Debt (% of GDP)	29.7	37.6	35.8	34.4	33.4	32.1
Primary Balance (% of GDP)	-3.4	-3.3	-5.1	-3.4	-2.5	-2.0
National poverty rate[a,b]	22.8		17.0	15.7	14.5	13.4
GHG emissions growth (mtCO2e)	2.7	-6.2	-3.4	-1.1	-0.6	0.4
Energy related GHG emissions (% of total)	60.8	58.8	57.4	56.5	55.8	55.5

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 the Household Budget Survey of UzbeksitanActual data: 2018, 2019, 2021. Nowcast: 2022. Forecasts are from 2023 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.

Latin America and the Caribbean

Annual Meetings 2022

Argentina
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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.

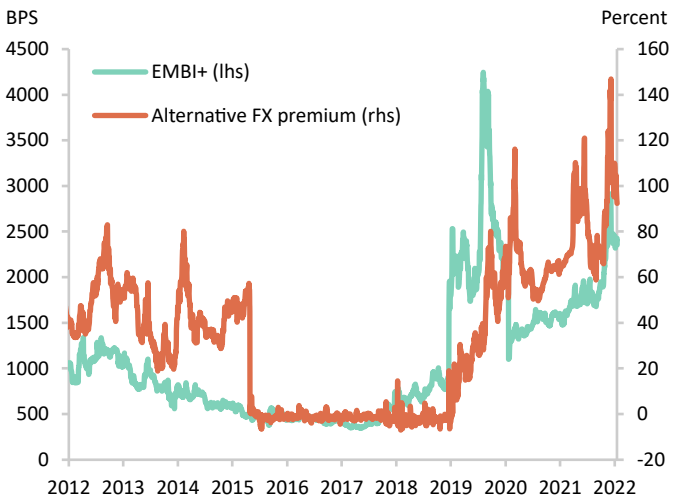
Several external shocks have lowered growth, while export diversification narrowed, and commodity dependence deepened. These shocks have been amplified by procyclical policies and by buffers too narrow to counterweight subsequent shocks. A strong and credible macro-fiscal policy program coupled with 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.

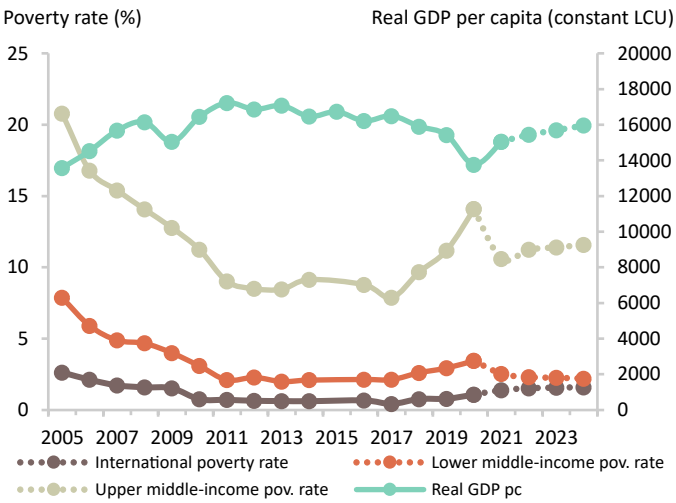
The gap between official and alternative exchange rates widened, driven by a renewed crisis in confidence regarding the rollover of domestic debt as maturities approached. A run against the peso followed, impeding foreign reserve accumulation.

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.

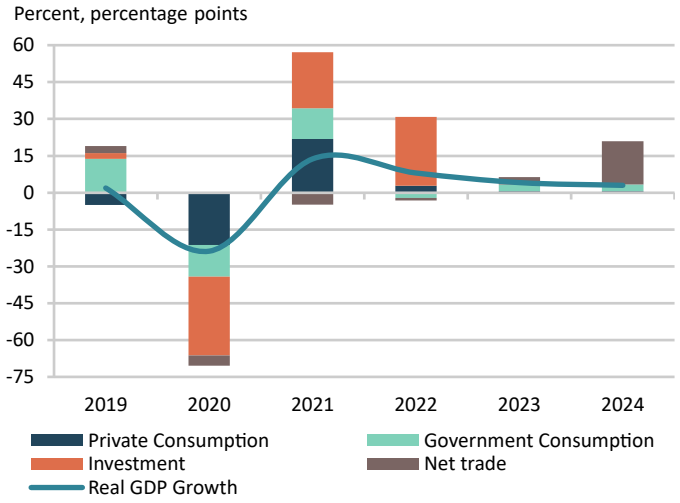
Vulnerability to climate change and global health risks jeopardize the country's development trajectory. Sea-level rise associated with increasing temperatures threatens The Bahamas' low-lying islands in addition to the severe impacts of natural disasters such as Hurricane Dorian in 2019.

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.

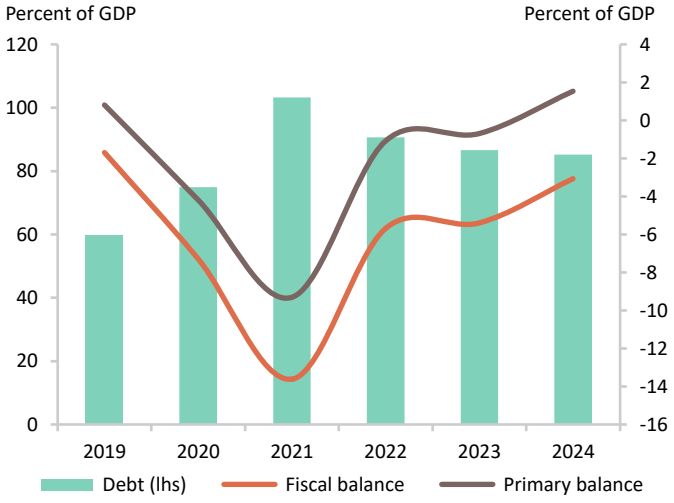
The COVID-19 pandemic laid bare the extent of gender, youth, and income inequality, and it also increased labor informality. Strong efforts to support vulnerable groups are needed going forward.

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.

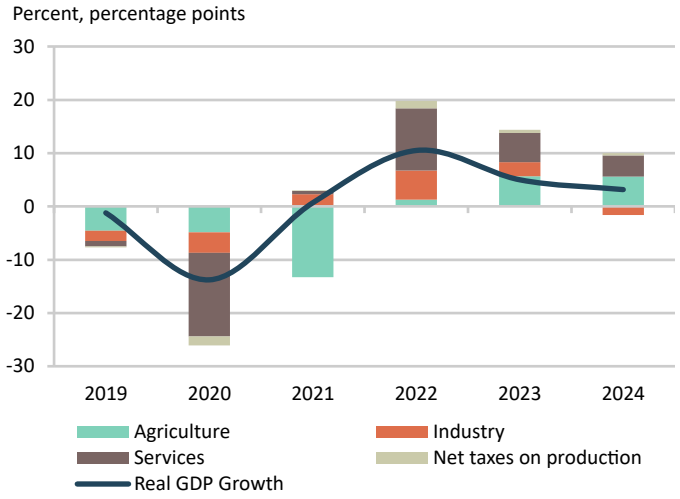
The Barbados COVID-19 Survey undertaken by the Inter-American Development Bank revealed severe consequences of the pandemic on welfare as average household total income and spending dropped by 20 percent and 29 percent respectively. More than one quarter of families (27.9 percent) had at least one member 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. Nonmonetary 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

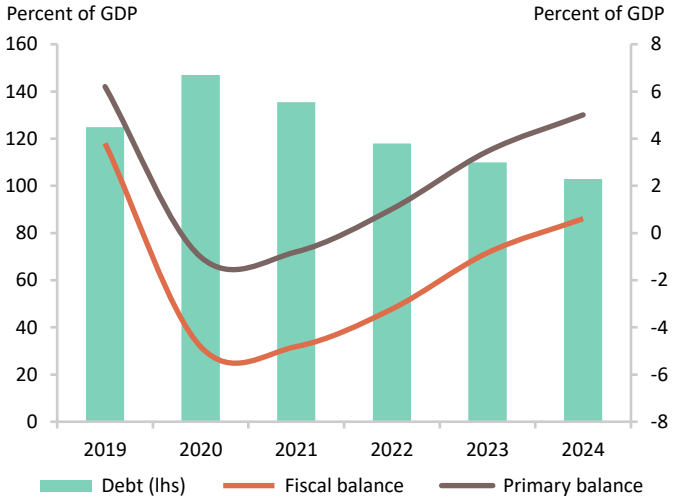
GDP growth has been accelerating in 2022, after a low 0.7 percent growth in 2021. In addition to natural disasters, two waves of COVID-19 cases hit Barbados in 2021, at end-August and end-December. The

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.

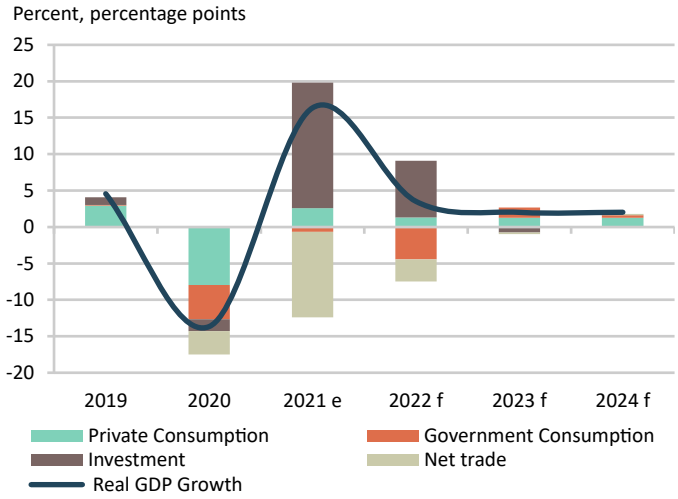
The social impact of the COVID-19 pandemic has been severe as a result of a reduction in tourism activity, as well as the indirect effects of containment and mitigation measures on manufacturing. A World Bank phone survey (HFPS) indicated that at the end of 2021, almost 40 percent of households continued 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

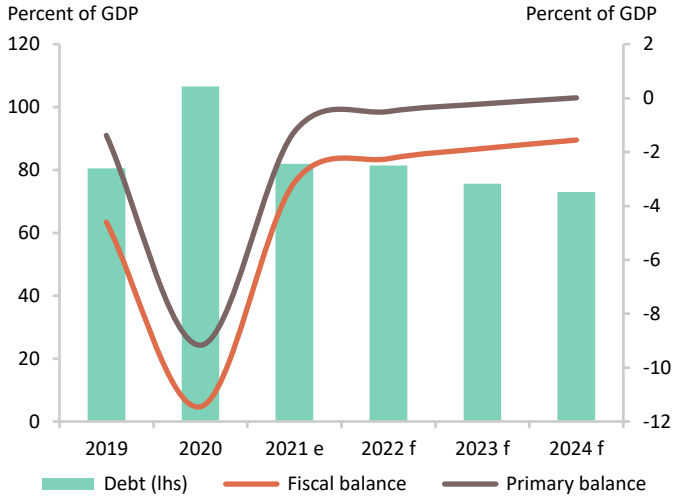
Belize's real GDP registered a 16.3 percent increase in 2021 fueled by a resumption in tourism and tourism-related investments. This was among the region's fastest growth rates, as Belize was one of the first tourist destinations to reopen to tourists in October 2020, and construction projects proceeded 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.

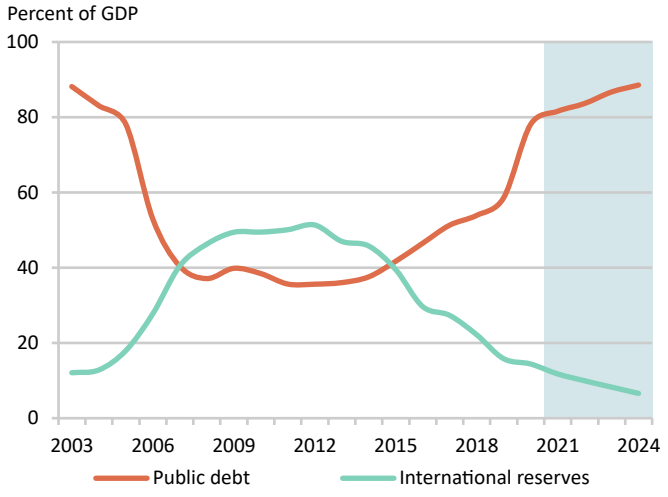
Fostering private and foreign investment could help to stabilize gas exports, diversify the economy, and ignite new sources of growth, creating the conditions for stronger and more inclusive formal employment. Bolivia's investment climate could be improved by reducing red tape, removing tax distortions, 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.

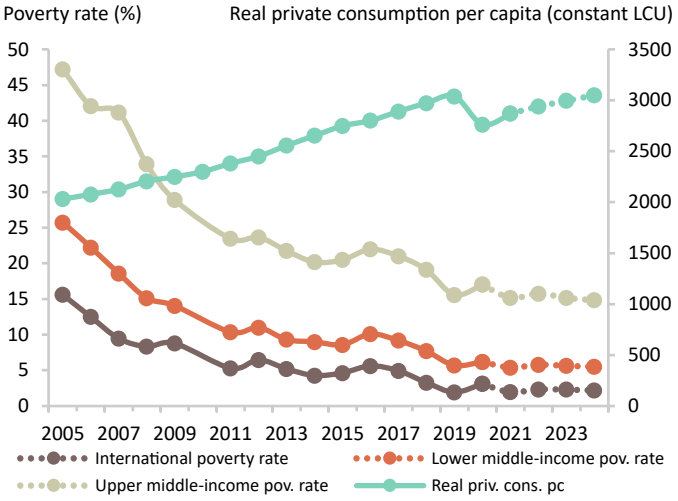
The 12-month rolling fiscal deficit fell from 9.3 percent of GDP in 2021 to 7.2 percent in June 2022 on the back of recovering taxes. The positive impact of high international oil prices and the negotiation of higher gas export prices to Argentina and Brazil on revenues were offset by declining export 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

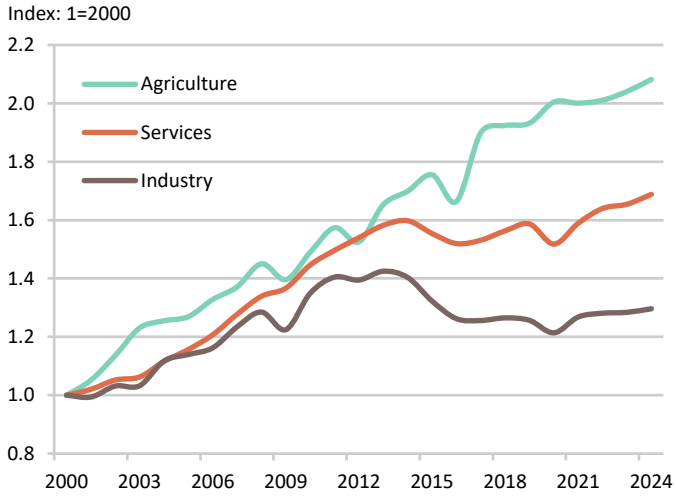
The death toll of the COVID-19 pandemic in Brazil has been among the highest globally. A rapid vaccine rollout after mid-2021 has supported a gradual return to normality, with a rebound in growth in 2021 (4.6 percent), especially in the services sector. Public debt has steadily increased over the years. 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

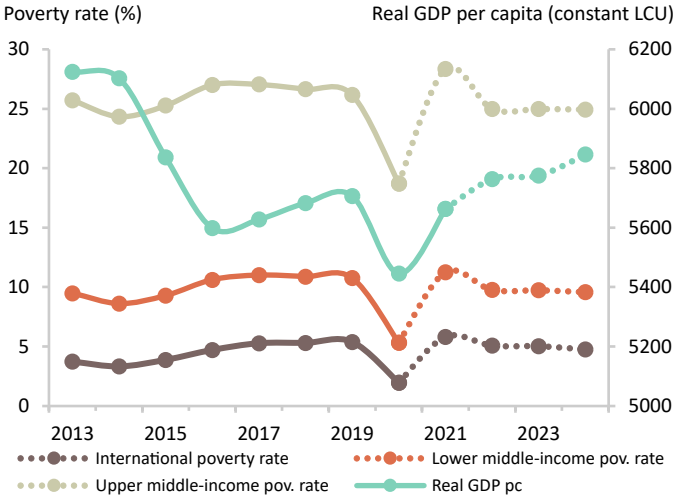
In the first half of 2022, GDP grew by 2.5 percent YoY, propelled by a continued recovery in consumer demand as COVID-19 restrictions eased, especially in the services sector, which saw a 4.1 percent YoY increase. Concurrently, the labor market continued to recover through 2022, including for women and 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.

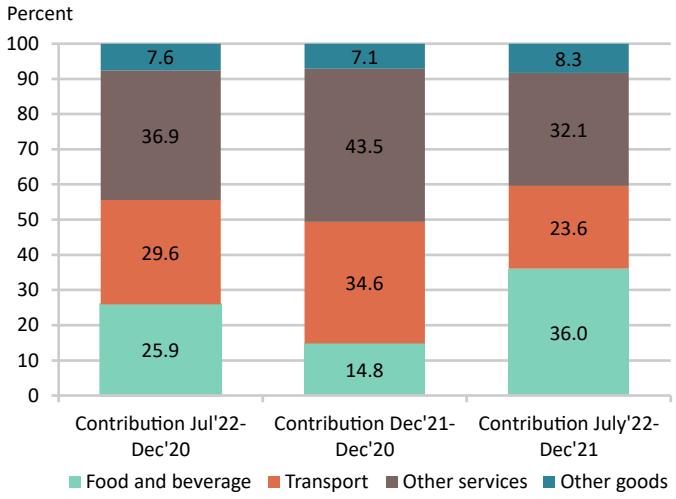
Amid short-term concerns, Chile is also seeking a new path to more equitable and inclusive long-term growth. In a referendum held in September, Chileans rejected a new constitution that contained significant departures from constitutional tradition. While the result sets boundaries for future changes 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

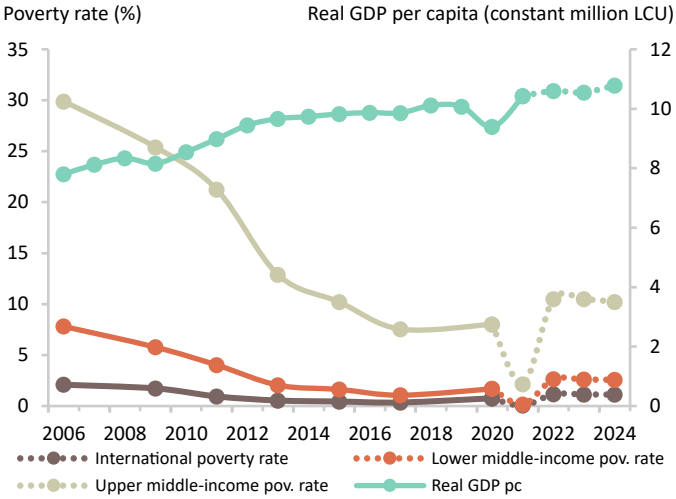
Real GDP growth peaked in the third quarter of 2021. After growing 11.7 percent y/y in 2021, the economy grew 6.4 percent y/y in the first half of 2022, and only 0.3 percent compared to the previous six months. The deceleration was driven by weak investment and consumption. Commerce, industry, agriculture, 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.

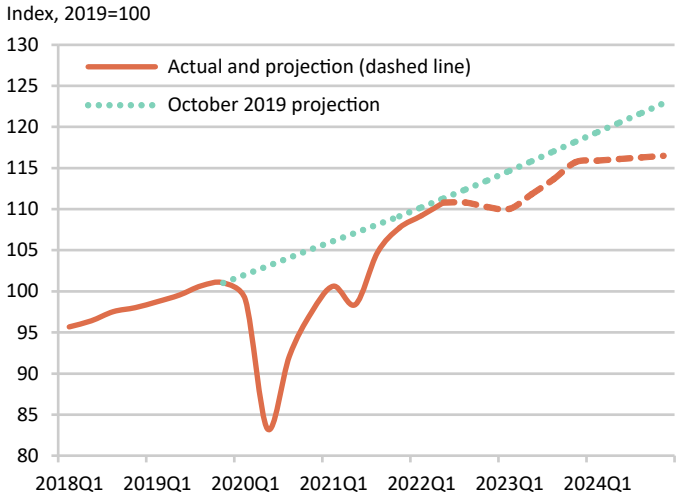
The tax reform sent to Congress in August tackles some of these issues: it raises revenue, increases the progressivity of the personal income tax, eliminates inefficient corporate tax benefits, increases carbon taxes, and introduces new health taxes. However, tax rates remain high for firms, expensive 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.

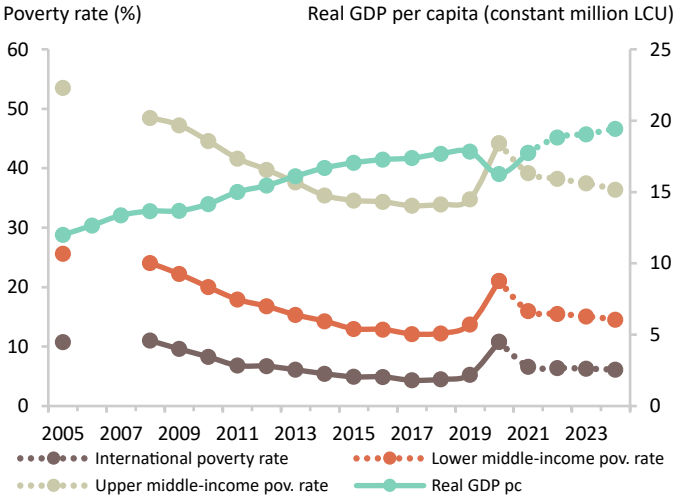
The labor market continued to recover. Unemployment declined and participation rates increased in Q2-2022 (y-to-y), but female unemployment remains 1.5 times higher than that of men. Buoyed by the economic recovery, real labor incomes have increased by about 15 percent for

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).

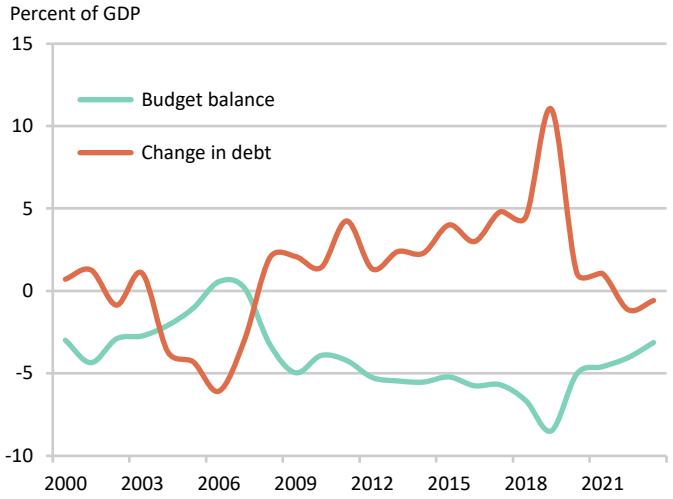
Costa Rica's immediate challenge is to fight inflation and persevere in fiscal consolidation while trying to minimize the impacts on growth and poverty. On growth and shared prosperity, the country needs to sustain reforms to improve education and labor market outcomes to reduce its dual-economy nature, 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.

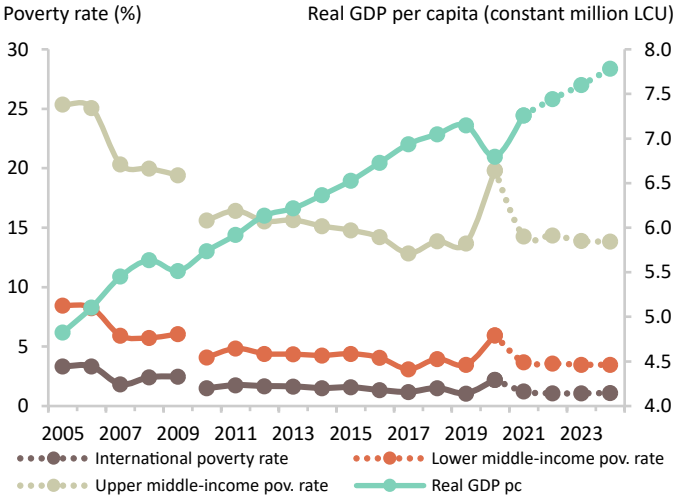
The current account deficit increased from -0.9 percent of GDP in the first half of 2021 to -2.3 percent of GDP in the same period of 2022. While the recovery of tourism increased the surplus of the services account, imports of goods significantly outpaced exports: 17.2 and 12.7 percent y-o-y, driven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

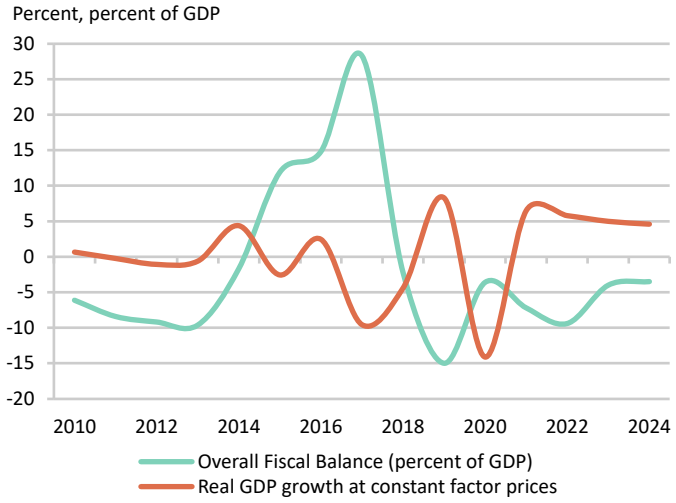
Dominica is highly vulnerable to extreme weather events and external shocks. It came under terrible strain after Hurricane Maria hit the island in 2017. Fiscal pressures were further exacerbated by the COVID-19 pandemic and debt levels have risen. The Government has taken measures to consolidate spending 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

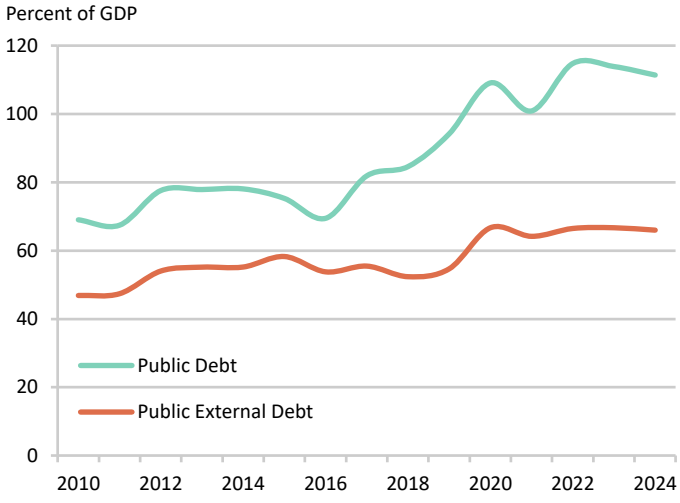
Growth rebounded modestly in 2021 on the relaxation of domestic COVID-19 containment measures and improving tourist arrivals. While the emergence of new COVID variants and global economic conditions have slowed the expected rebound

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.

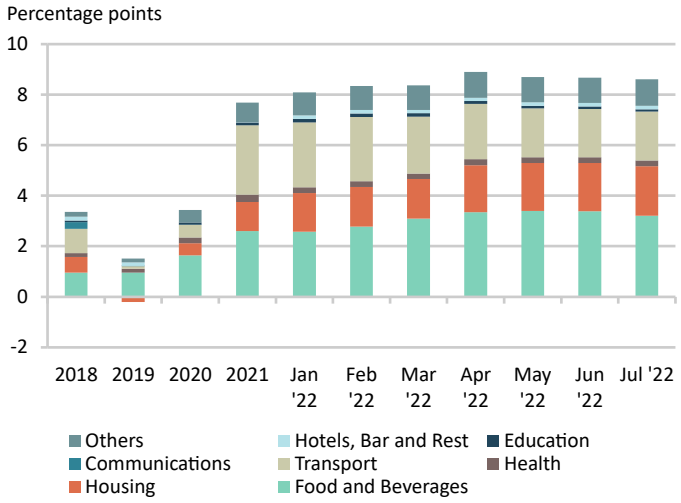
Recent developments

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.

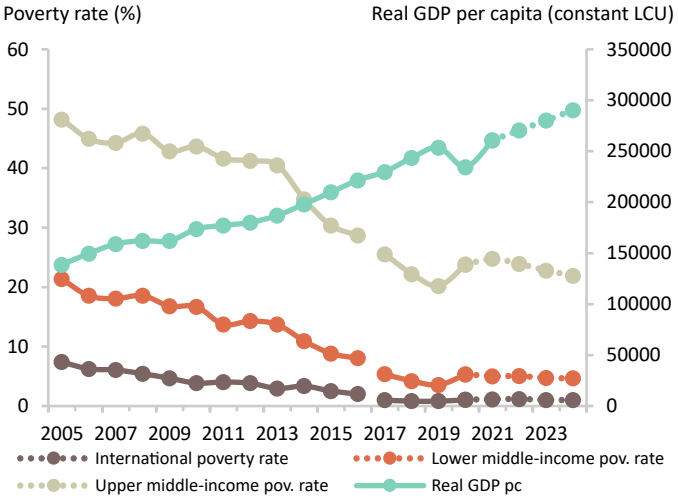
The cost of the family basket increased 23.2 percent in July 2022, compared to pre-pandemic levels, with the poorest quintiles most affected. In 2022Q1, the employment rate remained 1.7 percentage points below pre-pandemic levels and informality was 3 percentage points higher than pre-pandemic levels. 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

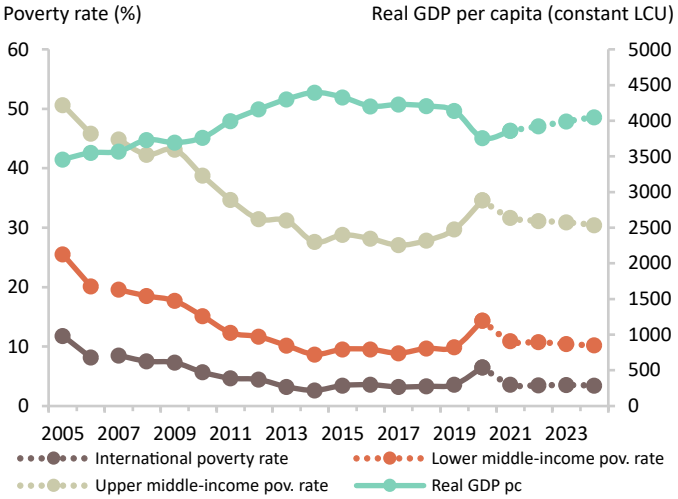
After the 2020 recession, GDP grew by 4.2 percent in 2021, thanks to a successful vaccination campaign, favorable external conditions, and expanding domestic credit. Poverty declined from 34.6 percent in 2020 to 31.7 percent in 2021, lifting almost half a million Ecuadorians above the $ 6.85-a-day 2017 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.

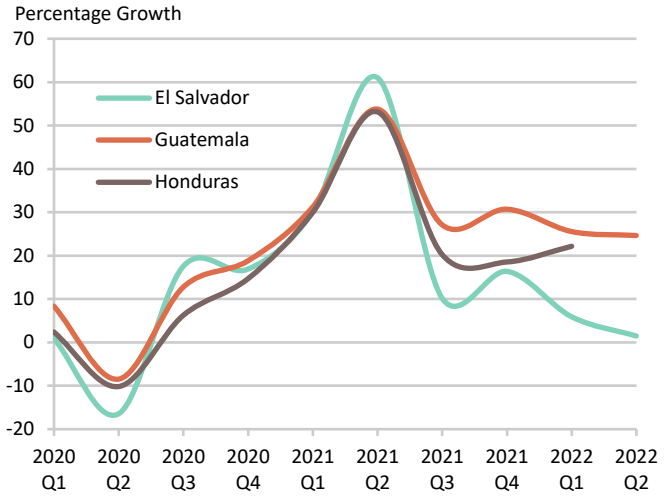
Inflation is growing due to supply disruptions, changes in consumption patterns, and commodities' prices. However, local factors such as increasing government consumption and subsidies are driving inflation.

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.

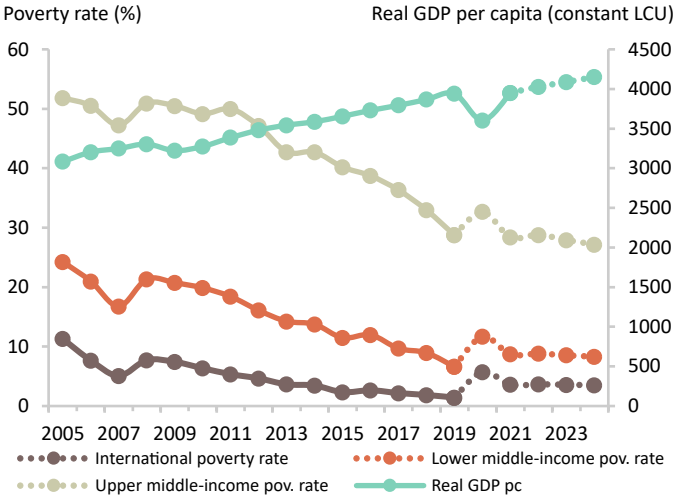
The fiscal deficit between January and July has gone from US$721.8 million in 2021 to US$258.8 million in 2022 due to high revenue growth (15.5 percent in the same period), led by increases in income tax (29 percent). Expenditures grew moderately – 4 percent – led by interest payments (7.9 percent). 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

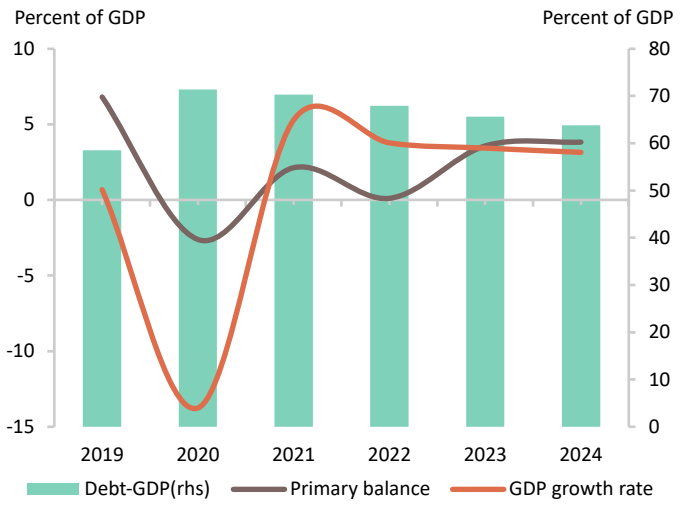
Before the pandemic, underpinned by a series of reforms, including the Fiscal Responsibility Act (FRA), Grenada had outperformed its regional peers, achieved higher growth and lower public debt, and made substantial progress in reducing poverty. Grenada started a series of structural reforms to strengthen 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

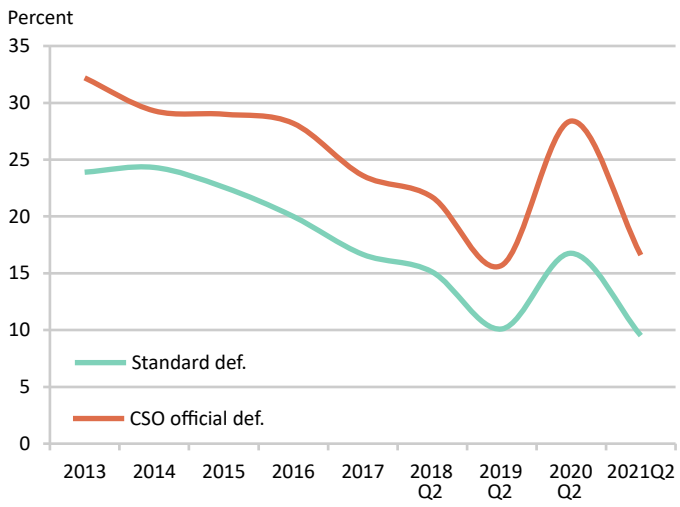
Economic activity and poverty are improving gradually from the deep contraction in 2020 but have not yet reached pre-pandemic levels. Construction projects, particularly those led by the public sector, drove the 2021 growth at 5.3 percent. Tourism picked up strongly in the second half of 2021 and total 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 socioeconomic 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.

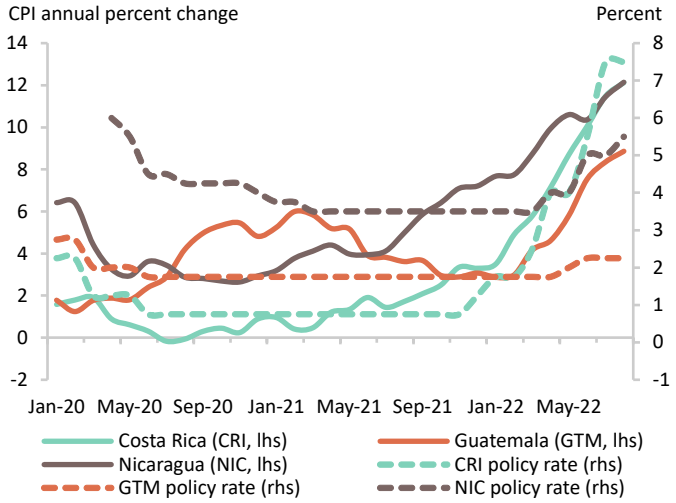
Despite steady economic growth, there has been limited progress in the reduction of poverty and inequality. In 2019, the poverty headcount rate reached 54 percent of the population (U$6.85 in 2017 PPP per day per person), close to the figure of 55.3 percent in 1998, making Guatemala the second poorest 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.

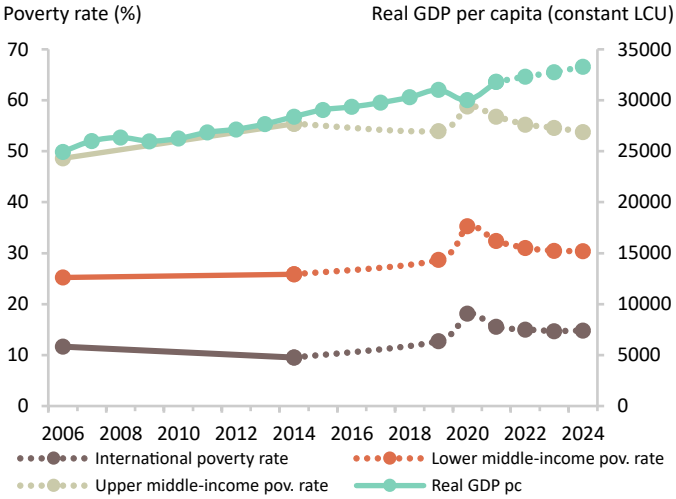
Higher commodity prices pushed inflation (12-month) to 8.9 percent in August, led by food (13.3 percent) and transportation (9.6 percent). Inflation would have been higher without the introduction of fuel subsidies. The central bank reacted by raising interest rates. However, real interest rates are 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.

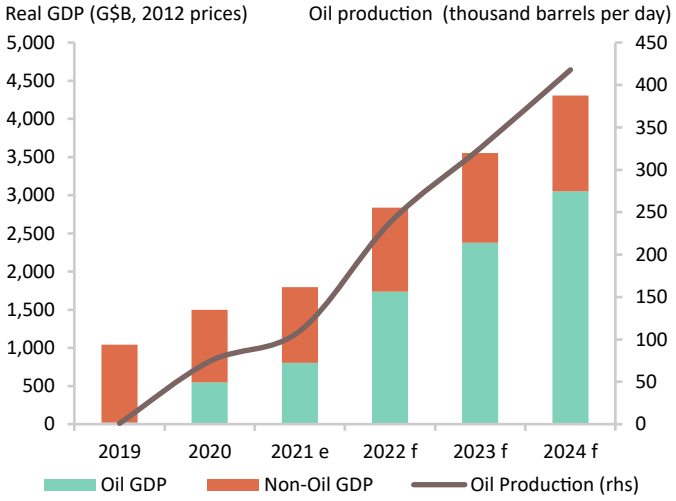
As increased fiscal revenues will allow Guyana to boost outlays, there is a need to ensure that spending is efficient and that reforms support private sector growth while also addressing social and infrastructure gaps. In parallel, Guyana will need to manage the risks of large inflows to prevent overheating 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

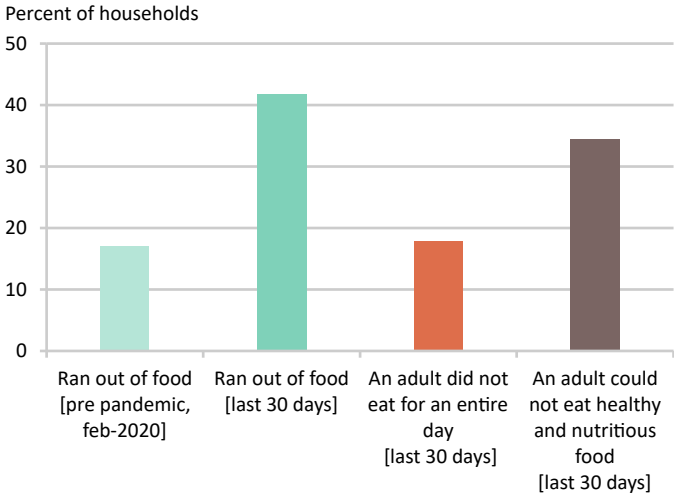
Real GDP expanded by 20 percent in 2021, owing primarily to an expansion of oil production, which averaged about 110,200 barrels per day. The non-oil economy also expanded, rising by 4.7 percent in 2021 reflecting a recovery in construction and services. Agriculture contracted due to the impact of adverse 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.

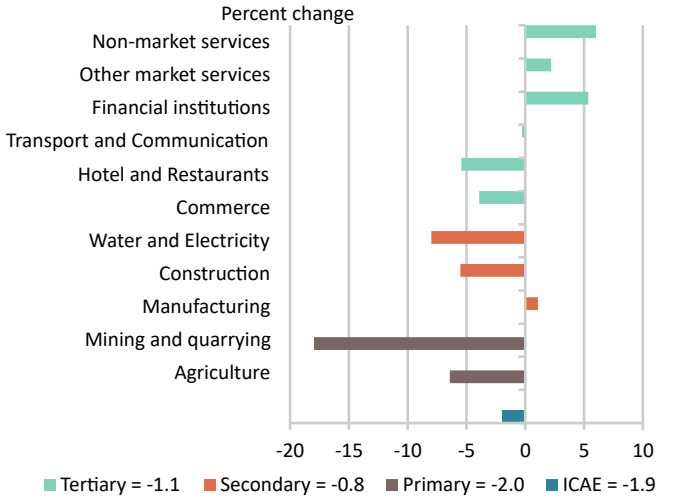
The structural issues that have constrained growth could rise in importance, including low agricultural productivity hampered by watershed degradation and land fragmentation. Vulnerability to natural hazard shocks and climate change will likely continue to hinder growth, hurting the poor and the vulnerable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

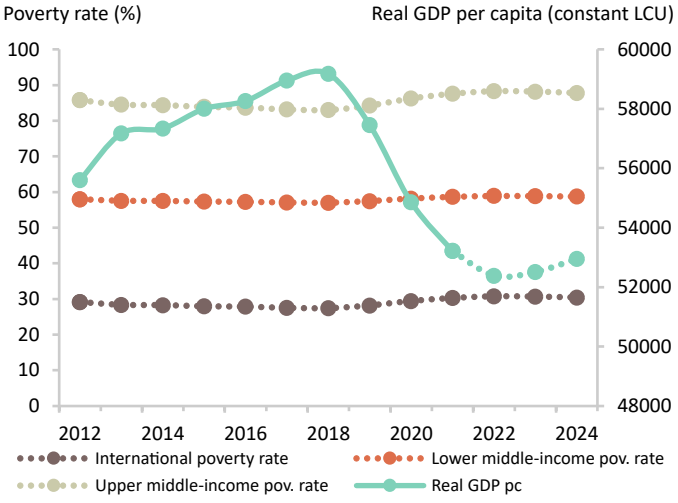
At the end of June, tax revenues were below the indicative target under the IMF's Staff Monitored Program, as security issues inhibited the normal operation of Customs administration and forced some businesses to close. Meanwhile, public expenditures rose, driven by fuel subsidies that reached 3.5% of 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.

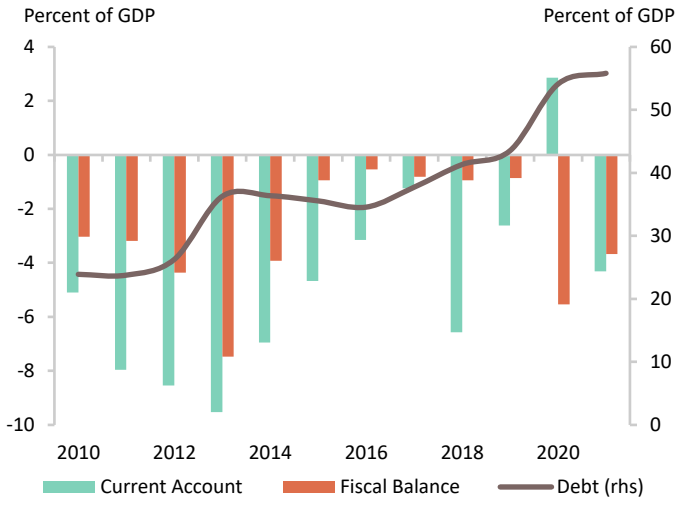
In 2020, the impacts of the pandemic and hurricanes Eta and Iota exacerbated existing economic and social challenges. Real GDP contracted by 9 percent y-o-y, and poverty (US$6.85 line) increased by 8.2 pp reaching 57.7 percent. The country's countercyclical response, in line with the FRL's escape clause, 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.

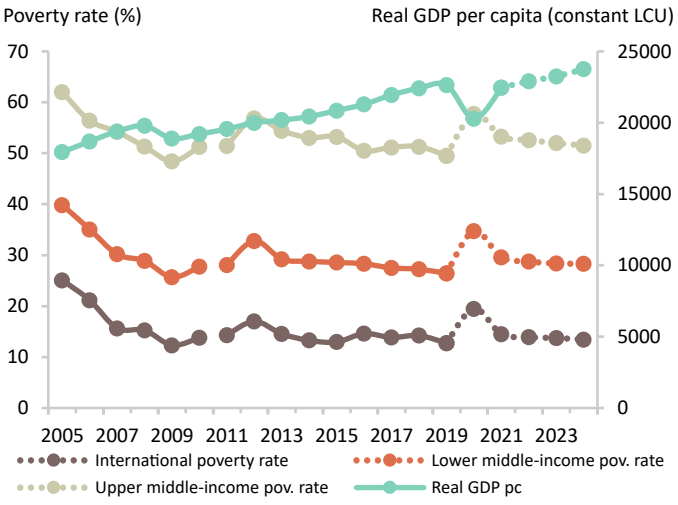
In 2021, poverty (US$6.85 line) is estimated to remain above the pre-crisis level, at 53.3 percent. By the end-2021, employment had almost recovered its pre-pandemic level, but its quality worsened, according to the 2021 LAC High-Frequency Phone Survey (HFPS). The informality rate was up by 7 percentage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

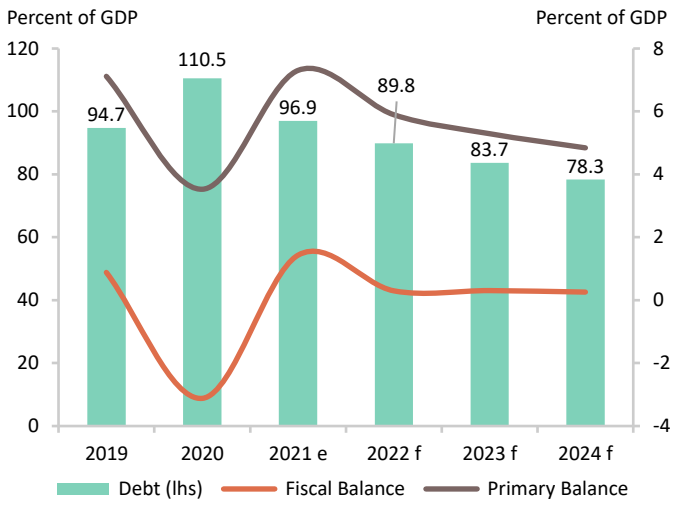
Jamaica remains highly vulnerable to external developments. It is heavily reliant on imported food and fuel, and its tourism sector accounts for more than 33.6 percent of GDP and one third of the workforce. Remittances are also a very important source of financing but affect the competitiveness of the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

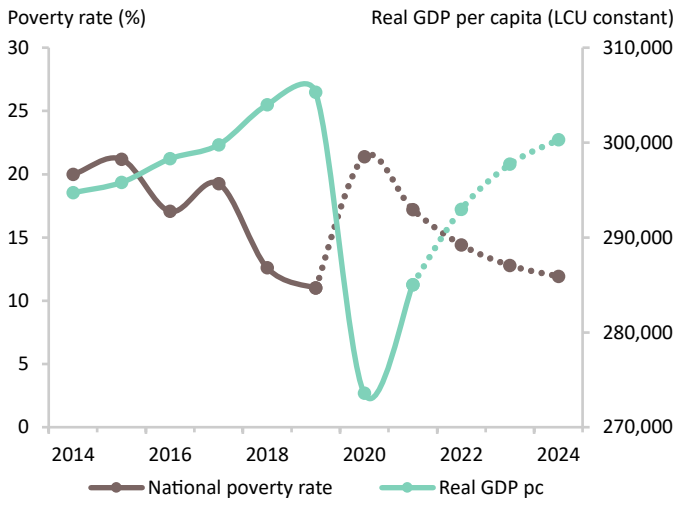
Real GDP expanded by 4.6 percent in 2021 due primarily to the gradual re-opening of the tourism sector supported by robust growth in agriculture which benefitted from favorable weather conditions. On the expenditure side, growth was driven by

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.

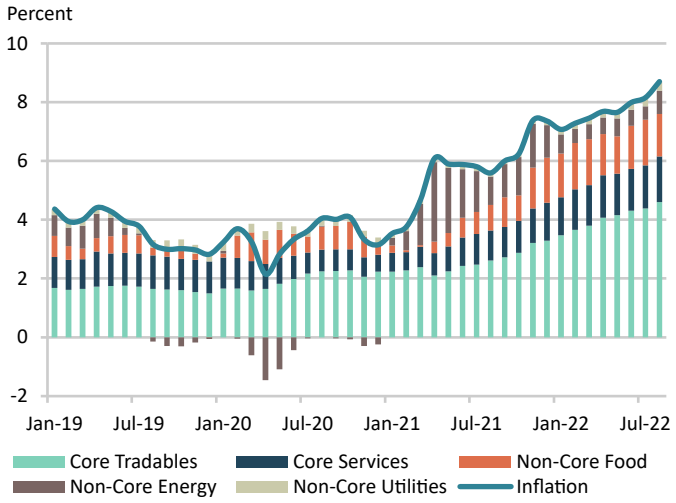
The challenges to household income generation persist, particularly in rural areas in the southern states. Multidimensional poverty rates vary widely by state, ranking from 22.5 percent in Baja California to 75.5 percent in Chiapas. About 8.5 percent of the Mexican population lived in extreme multidimensional 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

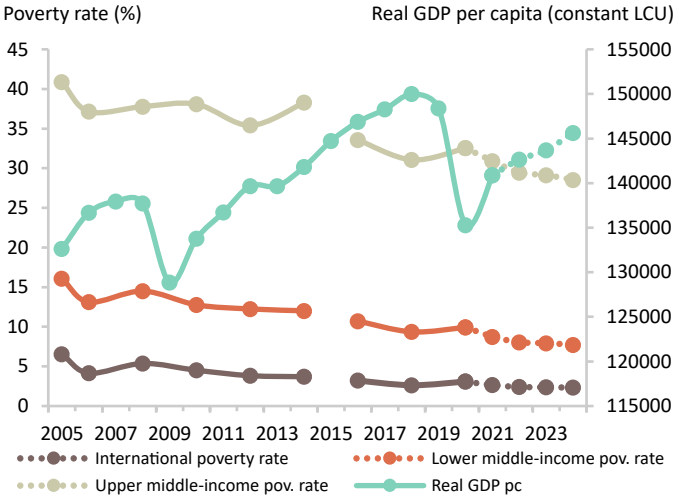
Real GDP grew 1.9 percent in the first half of 2022, compared to the same period last year. Correspondingly, real per capita labor income increased by 4.8 percent over the same period. Transportation, food, and services sectors drove the recovery. Between 2021 Q2 and 2022 Q2, the economy added 2.2 million 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.

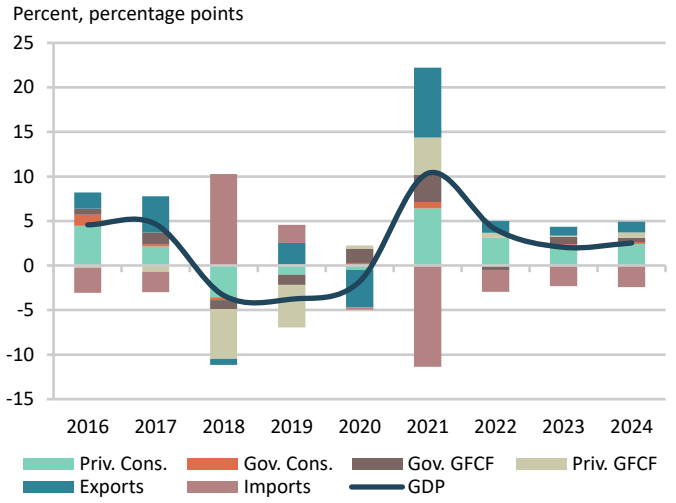
The economic impact of the pandemic in Nicaragua was limited due to mild containment measures and strong remittance inflows. Nevertheless, real GDP declined 1.8 percent in 2020 as voluntary shutdowns weighed on domestic demand, while the global crisis dragged external demand. Cumulative losses amounted 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

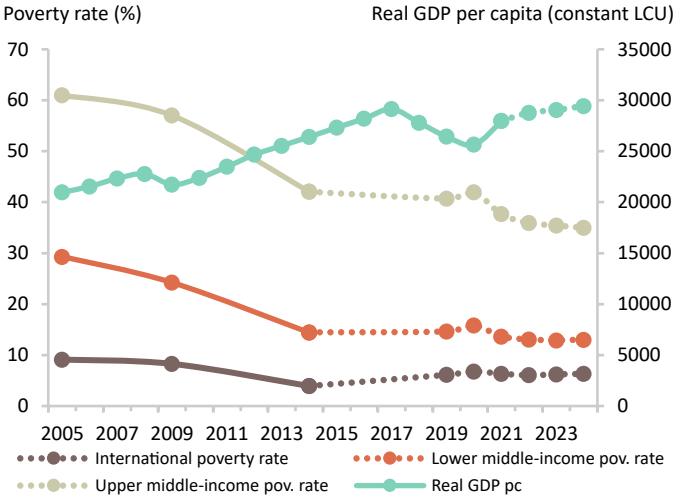
Real GDP increased 10.3 percent in 2021 and continued through the first half of 2022 with a 5.0 percent growth. Remittance-fueled private consumption and exports drove the expansion in 2022H1. Public consumption, COVID-19-related investment, and hurricane reconstruction fueled growth in 2021, but subsequently 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.

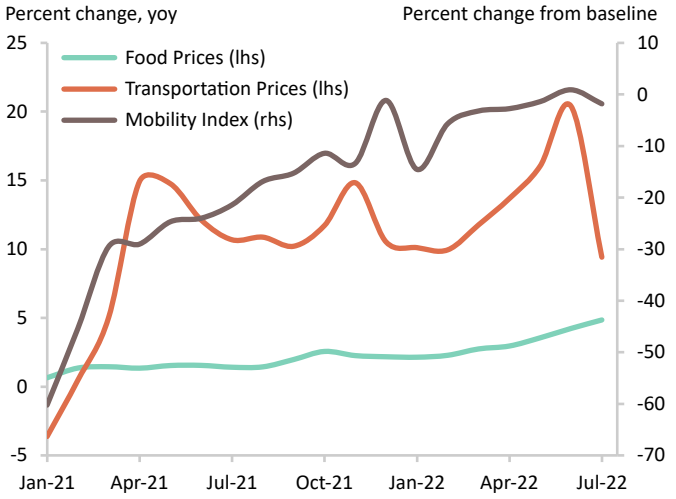
Recent developments

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).

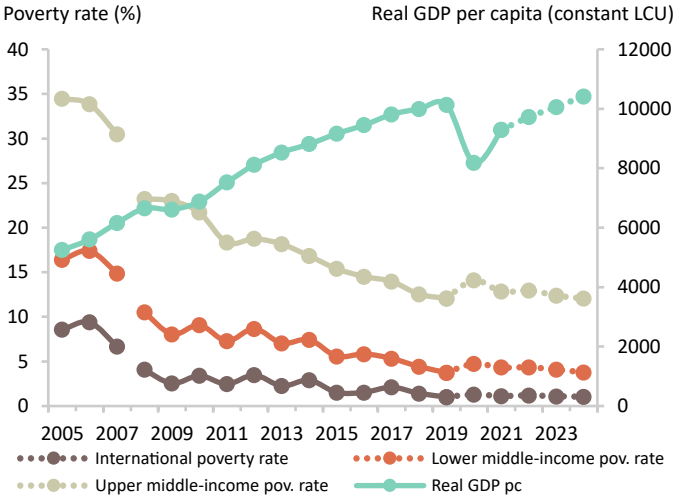
Fiscal results improved with revenues posting growth of 7.8 percent in the first half of 2022 and current expenditures growing by

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.

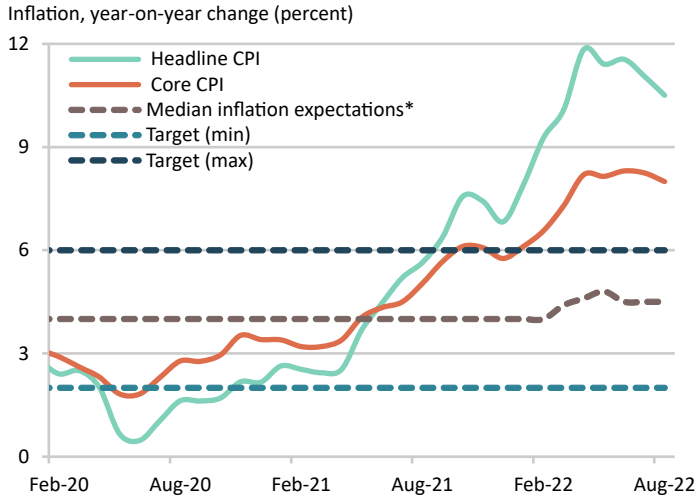
With weather shocks projected to be more frequent and intense under climate modeling, structural reforms are needed to boost productivity and resilience. These include strengthening governance and capacity to enforce regulations and spending more on human capital and infrastructure, especially to adapt 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.

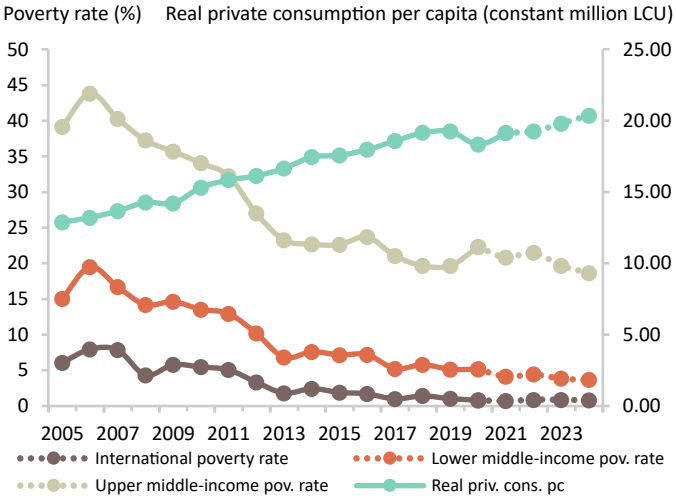
The balance of trade in goods posted a cumulative deficit of US$586 million or 1.5 percent of GDP at end-August, compared to a surplus of US$1.6 billion in the same period last year. Nominal exports fell by 1.6 percent as the impact of the drought on volumes outweighed higher commodity

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.

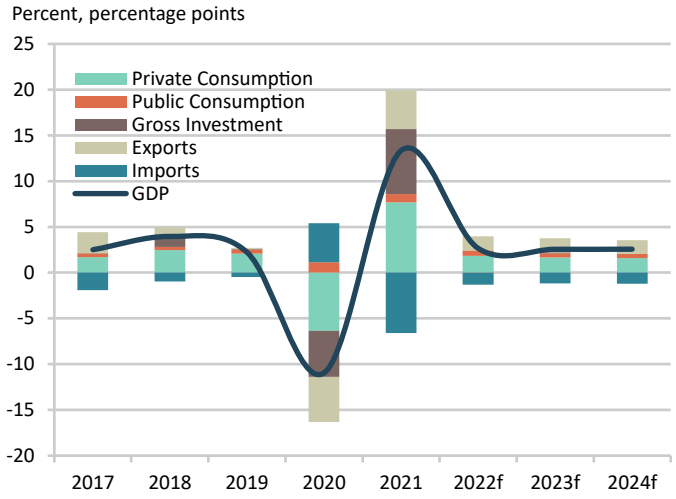
Recent developments

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.

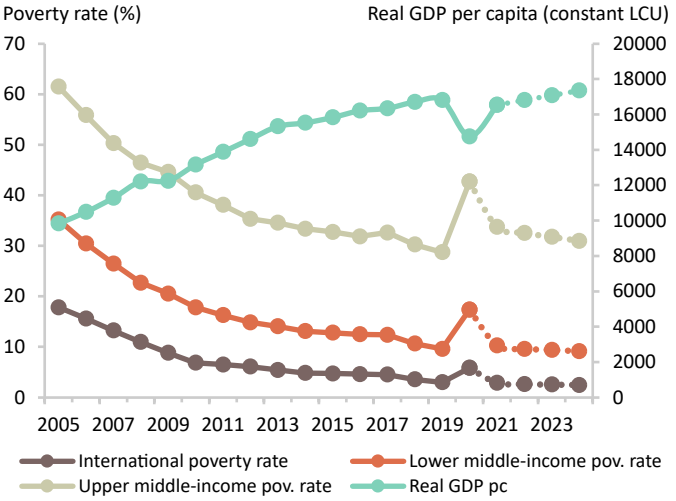
Annual inflation reached 8.4 percent by August 2022, below its peak in June, but still markedly higher than its 2.8 percent average in the decade before the pandemic. The sizable increase in liquidity to counteract the fall in demand during the COVID-19 crisis ignited an upward trend in inflation since 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.

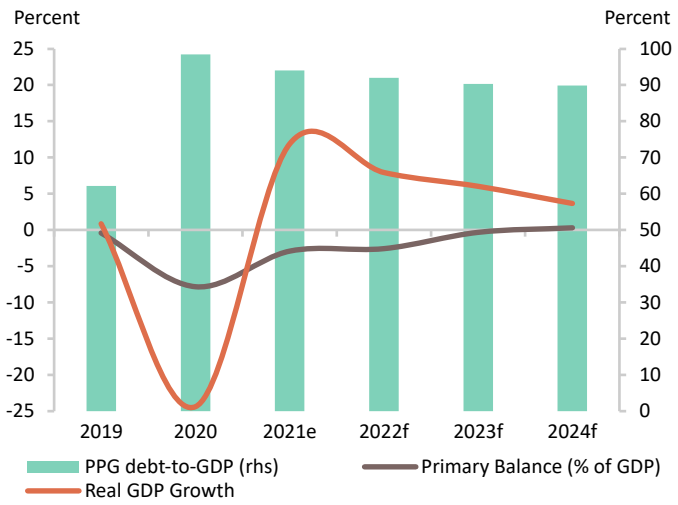
To reduce poverty, support growth and build climate resilience, it will be critical to address key structural challenges, including improving the efficiency of public spending to build space for much-needed investment, mobilizing revenue collection, raising the capacity of the tax administration, strengthening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

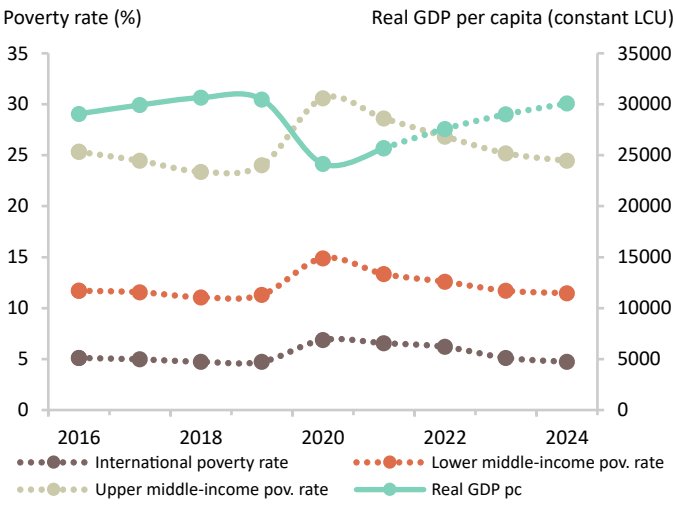
Recovery in tourism exports narrowed the external deficits in 2021 and 2022, attenuating the negative impacts of increased import prices. Tourism and commodity exports volumes have improved significantly since late 2021, helping to bring down the current account deficit, while increases in fuel prices 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.

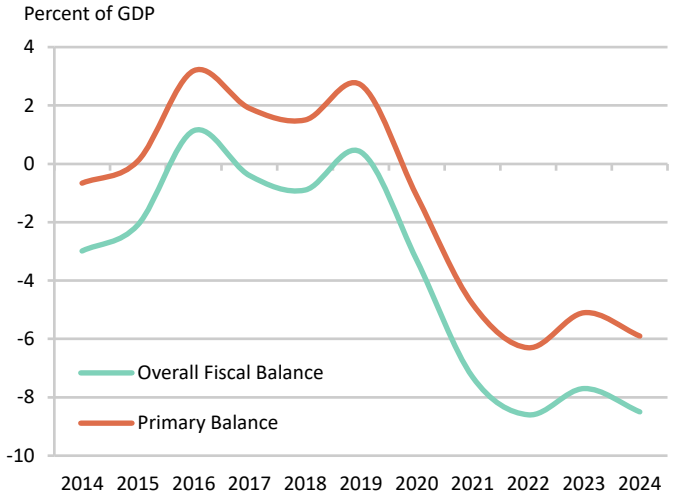
Heavy ashfall, critical utility interruptions, increased food insecurity, and subsequent flooding and mudslides have had a significant impact on poverty and welfare, although this is difficult to quantify in the absence of recent data. Based on the last available data from 2008, 30.2 percent of the population 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.

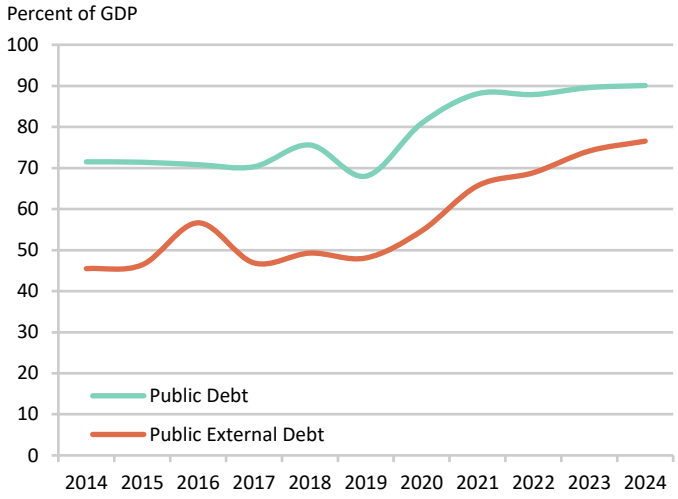
The overall fiscal deficit widened to 7.3 percent of GDP in 2021, as the government implemented fiscal spending measures totaling 5.5 percent of GDP to address the immediate humanitarian crisis following the eruption in addition to 3.6 percent of GDP related to COVID-19 expenditures. The deficit is expected 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.

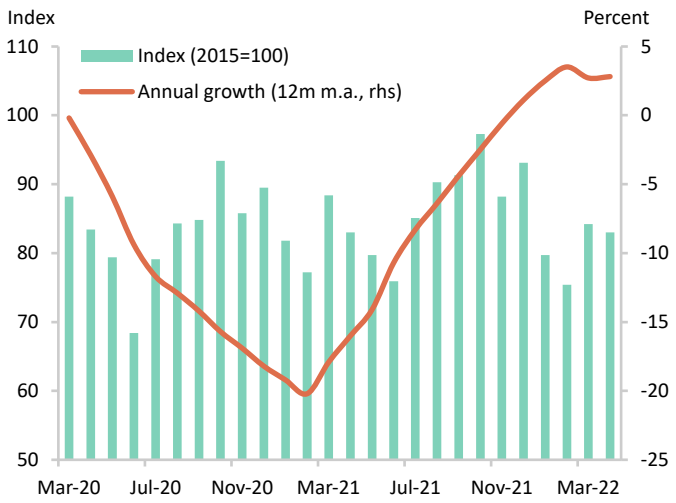
Micro-simulations suggest that employment losses induced by the economic downturn, combined with a loss in purchasing power stemming from high levels of inflation, led to a substantial increase in poverty rates. Women, especially those who were single and those with lower levels of education, were more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

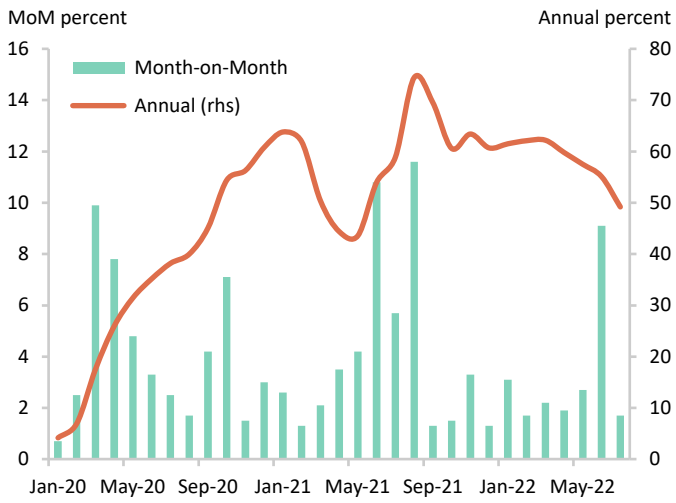
Suriname's economy is now starting to show signs of stabilization and a modest recovery. Economic activity, as measured by the 12-month moving average of the Central Bank's Monthly Economic Activity Index (MEAI), is posting modestly positive rates of growth as of December 2021 after two years of moving 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.

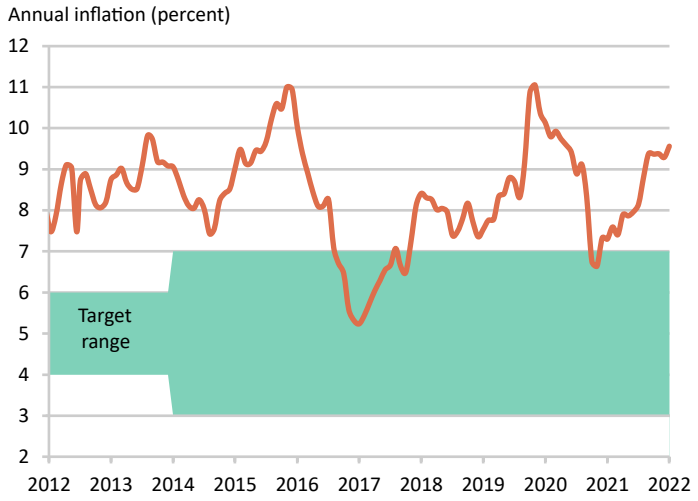
Recent developments

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.

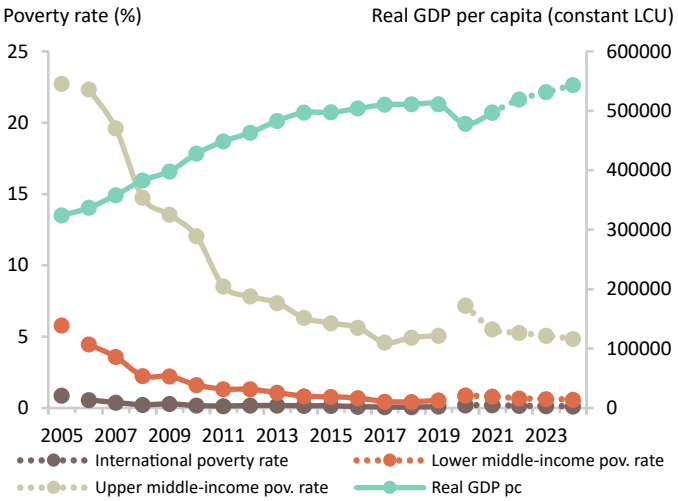
Inflation was 9.6 percent (yoy) in July, the highest reading since December 2020, led by food and non-alcoholic beverages. External factors explain most of the deviation from historical averages, with a negative contribution of domestic demand and the

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.

Middle East and North Africa

Annual Meetings 2022

Algeria
Bahrain
Djibouti
Egypt, Arab Republic
Iran, Islamic Republic
Iraq, Republic
Jordan
Kuwait
Lebanon
Libya
Morocco
Oman
Palestinian Territories
Qatar
Saudi Arabia
Syrian Arab Republic
Tunisia
United Arab Emirates
Yemen, Republic

ALGERIA

Table 1	2021
Population, million	44.7
GDP, current US$ billion	163.0
GDP per capita, current US$	3650.5
National poverty rate[a]	5.5
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	4.0
Gini index[a]	27.6
School enrollment, primary (% gross)[b]	111.3
Life expectancy at birth, years[b]	77.1
Total GHG emissions (mtCO2e)	221.7

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

High oil and gas prices, along with import reduction policies, are improving the current account balance, stabilizing foreign exchange reserves, and raising State revenues. Benefitting from a hydrocarbon revenue windfall and in response to rising inflation, authorities increased public sector wages and pensions, and introduced an unemployment benefits scheme. The implementation of reforms to open space for the private sector and improve the macroeconomic policy framework will be key to diversifying and strengthening the resilience of the economy.

Key conditions and challenges

The Algerian economy remains dominated by the oil and gas sector, which accounted for 19 percent of GDP, 93 percent of product exports, and 38 percent of budget revenues between 2016 and 2021. Over the past 15 years, however, declining investments contributed to stagnating oil and natural gas production, while rising domestic consumption has led to a steeper fall in export volumes.

Since 2016 the current account and overall budget deficits have averaged 11 percent and 10 percent of GDP, respectively, leading to a marked decline in international reserves, currency depreciation, import reduction policies, as well as debt monetization. Real public spending also stagnated, contributing to a slowdown in non-hydrocarbon sectors. Growth fell from 3.3 percent per annum in 2010-2016 to 1.1 percent in 2017-2019, causing GDP per capita (in PPP terms) to decline to its 2014 levels. Nonetheless, non-monetary poverty declined between 2013 and 2019, amid improvements in education, health, and living standards.

While the COVID-19-induced recession exacerbated growth challenges, the subsequent surge in hydrocarbon prices resulting from the global recovery and the war in Ukraine has generated a substantial rise in Algeria's export and budget revenues.

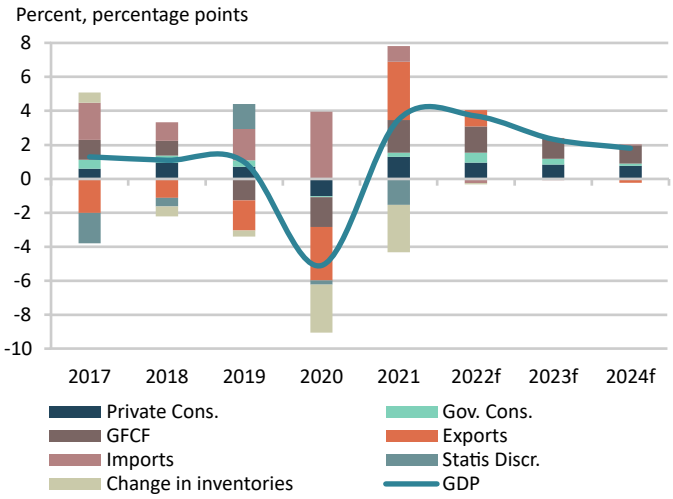
Since 2020, the Government has taken steps to boost foreign and domestic investment by issuing a new Hydrocarbon Law, partly lifting restrictions on foreign ownership of domestic firms, as well as adopting a new Investment Law. Meanwhile, the September 2021 Government Action Plan has made the transition to a private sector-led growth and job creation model a developmental priority, notably arguing for rationalizing public spending, reducing imports, boosting non-hydrocarbon exports, and for significant improvements to the business environment, including through the reform of public banks and state-owned enterprises.

Recent developments

After contracting by 5.1 percent in 2020, Algeria's GDP rebounded by 3.5 percent in 2021, supported by the strong increase in oil and gas output. Meanwhile, non-hydrocarbon GDP returned to its pre-pandemic level in the fourth quarter of 2021, supported by continued recovery in the services sector, and despite low rainfall causing a decline in agricultural output.

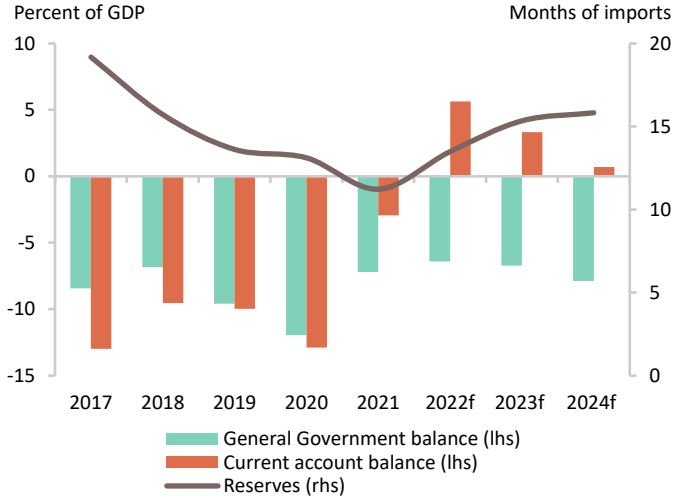
Higher hydrocarbon prices supported a surge in export and budget revenues. Together with the muted recovery in imports, this allowed the current account deficit to shrink from 14.1 to 2.9 percent of GDP in 2021. In H1-2022, product exports rose to US$ 26 billion (+48 percent year-on-year), generating a US$ 5.6 billion product trade surplus. After declining to 11.2 months of imports goods and services at end-2021, international reserves increased by US$ 5 billion, to reach US$ 46.5 billion in July 2022.

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



Sources: Algerian authorities and World Bank staff estimates.

FIGURE 2 **Algeria** / Twin deficits and international reserves



Sources: Algerian authorities and World Bank staff estimates.

The overall budget deficit improved from 12 percent of GDP in 2020 to 7.2 percent in 2021, driven by surging hydrocarbon revenues (+36 percent), recovering tax revenues, an increase in Bank of Algeria dividends, and only a moderate increase in spending. Meanwhile, public debt reached 63 percent of GDP at end-2021, remaining entirely domestically held at negative real interest rates, and mostly at long-term maturities. The Amended Finance Law for 2022 projects a doubling in public investment, and a 41 percent increase in current spending, led by rising public sector wages and pension benefits, the increased cost of food subsidies, as well as the introduction of an unemployment benefits scheme.

Broad money increased rapidly in 2022 (+12.7 percent y-o-y in May) amid rising export revenues and the continuation of prudential and monetary easing measures introduced during the COVID-19 crisis. However, credit to the private sector barely increased with over half of new credit channeled to the central Government. Inflation rose to 9.4 percent y-o-y in July 2022, fuelled primarily by its food component (+13.4 percent). High food inflation could hurt vulnerable Algerians since food accounts for over half of household spending among the bottom 40 percent of the population.

Outlook

GDP is expected to return to its 2019 level in 2022, supported by the recovery in hydrocarbon output and services activity, and a moderate rebound in agricultural production. The public and energy sectors are expected to lead investment growth, while consumption growth is expected to be more modest, amid the gradual labor market recovery and the effect of high inflation on real consumer income, cushioned by higher government spending. By 2024, hydrocarbon GDP is expected to resume a gradual decline, and nonhydrocarbon GDP to return to its pre-pandemic trajectory.

In 2022, the current account balance is expected to rise to a significant surplus, aided by high hydrocarbon prices and import reduction policies. The overall budget deficit is expected to remain stable, as the surge in public spending mostly absorbs that in hydrocarbon and tax revenues. Over the medium-term, external and budget balances are expected to deteriorate in line with declining hydrocarbon export volumes and prices. Inflation is expected to decline gradually, fueled by the rise in public spending but dampened by the dinar's appreciation against the Euro, and the moderation in global inflation.

The sustainability of external and budget balances remains dependent on highly volatile global oil prices, in a context of uncertainty surrounding the evolution of the war in Ukraine and the dynamics of the global economy. Meanwhile, financing large budget deficits through the domestic banking sector and maintaining import reduction policies could increasingly weigh on private credit, investment, and growth.

Europe's efforts to diversify its energy supply could support hydrocarbon sector investment in Algeria and medium-term growth. On the other hand, fostering sustainable nonhydrocarbon growth and job creation will hinge on the success of the Government's structural reform agenda in opening space for the private sector to become the engine of growth and diversification.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.0	-5.1	3.5	3.7	2.3	1.8
Private Consumption	2.1	-3.0	3.7	2.7	2.5	2.2
Government Consumption	1.9	-0.3	1.2	2.9	1.6	0.6
Gross Fixed Capital Investment	-3.6	-5.2	5.7	4.5	3.4	3.1
Exports, Goods and Services	-6.1	-11.7	13.7	3.5	0.1	-0.9
Imports, Goods and Services	-6.9	-15.9	-4.2	1.2	0.4	-0.2
Real GDP growth, at constant factor prices	1.0	-4.7	4.0	3.7	2.3	1.8
Agriculture	2.7	1.3	-1.3	2.4	2.0	1.8
Industry	-1.6	-7.5	8.3	5.1	2.6	1.6
Services	3.4	-3.4	1.2	2.6	2.2	2.0
Inflation (Consumer Price Index)	2.0	2.4	7.2	9.4	7.8	6.5
Current Account Balance (% of GDP)	-11.6	-14.1	-2.9	5.6	3.3	0.7
Fiscal Balance (% of GDP)	-9.6	-12.0	-7.2	-6.4	-6.7	-7.9
Debt (% of GDP)	45.5	52.1	63.0	54.9	59.2	65.2
Primary Balance (% of GDP)	-9.0	-11.0	-6.6	-5.7	-5.9	-7.0
GHG emissions growth (mtCO2e)	2.3	-2.4	1.3	2.8	2.6	2.1
Energy related GHG emissions (% of total)	64.4	64.2	64.4	65.4	66.2	66.7

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

BAHRAIN

Table 1	2021
Population, million	1.7
GDP, current US$ billion	38.9
GDP per capita, current US$	22236.1
School enrollment, primary (% gross)[a]	98.0
Life expectancy at birth, years[a]	77.4
Total GHG emissions (mtCO2e)	52.4

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

Bahrain's economy continues to rebound with growth estimated to accelerate in 2022 driven mainly by rising non-hydrocarbon sector as pandemic pressures fade. Higher oil prices and renewed fiscal reforms momentum is expected to ease fiscal and external vulnerabilities and improve debt position. Downside risks to the outlook largely center on a sudden fall in oil prices and potential delays in the implementation of fiscal reforms, creating setbacks to the current improvements in fiscal and external positions and dampening growth outcomes.

Key conditions and challenges

Bahrain is considered the most diversified economy within the GCC region. The government took considerable measures to diversify the economy, expanding into finance, services, logistics, tourism, and heavy-industrial sectors—becoming the world's largest aluminum smelter. As such, non-oil sector accounts for the majority of GDP. The country delivered a rapid and successful COVID-19 vaccination rollout alongside strong containment measures and policy response that helped to mitigate the health and economic impact of the pandemic. A revised Fiscal Balance Program (FBP) announced in October 2021 aims at achieving a balanced state budget by 2024 with a mix of revenues and expenditures measures. On the revenue side, the government doubled the VAT rate to 10 percent from January 2022, while all the measures on the expenditures side targeted rationalizing spending and streamlining subsidies. Higher oil prices and renewed fiscal reforms momentum are mitigating Bahrain's fiscal and external vulnerabilities, improving debt and foreign exchange reserves dynamics.

However, challenges remain. While improvements have been made in diversifying government revenues away from oil, hydrocarbon sector continues to account for 60 percent of total budget revenues; accordingly, increasing non-hydrocarbon revenues is essential to reducing volatility from oil price shocks. Furthermore, achieving a balanced budget target by 2024 could be challenging considering that the FBP targets the state budget and excludes extrabudgetary spending outlays.

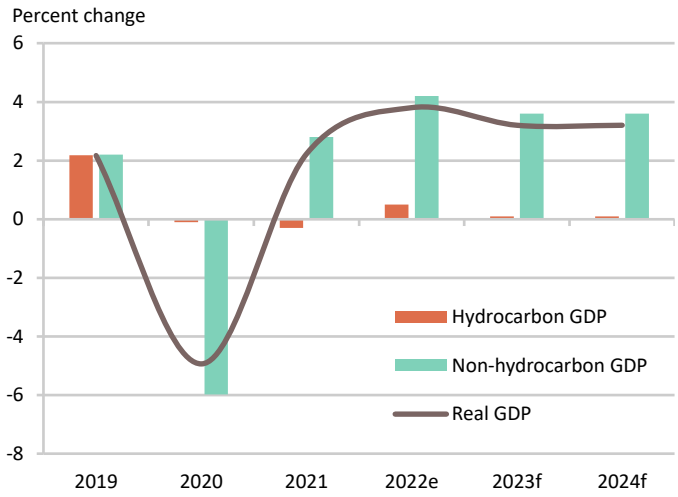
Downside risks to the outlook include lower hydrocarbon prices, tighter global financial conditions, which could reverse the recent improvements in the fiscal and external positions, making FBP goals more challenging to realize. The war in Ukraine caused a marked impact on inflation, particularly food price inflation, with implications on food security. On the upside, adherence to FBP accompanied by prolonged higher oil prices, and strengthening the PFM would further reduce fiscal and external vulnerabilities and lessen fiscal risks from off-budget expenditures.

Additional efforts are needed to unleash more fiscal space to meet the increased challenges posed by climate change and support the transition toward a low-carbon economy and build a more inclusive, diversified, and greener economy. Higher oil prices provide an opportunity to advance the ambitious reforms in line with the FBP under favorable macroeconomic and financing conditions to contain external borrowing and put debt on a firm downward path while rebuilding fiscal buffers.

Recent developments

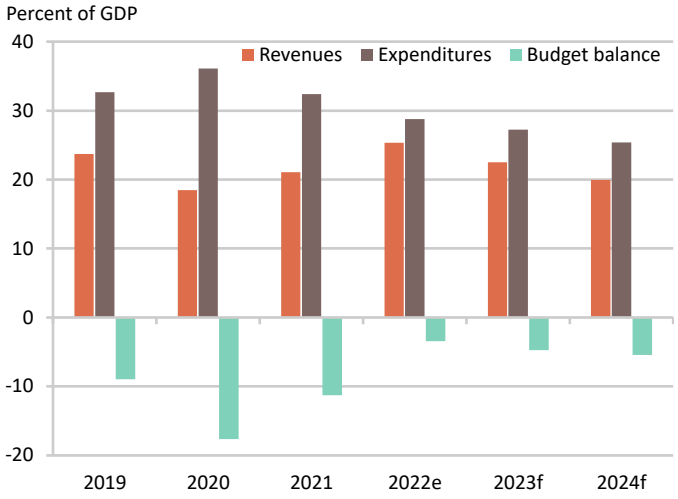
Bahrain's economy continues its gradual recovery with real GDP accelerating to 5.5 percent in Q1 2022 supported by a notable improvement in the non-oil economy,

FIGURE 1 **Bahrain** / Real annual GDP growth



Sources: Bahrain authorities, World Bank, and IMF projections.

FIGURE 2 **Bahrain** / General government operations



Sources: Bahrain authorities and World Bank projections.

which grew by 7.8 percent. The strong performance of high-contact sectors, e.g., hotels and restaurants, transportation and communications, manufacturing, is evident as the economy swings back to full reopening. In contrast, the oil GDP growth contracted by 4.7 percent due to seasonal oil fields maintenance. Doubling of the VAT to 10 percent, coupled with higher food, transport, and hospitality prices have pushed inflation to a six-year high of 3.5 percent during the first 7 months of 2022.

Government revenues increased by 52 percent in H1 2022 on the back of higher oil prices and the rebound of non-oil revenue supported by the recovery and doubling of the VAT rate. Higher revenues more than compensated for the rise in expenditures, which grew by 2 percent during the same period. As a result, the overall fiscal balance turned into a surplus of US$88 million (0.2 percent of GDP) during H1 2022, from a deficit of US$1.4 billion (3.6 percent of GDP) in H1 2021, and improved debt path trajectory for the remainder of this year.

Improvements in oil and non-oil exports strengthened the external balance position remarkably, registering a surplus of US$3.6 billion (8 percent of GDP) during H1 2022, despite the rebound in higher import bills.

A second edition of the national employment program, introduced in 2021, targets providing more employment opportunities in the private sector. As a result, over 5,000 Bahrainis have been employed under the program as of March 2022. Moreover, as part of the "National Labor Market Plan 2021-2023", the government has prioritized (i) the creation of employment opportunities for Bahrainis in the private sector, (ii) the recruitment of skilled expatriates, and (iii) the harmonization of education outputs with the needs of the labor market.

Outlook

Bahrain's economic outlook hangs on oil market prospects and the government's commitment to the reform agenda. Growth is expected to accelerate to 3.8 percent in 2022; mainly driven by the non-hydrocarbon sector which is expected to exceed 4 percent supported by the full reopening of the economy and a stronger manufacturing sector. The oil sector, on the other hand, will see a modest increase of 0.5 percent in line with OPEC+ planned output hikes and Bahrain's production capacity. Growth is projected to moderate at 3 percent in the medium term as government fiscal adjustments continue. Inflation is anticipated to hover around 3 percent in 2022 driven by recovering demand, higher global commodity prices, and the recent doubling of the VAT rate to 10 percent before moderating in the medium term as global commodity prices lose steam and the impact of the VAT rate dissipates.

Higher oil prices and resuming spending restraints under FBP are expected to significantly narrow the fiscal deficit to less than 4 percent of GDP in 2022. However, public finances are expected to remain under pressure over the medium term amid declining oil prices and increasing debt burden from the higher global interest rates. The current account balance, which recorded its first surplus in seven years in 2021, is forecasted to improve markedly to reach 11.3 percent of GDP in 2022 and remain in surplus over the medium term. This should boost foreign reserves to over US$13 billion during 2022-24 and strengthens resilience against future external shocks.

TABLE 2 Bahrain / 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	-4.9	2.2	3.8	3.2	3.2
Private Consumption	0.5	-4.4	3.0	2.6	2.4	2.0
Government Consumption	-1.5	-2.1	2.8	2.5	2.2	1.4
Gross Fixed Capital Investment	-2.8	-3.8	2.4	2.1	3.8	4.0
Exports, Goods and Services	0.4	-2.5	5.4	3.5	3.8	3.6
Imports, Goods and Services	-5.6	-0.7	5.0	4.6	3.6	3.1
Real GDP growth, at constant factor prices	2.2	-4.9	2.2	3.8	3.2	3.2
Agriculture	-1.0	0.2	7.2	1.2	3.5	3.0
Industry	2.3	-1.2	0.4	0.9	3.5	4.0
Services	2.2	-7.6	3.6	6.0	3.0	2.6
Inflation (Consumer Price Index)	1.0	-2.3	-0.6	3.4	2.6	2.3
Current Account Balance (% of GDP)	-2.1	-9.3	6.7	11.3	7.5	5.3
Fiscal Balance (% of GDP)	-9.0	-17.7	-11.3	-3.5	-4.7	-5.4
GHG emissions growth (mtCO2e)	6.1	-2.0	3.1	3.5	3.3	3.3
Energy related GHG emissions (% of total)	63.3	62.2	62.9	63.7	64.2	64.7

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

DJIBOUTI

Table 1	2021
Population, million	1.0
GDP, current US$ billion	3.5
GDP per capita, current US$	3476.1
International poverty rate ($1.9)[a]	19.1
Lower middle-income poverty rate ($3.65)[a]	43.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.2
Life expectancy at birth, years[b]	67.5
Total GHG emissions (mtCO2e)	1.4

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

Global supply-side rigidities and soaring prices, together with severe droughts and sluggish demand from Ethiopia contributed to slow Djibouti's economic activity in 2022. GDP thus is expected to decline to 3.6, from 4.8 percent in 2021. These trends continue to gradually reduce poverty, which is estimated at 16.5 percent in 2022, though at a much slower pace. Regional stability and commitment to fiscal consolidation and structural policy reforms remain pivotal factors for Djibouti's medium-term growth prospects.

Key conditions and challenges

Over the two decades preceding the COVID-19 pandemic, Djibouti successfully managed to leverage its geo-strategic location to turn a small and resource-constrained economy into a fast-growing transport and logistics regional hub. Djibouti's GDP per capita increased from less than USD 800 in 2000 to more than USD 3,000 in 2020 driven by large investments aimed to make the country a key regional naval refueling, trade, and transshipment center. Nonetheless, this development strategy has come at the cost of rising debt vulnerabilities. Djibouti's public and publicly guaranteed debt as a percentage of GDP roughly doubled since 2010, reaching 71.7 percent in 2021. The external public debt service has recently been on a strongly upward trajectory, moving from USD 54 million in 2021 (1.4 percent of GDP) to USD 184 million in 2022 (projected; 4.7 percent of GDP) and expected to reach USD 266 million (4.8 percent of GDP) in 2024, reflecting the end of the DSSI and the maturity of two large loans. Against this background, the government is expected to engage with its creditors to explore avenues to address existing debt obligations, as well as to possibly ease debt service, and increase fiscal space.

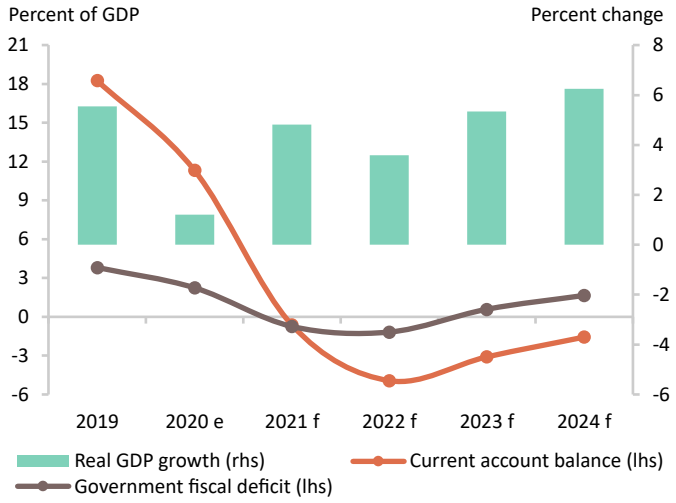
Poverty in Djibouti was estimated at 19.1 percent in 2017 ($ 2.15 international poverty line using 2017 purchasing power parity), and projections show a gradual–though substantially slower, over time – decline to around 16.5 percent in 2022. A number of factors in the current economic conjuncture, such as droughts, global prices shocks, supply-side shocks, as well as regional sources of pressure like the Ethiopian conflict, all concur to put additional pressure on price levels – as inflation reached 11.5 percent (y-o-y) in June 2022. If sustained, these pressures could potentially reverse years of poverty reduction.

Recent developments

Economic activity has been decelerating through 2022, following rigidities in the global maritime transport and logistics value chain associated with the war in Ukraine, sluggish demand from Ethiopia, and severe droughts in 2022. As a consequence, real GDP growth is estimated at 3.6 percent in 2022, down from 4.8 percent in 2021. Domestic demand remains sustained, as evidenced by continued double-digit increases in energy consumption, construction activities, and imports.

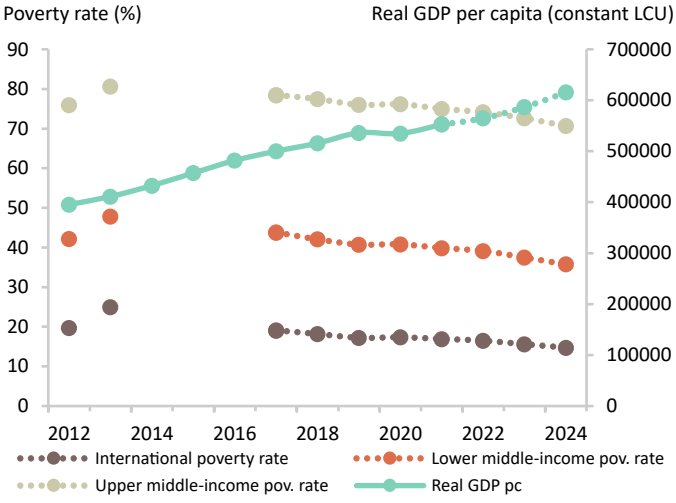
Food subsidies and other recent fiscal policy measures, which were introduced to mitigate the negative effects of rising global commodity prices and the increasing cost of public debt, have exacerbated fiscal pressures, further widening the overall fiscal deficit estimated to reach 3.5 percent of GDP in 2022, 0.2 points above the level of 2021. The government's decision to suspend the automatic adjustment mechanism of pump prices to global fuel prices caused a reduction of taxes and royalties

FIGURE 1 Djibouti / Real GDP growth, fiscal, and current account balances



Sources: Government of Djibouti and World Bank staff projections.

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



Source: World Bank. Notes: see Table 2.

on (imported) oil and is expected to expand the size of forgone revenues to USD 42 million in December 2022 (approximately equivalent to 1.1 percent of GDP). On the public expenditure side, current spending increased by 4 percent y-o-y in Q1, reflecting increasing debt servicing, while authorities rationalized COVID-related expenditure and enhanced the prioritization of capital spending. The fiscal deficit is expected to be financed mostly by accumulation of external debt service arrears. The stock of external debt arrears is estimated at USD 103 million (3 percent of GDP) in H1. On the external front, soaring prices of imported raw materials and the growing costs reflecting supply-chain tensions are causing a significant worsening of the Current Account balance, projected to close the year at -4.9 percent of GDP. On the other hand, gross official reserves are at broadly comfortable levels (close to 5 months of imports, at the end of Q1). The banking sector remains stable, with ample liquidity and a small proportion of non-performing loans – which have massively declined from 22.4 percent in 2016 to 6.4 percent in March 2022 – thanks to limited exposure to the most affected sectors by the COVID-19 and the wars in Ethiopia and Ukraine (mainly the maritime transport and transit sectors).

Outlook

Djibouti's economy is projected to gradually recover over the medium term, driven by private and SOE investment programs (including the development of the Damerjog industrial park project, a new fuel storage terminal, and an oil jetty) and structural reforms that will be undertaken as part of the implementation of the second national development plan (Djibouti Inclusion - Connectivity - Institutions ICI). GDP growth is thus expected to accelerate to 5.3 percent in 2023 and, further, to 6.2 percent in 2024.

The fiscal deficit is projected to slightly decline to 2.6 percent of GDP in 2023 and 2 percent of GDP in 2024 with the reprioritization of the central government's capital expenditure, the freeze of new recruitments in the public service, and increased oversight on the efficiency of central government's tenders and procurement functions.

The current account deficit is projected to gradually improve over 2023-2024, assuming stronger demand for logistics and transport services from Ethiopia, and reduced disruptions in international shipping supply chains. The three top downside risks to Djibouti's medium-term prospects are represented by 1) potential shocks in global transport and logistics value chains (particularly important for port-related SOEs activities), 2) the continuation or possible intensification of the Ethiopian crisis, and 3) the occurrence of climatic shocks.

Current projections indicate that poverty in 2022 may have declined by around 0.4 percentage points, to 16.5 percent, from an estimated 16.9 percent in 2021. Reflecting stronger growth prospects in the baseline, poverty should continue to decline accordingly; however, regional instability and external shocks, particularly those affecting food insecurity and consumption, could affect these expectations and cause a reversal of these poverty reduction trends.

TABLE 2 Djibouti / 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	1.2	4.8	3.6	5.3	6.2
Private Consumption	6.3	10.2	7.0	2.1	5.0	5.3
Government Consumption	-3.9	1.6	-7.0	18.1	3.6	6.5
Gross Fixed Capital Investment	7.3	1.0	3.5	1.0	2.4	6.7
Exports, Goods and Services	9.2	-29.7	3.0	1.5	5.1	6.5
Imports, Goods and Services	10.1	-29.5	3.0	3.0	5.0	7.5
Real GDP growth, at constant factor prices	6.0	2.0	4.8	3.6	5.3	6.2
Agriculture	12.9	11.5	11.4	5.0	7.0	7.0
Industry	13.4	-4.4	9.9	8.5	8.5	9.0
Services	4.5	3.1	3.7	2.7	4.7	5.7
Inflation (Consumer Price Index)	3.3	1.8	1.2	5.2	4.2	3.3
Current Account Balance (% of GDP)	18.3	11.3	-0.6	-4.9	-3.1	-1.6
Fiscal Balance (% of GDP)	-0.9	-1.7	-3.3	-3.5	-2.6	-2.0
Debt (% of GDP)	70.3	75.9	71.7	71.3	71.3	71.1
Primary Balance (% of GDP)	0.4	-1.6	-3.1	-3.4	-2.4	-1.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	17.2	17.3	16.9	16.5	15.6	14.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	40.7	40.8	39.9	39.1	37.5	35.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	76.0	76.2	75.0	74.2	72.7	70.7
GHG emissions growth (mtCO2e)	1.7	0.6	1.1	1.1	1.1	1.1
Energy related GHG emissions (% of total)	25.1	25.1	25.2	25.3	25.4	25.5

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 2017-EDAM. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

ARAB REPUBLIC OF EGYPT

Table 1	2021
Population, million	104.3
GDP, current US$ billion	404.1
GDP per capita, current US$	3876.4
Lower middle-income poverty rate ($3.65)[a]	22.0
National poverty rate[b]	29.7
Gini index[a]	31.5
School enrollment, primary (% gross)[c]	106.4
Life expectancy at birth, years[c]	72.2
Total GHG emissions (mtCO2e)	354.6

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

Following a rebound to 6.6 percent in FY2021/22, economic activity is expected to slow down in FY2022/23 due to global headwinds from the Ukrainian war, tightening monetary conditions and lingering supply bottlenecks from COVID19. The concurrent shocks are raising domestic inflation and exposing long-standing challenges facing Egypt, including the underperforming non-oil exports and FDI. Fiscal space is expected to be constrained by the spiking costs faced by the government and higher interest rates.

Key conditions and challenges

As the world economy faces the headwinds stemming from the war in Ukraine, the lingering effects of the COVID-19 pandemic, and rapid monetary tightening (notably in advanced countries), Egypt – a net commodity importer and an emerging market – in turn, is experiencing higher domestic inflation and abrupt large-scale portfolio outflows, which are adding pressures on the country's already stretched public finances and external accounts.

Whereas macroeconomic and structural reforms since 2016 have increased Egypt's resilience in navigating the current challenging environment, the pace of economic transformation remains sluggish, as the structure of the economy has generally been shifting over the past two decades towards non-tradable lower productivity sectors. This resulted in limited export penetration and sophistication as well as below-potential FDI; heightening Egypt's long-standing challenges, and further exposing Egypt to such exogenous shocks that are further undermining foreign income sources.

Official estimates indicate gains in welfare between 2017 and 2019; however poverty figures (prior to the pandemic) were still elevated at 29.7 percent, and – more recently – labor force participation and employment rates hover below potential at 42.6 percent and 39.5 percent of the working-age population, respectively (as reported for Q4-FY2021/22); thus pointing to persisting challenges related to job-creation. Domestic real incomes are additionally being affected by ongoing inflationary pressures and the waning economic rebound.

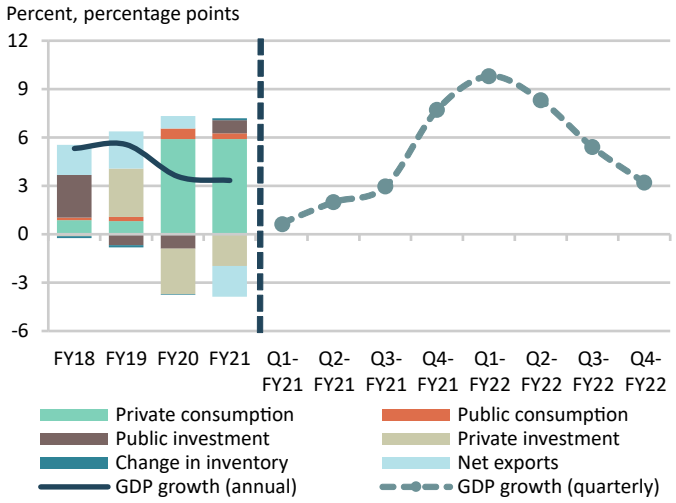
Creating fiscal space remains a crucial challenge to advance human and physical capital for the Egyptian population, which exceeds 104 million. Importantly, continuing to pursue structural reforms to unleash the private sector's potential in higher value-added and export-oriented activities will be necessary to create jobs and improve living standards.

Recent developments

A solid bounce-back prior to the war in Ukraine supported an increase in economic growth to 6.6 percent in FY2021/22; double its pace in the previous year. But economic activity has been adversely impacted by multiple global shocks, as captured by leading indicators in recent months: the Industrial Production Index contracted (month-on-month) by 8.7 percent in April 2022. Similarly, the PMI declined to 45.2 (a two-year low) and 46.4 during June and July 2022; signaling more pronounced contractions in non-oil private sector activity; which reflect the rising cost of domestic and imported inputs.

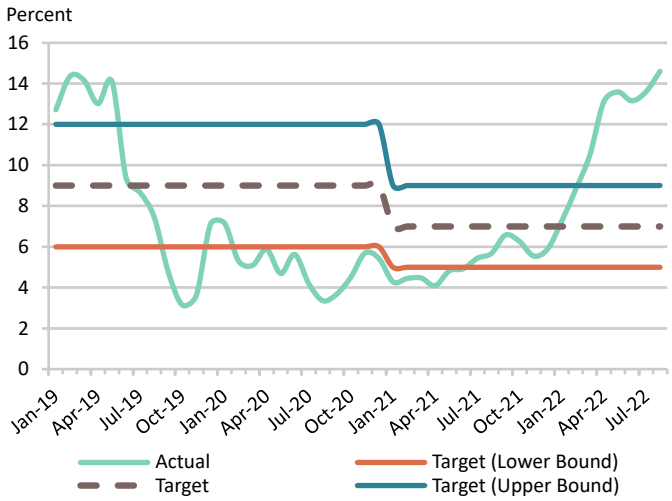
Headline urban and core inflation accelerated to 13.1 percent and 13.7 percent respectively on average during March-August 2022; exceeding the CBE's target (7 +/-2 percent), on account of global price dynamics, exchange rate depreciation, and domestic

FIGURE 1 Arab Republic of Egypt / Growth decomposition, demand side



Source: World Bank staff estimates based on Ministry of Planning and Economic Development (MPED).

FIGURE 2 Arab Republic of Egypt / Headline inflation vs. announced target inflation



Source: CBE.

supply bottlenecks. In response, the CBE raised key policy rates in March and May 2022 cumulatively by 300 basis points, and allowed the exchange rate to depreciate.

Notwithstanding the monetary and exchange rate policy adjustment, the war in Ukraine intensified pre-existing pressures on external accounts. Official reserves and foreign currency assets jointly decreased to US$42.1 billion in end-March; US$12.4 billion lower than a month earlier (a loss of 22.7 percent), despite financial support from the GCC in March as well as the successful issuance of Egypt's first (US$0.5 billion) Samurai bond. Total foreign exchange resources continued to witness downticks, reaching US$37.4 billion at end-August 2022, as milestone debt repayments fell due, in addition to an uptick in the non-oil trade deficit.

The budget deficit-to-GDP ratio continued to narrow in FY2021/22, thanks to the uptick in tax and non-tax revenues, as well as the containment of expenditures. Nevertheless, the debt-to-GDP ratio increased due to the adverse valuation effect of the exchange rate depreciation, as well as the extra-budgetary transactions that result in additional debt accumulation.

Outlook

Growth is expected to decline to 4.8 percent in FY2022/23 from 6.6 percent a year earlier, as key activities – including manufacturing and tourism – perform below-potential, in part due to the war in Ukraine; in addition to the new import rules to which markets need adjusting. Over the medium term, economic activity is forecast to pick up, as the repercussions of the war in Ukraine start abating, export-oriented sectors begin to recover, and as the country continues to push ahead with macroeconomic stabilization and structural reforms. Meanwhile, poverty rates may still suffer the impact of decreasing purchasing power caused by inflation, notwithstanding the partial mitigation that recently announced measures should offer, through food subsidies and cash transfer programs (Takaful and Karama are envisaged to expand to cover 20 million individuals).

The current account deficit-to-GDP ratio is expected to stabilize in FY2021/22—23, just below its level in FY2020/21. The higher imports bill, and the adverse impact of the Ukraine war on demand for non-oil exports (notably by Europe) will be counterbalanced by the uptick in the oil exports, Suez Canal revenues as well as continued gradual recovery in tourism. The capital and financial account is expected to remain under stress, but it can be relatively buoyed if potential financing from the IMF (requested last March) and inflows from the GCC materialize.

Fiscal consolidation is expected to slow down in FY2022/23, as government purchases, subsidies, wages, and interest rates are driven up by the mitigation measures introduced in March and July 2022, and a combination of soaring global prices and monetary tightening. The debt-to-GDP is expected to benefit from favorable debt dynamics (with GDP growing faster than real interest rates during FY2022/23). On the other hand, valuation effects from the exchange rate may still lead to an uptick in the debt ratio. Fiscal consolidation (notably through enhancing tax administration) is expected to put the debt-to-GDP ratio on a downward path over the medium term.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.6	3.6	3.3	6.6	4.8	5.0
Private Consumption	1.0	7.3	7.1	5.5	3.8	4.1
Government Consumption	2.8	6.7	3.7	10.7	3.7	4.6
Gross Fixed Capital Investment	14.1	-20.9	-8.5	6.7	9.1	10.1
Exports, Goods and Services	-2.2	-21.7	-13.4	20.0	15.0	11.0
Imports, Goods and Services	-8.9	-17.9	0.2	11.5	9.0	8.0
Real GDP growth, at constant factor prices	5.1	2.5	2.0	6.2	4.8	5.1
Agriculture	3.3	3.3	3.8	4.5	4.5	3.5
Industry	5.8	0.6	-1.1	7.5	4.7	5.3
Services	5.1	3.6	3.5	5.8	4.9	5.3
Inflation (Consumer Price Index)	13.9	5.7	4.5	8.5	13.0	9.2
Current Account Balance (% of GDP)	-3.6	-3.1	-4.6	-3.9	-4.1	-4.4
Net Foreign Direct Investment Inflow (% of GDP)	2.6	1.9	1.2	1.8	2.2	1.9
Fiscal Balance (% of GDP)	-8.1	-7.9	-7.4	-6.6	-6.7	-6.5
Debt (% of GDP)	90.2	87.0	92.4	94.9	93.6	89.8
Primary Balance (% of GDP)	1.9	1.8	1.5	1.6	1.8	2.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.5	2.5	2.5	2.5	2.9	2.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	21.6	23.1	23.0	22.8	25.0	24.8
GHG emissions growth (mtCO2e)	2.0	1.3	-0.6	1.9	1.8	1.8
Energy related GHG emissions (% of total)	64.7	64.6	64.3	64.3	64.2	64.2

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 2010-HIECS, 2015-HIECS, and 2017-HIECS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.02 based on GDP per capita in constant LCU.

IRAN, ISLAMIC REPUBLIC

Table 1	2021
Population, million	85.0
GDP, current US$ billion	359.7
GDP per capita, current US$	4230.5
Upper middle-income poverty rate ($6.85)[a]	27.6
Gini index[a]	42.0
School enrollment, primary (% gross)[b]	109.7
Life expectancy at birth, years[b]	76.9
Total GHG emissions (mtCO2e)	884.3

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

Iran's economic recovery continues to be driven by services and the oil sector. While higher oil prices have increased oil revenues and eased fiscal pressures, higher global commodity prices overall have also increased the import bill and spurred inflation. Growth in the medium term is projected to be modest due to inflationary pressures and continued sanctions. Intensified climate challenges and continued high inflation pose risks to the outlook. The growth outlook would be significantly stronger if economic sanctions were to be removed.

Key conditions and challenges

External shocks, including sanctions and commodity price volatility, caused a decade-long stagnation that ended in 2019/20.[1] The large contraction in oil exports following the re-imposition of US sanctions in 2018 placed significant pressure on government finances and drove inflation to over 40 percent for four consecutive years. Sustained high inflation led to a substantial reduction in households' purchasing power. At the same time, job creation was insufficient to absorb the large pool of young and educated entrants to the labor market.

Growth has rebounded over the past two years, supported by a recovery in services post-pandemic, increased oil sector activity, and accommodating policy action. Economic activity in Iran has also adjusted to sanctions, including through exchange rate depreciation which helped domestically produced tradable goods to become price competitive internationally.The decline in oil exports also prompted additional processing of crude oil and hydrocarbons that was then exported as petrochemicals. Under sanctions, trade has pivoted further towards neighboring countries and China, and bilateral currencies, barter, and other indirect payment channels are increasingly used to settle international transactions as most assets abroad have become inaccessible due to sanctions. The government expanded cash transfers and subsidies to mitigate the impact of high inflation on welfare, but this also added to fiscal pressures as most interventions were not sufficiently targeted.

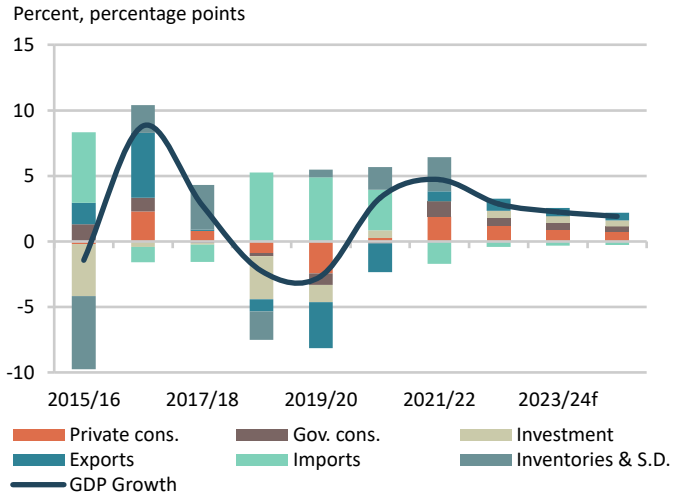
Iran also faces intensified climate change challenges, including severe droughts, which are restricting agricultural production at a time when global food prices and food insecurity are on the rise. While higher oil prices, due to a recovery in global demand and the war in Ukraine, have raised oil export revenues, higher prices of other commodities, including food items, have significantly increased the import bill. This increase poses additional strain on government finances as direct food price subsidies stood at 5 percent of GDP even before the recent price surge.

1/ The Iranian calendar year starts on March 21 of every year and ends on March 20 of the following year.

Recent developments

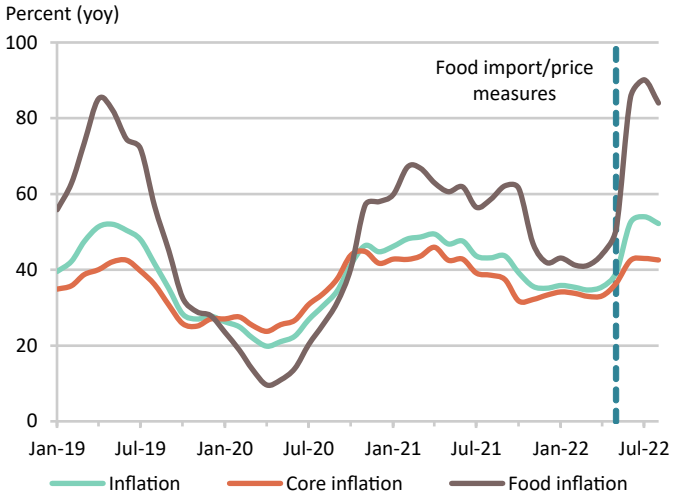
The economy continued to rebound in 2021/22, growing by 4.4 percent at constant factor prices. Non-oil GDP growth of 3.9 percent was driven by growth in services (6.5 percent), as economic activity returned to almost pre-pandemic levels. The recovery in global demand increased oil GDP by 10 percent. Non-oil industrial activity grew modestly by 1.1 percent, impacted by high input costs, energy outages, and low domestic purchasing power. Agriculture production contracted by 2.6 percent due to severe

FIGURE 1 Islamic Republic of Iran / Real GDP growth and demand-side contributions to real GDP growth



Sources: CBI and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Consumer price inflation



Sources: SCI and World Bank staff calculations.

droughts. On the demand side, government consumption expanded by 8.3 percent owing to higher oil proceeds, and private consumption grew by 3.9 percent. A significant expansion in imports (24.1 percent) outweighed a 5.2 percent increase in exports, and investment stagnated.

Despite the recent GDP growth, employment remained below its pre-pandemic level with fewer women and youth in the labor market. The reduction in the labor force participation rate by 3.8 percentage points compared to the pre-pandemic rate Q1-19/20 (April to June 2019) lowered the unemployment rate to 9.2 percent in Q1-22/23.

While improved oil revenues helped ease fiscal pressures in 2021/22, the fiscal deficit remained significant in 2022/23, despite a less accommodative budget law. In the first four months of 2022/23 (April to July 2022), oil revenues grew by over 400 percent, albeit from a low base. Despite this strong increase, oil revenue reached only 61 percent of the target in the budget and the realization of total tax revenues was only 81 percent; this highlights the government's additional financing needs. A higher wage bill as well as adjustments to pensions and other transfers to mitigate the effect of high inflation are further weighing on the budget deficit.

In May 2022, the government responded to the recent surge in food import costs by eliminated subsidized exchange rates for wheat imports, raised the administered prices of other staples, and provided additional cash transfers. These measures added to existing inflationary pressures and drove overall consumer prices and food prices to surge by 12.2 and 26.9 percent (MoM), respectively in June. Since then, headline and core inflation have risen to 52.2 percent and 42.6 percent (YoY), respectively in August 2022. Inflation was especially higher in rural areas (58.4 percent) and for lower income deciles.

Spurred primarily by higher global commodity prices, non-oil exports (more than half of which consist of petrochemicals and minerals) and imports expanded by 22 percent and 17 percent (YoY) in nominal terms, respectively in April to July 2022, reaching US$17.2 billion each.

Outlook

In the medium term, GDP growth is expected to be modest if economic sanctions remain in place. Weaker global demand and new competition from Russian discounted oil exports to China are expected to moderate Iran's oil sector expansion. Domestic demand will also be affected by the negative impact of high inflation on consumption and investment. The current account balance is forecast to remain in surplus over the outlook period, supported by oil prices averaging US$90/bbl and higher non-oil exports; a more costly import bill due to higher import prices will nevertheless limit the surplus. The fiscal balance is projected to benefit from the gradual upward trend in oil exports, but the budget deficit is expected to remain above pre-sanctions levels. Inflationary expectations, foreign exchange pressures, and deficit monetization are expected to keep inflation elevated, albeit gradually declining over the outlook period.

Risks to Iran's economic outlook remain significant. Intensified climate change challenges such as more frequent floods, droughts, and dust storms, as well as energy shortages could significantly impact the economic outlook. These challenges coupled with the recent inflationary pressures could add to pressures on the most vulnerable and pose a potential for social tensions, particularly since modest growth is only expected to generate limited job opportunities. Other downside risks relate to renewed COVID-19 outbreaks, further deceleration in global demand, and increasing geopolitical tensions if the JCPOA Vienna talks were to fail. On the upside, the projected growth outlook could be significantly stronger if economic sanctions were to be removed. Higher oil prices could also improve fiscal and external balances further.

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

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	-2.7	3.3	4.7	2.9	2.2	1.9
Private Consumption	-4.8	0.5	3.9	2.4	1.8	1.5
Government Consumption	-5.8	-0.9	8.3	4.4	3.7	2.7
Gross Fixed Capital Investment	-7.0	3.2	0.0	3.1	2.8	2.6
Exports, Goods and Services	-17.3	-12.8	5.2	6.4	4.3	3.8
Imports, Goods and Services	-32.5	-29.7	24.1	5.0	3.8	3.3
Real GDP growth, at constant factor prices	-2.4	4.1	4.4	2.9	2.2	1.9
Agriculture	9.2	3.2	-2.6	1.4	1.2	1.1
Industry	-9.7	7.8	3.2	3.6	2.3	2.1
Services	-0.2	2.2	6.5	2.7	2.4	2.0
Inflation (Consumer Price Index)	41.2	47.1	40.2	54.8	44.2	39.0
Current Account Balance (% of GDP)	-0.5	-0.4	3.5	3.8	2.8	2.6
Fiscal Balance (% of GDP)	-4.5	-5.8	-5.3	-4.5	-4.7	-5.0
Gross Public Debt (% of GDP)	42.7	44.7	40.8	39.2	39.8	40.3
Primary Balance (% of GDP)	-4.0	-5.3	-4.8	-3.8	-3.8	-4.0
GHG emissions growth (mtCO2e)	-3.4	-4.2	3.3	2.2	1.7	1.5
Energy related GHG emissions (% of total)	65.9	65.6	66.5	66.8	67.1	67.3

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

REPUBLIC OF IRAQ

Table 1	2021
Population, million	41.2
GDP, current US$ billion	197.5
GDP per capita, current US$	4796.2
Lower middle-income poverty rate ($3.65)[a]	2.4
Upper middle-income poverty rate ($6.85)[a]	24.7
National poverty rate[a]	22.5
Gini index[a]	29.5
School enrollment, primary (% gross)[b]	108.7
Life expectancy at birth, years[b]	70.7
Total GHG emissions (mtCO2e)	239.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2007); Life expectancy (2020).

GDP growth is rebounding after the pandemic. Higher oil prices have strengthened the fiscal and external balances to strong surpluses. However, the lack of an approved budget for 2022 has constrained the utilization of the oil windfall. Growth in the medium-term is projected to be driven by the oil sector. Further delays in forming a government, heightened security tensions, and worsening climate challenges pose significant risks to Iraq's economic outlook.

Key conditions and challenges

GDP continues to rebound as services expand with stronger demand and a return to a new post-pandemic normal. Oil production has also steadily increased as OPEC+ production cuts were tapered to meet global oil market demand. Higher government oil revenues, driven by increased export price and quantities, have significantly strengthened the fiscal position and international reserves.

However, a broad-based economic recovery has not materialized in part due to intensified political fragilities. Almost one year after the parliamentary elections in October 2021, the political impasse in forming a government has only intensified. The lack of a budget for 2022 has limited spending for essential current expenditures to levels of the previous year, and new investment projects have been put on hold. Legal and political challenges have barred the caretaker government from passing new legislation.

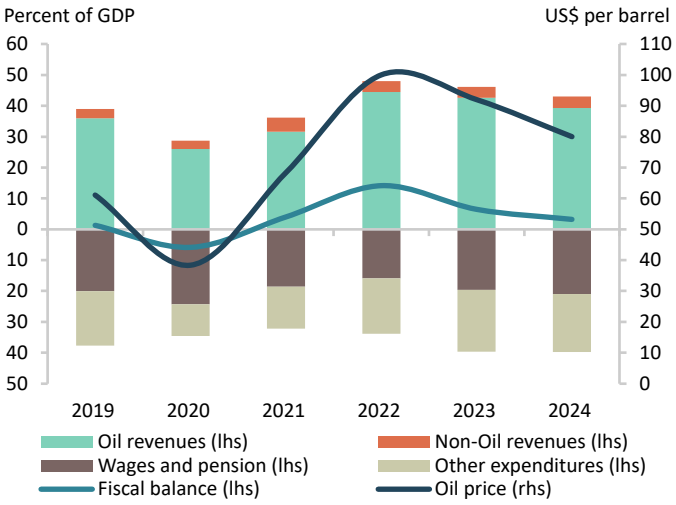
Economic diversification and longstanding structural challenges remain largely unaddressed. Despite several reform initiatives, Iraq remains one of the most oil-dependent countries in the world. High dependence on oil, pro-cyclical fiscal policy, and insufficient oil revenue management have left Iraq vulnerable to commodity price volatility. Even though oil generates most of the government revenue, the oil sector employs less than one percent of the Iraqi workforce. The public sector is the largest formal employer, accounting for 37.9 percent of the workforce. The private sector, mostly dominated by the poor and vulnerable segments of the workforce, remains largely informal and stunted; a legacy of conflict, political instability, and weak governance providing further disincentives for private sector investment and growth.

Food insecurity and heightened unemployment pose further risk for poverty and inequality. Severe droughts and rising temperatures have severely affected food production and agricultural employment (20 percent of total employment). The ongoing Russia-Ukraine war and the resulting surge in global commodity prices have exacerbated food security risks. The recent rebound in GDP growth has been insufficient to create new jobs and. unemployment remains high at 16.5 percent. Unemployment is disproportionately higher among women and youth, at 28.2 percent and 35.8 percent, respectively. Iraq has one of the lowest female labor force participation rates in the world (10.6 percent) and more than a third of youth are neither in employment nor education or training.

Recent developments

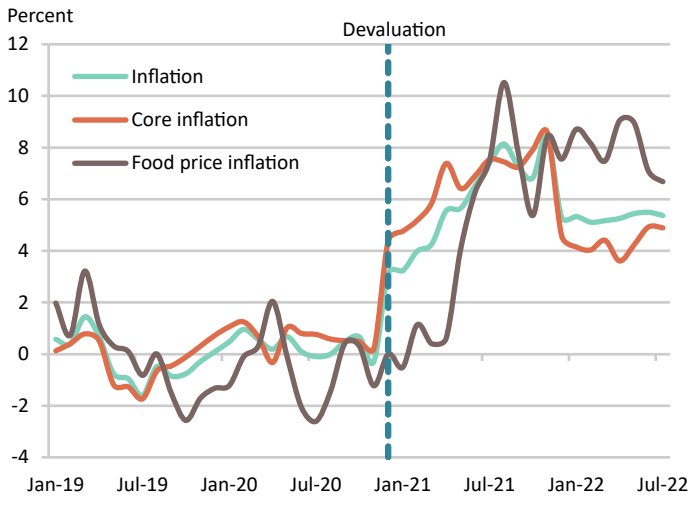
After 2.8 percent growth in 2021, real GDP growth increased to 7.2 percent y/y in Q1-2022, driven primarily by a strong rebound of the oil sector (+9 percent), in line with the increase in the OPEC production quota. Non-oil GDP also grew by 4.7 percent y/y, supported by a strong expansion

FIGURE 1 **Republic of Iraq** / Fiscal account outlook



Sources: Iraq MoF, MoO, and World Bank staff calculations.

FIGURE 2 **Republic of Iraq** / Consumer price inflation



Sources: Iraq CSO and World Bank staff calculations.

of the services sector (8.2 percent y/y), supported by a revival in domestic demand and religious tourism. However, agricultural and manufacturing sectors contracted by 14 percent and 15 percent, respectively, due to severe droughts, frequent energy outages, and rising global input prices.

Inflation has remained elevated since the devaluation of the dinar in December 2020, fueled by increased demand pressures and high global commodity prices. Headline and core inflation reached 5.3 and 4.3 percent in January to July 2022 y/y, respectively, with food prices rising by 8 percent. The Emergency Law for Food Security and Development, passed in June, allowed the government to mitigate inflationary pressures by allocating US$17.2 billion in funds to food and energy imports, social security transfers, and essential development projects.

In the first half of 2022, government revenues increased by 90 percent y/y as average oil export prices rose to US$103/barrel. Expenditures grew by 25 percent, restricted in the absence of a budget to 1/12 of previous year's spending per month. As a result, the overall fiscal balance recorded a surplus of nearly 8 percent of GDP (cash basis), up from 1.6 percent of GDP in the same period in 2021.

Higher oil exports also significantly improved the external position. The current account recorded a surplus of 4.5 percent of GDP in Q1-2022 as crude oil exports grew by 95 percent. As a result, gross official reserves increased from US$64 billion at end-2021 to US$78 billion (15 months of imports) in July 2022, providing a significant buffer for rising import costs and future shocks.

Outlook

The economic outlook has improved with high oil prices. GDP growth is expected to accelerate to 8.2 percent in 2022 due to strong oil GDP growth of 13 percent, based on the assumption of no significant cuts to OPEC production quotas. Growth is expected to gradually ease over the medium-term as oil production is constrained by production capacity and global demand. Non-oil GDP growth is forecast to remain under 3 percent on average in 2022-24, supported by a rebound in religious tourism but restricted by the water and electricity shortages, and softening demand. With oil prices projected at around US$90 per barrel, strong oil exports are expected to keep the fiscal balance in surplus over the medium term while the debt-to-GDP ratio is also expected to improve.

Downside risks to the outlook relate to heightened insecurity and political instability, weaker global demand, an intensification of climate change shocks, and further inflationary pressures. Rising food prices exacerbate pre-existing poverty trends and increase food security risks. Risks of social unrest would be compounded by any further erosion of purchasing power due to inflation and continued electricity and water shortages. Safeguarding part of the oil windfall for future downturns and investing some of the additional revenue to enhance the productive capacity and promote economic diversification are critical for sustainable and inclusive growth. There is a risk, however, that higher oil prices may lower the domestic drive for reform which would deepen Iraq's structural economic challenges.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.8	-8.6	2.8	8.2	4.3	2.5
Private Consumption	1.5	3.1	4.5	3.0	2.8	2.6
Government Consumption	25.2	-9.5	5.6	5.8	3.0	3.0
Gross Fixed Capital Investment	47.2	-67.0	17.9	10.8	9.0	8.6
Exports, Goods and Services	4.6	-10.1	-0.7	13.1	5.9	2.6
Imports, Goods and Services	28.4	-23.9	4.2	8.5	6.0	5.0
Real GDP growth, at constant factor prices	5.5	-11.3	2.8	8.2	4.3	2.5
Agriculture	46.2	22.5	-17.5	1.0	1.5	1.5
Industry	7.4	-15.2	-1.1	12.0	5.6	2.4
Services	-1.8	-6.3	14.4	2.0	2.0	2.7
Inflation (Consumer Price Index)	-0.2	0.6	6.0	5.8	4.5	3.0
Current Account Balance (% of GDP)[a]	5.8	-4.0	12.0	14.6	10.4	7.0
Net Foreign Direct Investment Inflow (% of GDP)[a]	-1.6	-1.6	-1.3	-1.3	-1.3	-1.4
Fiscal Balance (% of GDP)[a]	1.3	-5.8	4.0	14.1	6.5	3.2
Debt (% of GDP)[a]	44.7	64.7	53.2	38.0	34.6	33.9
Primary Balance (% of GDP)[a]	2.4	-4.8	4.5	14.8	7.1	3.7
GHG emissions growth (mtCO2e)	11.4	-2.6	4.5	17.1	13.4	11.0
Energy related GHG emissions (% of total)	72.5	73.8	74.7	77.6	79.6	81.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Share of factor cost GDP.

JORDAN

Table 1	2021
Population, million	10.3
GDP, current US$ billion	45.3
GDP per capita, current US$	4412.1
National poverty rate[a]	15.7
School enrollment, primary (% gross)[b]	80.4
Life expectancy at birth, years[b]	74.7
Total GHG emissions (mtCO2e)	35.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017/8).
b/ Most recent WDI value (2020).

Jordan's economic growth rebounded in early 2022, boosted by a recovery in key services sectors, notably tourism. Merchandise exports are witnessing robust growth, but the global food and energy crisis is weighing on domestic prices via the import bill. Fiscal adjustments are on track, but pressures from the broader public sector are likely to intensify and trigger an increase in public debt. High unemployment is a chronic challenge, and the difficult business environment remains unfavorable for job creation.

Key conditions and challenges

Jordan's economy was affected by multiple external shocks during the past decade. Regional conflicts triggered a large refugee influx and disrupted trade routes and key export markets, while the economic slowdown in the GCC countries reduced foreign capital inflows. With the rapid growth in population, per capita real GDP growth remained mostly negative during the past decade. A weak business environment and job market regulations limit the private sector's capability to generate sufficient jobs for a rapidly growing labor force, leading to a chronic employment crisis.

An unfavorable global context and domestic constraints pose significant challenges to Jordan's recovery. Exports and incoming tourism are negatively impacted by the slowdown in major trading partners (the US and Europe), while food security and imports are vulnerable to the potential intensification of the global food and energy crisis. Inflation is rising amid persistently high unemployment, and monetary tightening has increased the borrowing costs for consumers, businesses, and the government in a context of an already challenging business environment and elevated public debt. The fiscal space to continue with measures to support poor and vulnerable households remains limited, with additional pressures from the loss-making state-owned electricity and water companies. Moreover, water scarcity is a significant risk for Jordan, which is further threatened by climate conditions, notably lower precipitation and rising temperatures, as well as subsidized pricing favoring over-consumption.

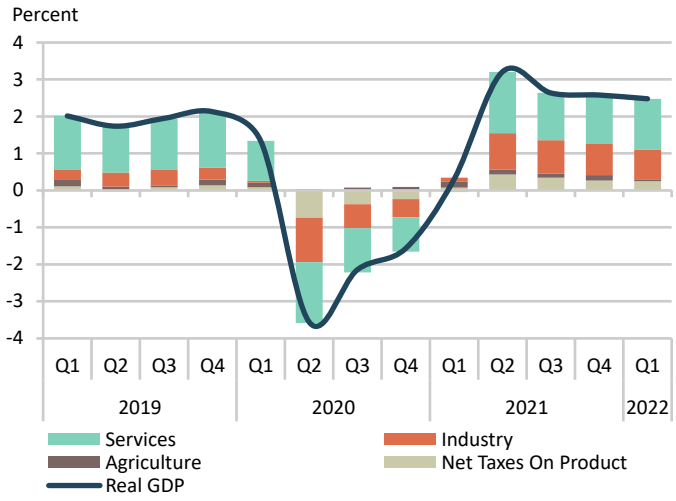
Recent developments

Growth rebounded to 2.5 percent in Q1-2022, supported by the reopening of the economy and the recovery of contact-intensive services (transport, retail, and personal services) to pre-pandemic levels. However, higher global commodity prices led to an acceleration in headline inflation, which averaged 3.6 percent during the 6M-2022. The Central Bank of Jordan reacted by raising its policy rate four times during 2022, moving it to 4.50 percent in end-July.

The Central Government (CG) fiscal deficit (including grants) declined to 1.7 percent of GDP during 5M-2022, from 2 percent in 5M-2021. Public spending increased by 5.4 percent, including from the re-introduction of temporary oil subsidies (0.3 of GDP). Domestic revenues grew by 10 percent, driven by higher taxes on income and profits from companies. The ratio of public and publicly--guaranteed debt-to-GDP stood at 113.7 percent at end-2021 and reached JD 37.1 billion in May 2022 (a 1.5 percent nominal growth).

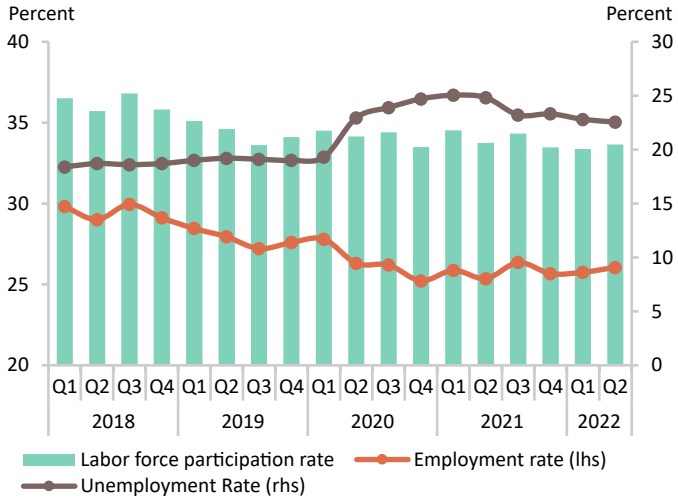
The current account deficit (CAD,) widened to 2.8 percent of GDP in Q1-2022, up from 2.6 percent in Q1-2021, driven by a significant increase in the imports bill. The deterioration happened despite the robust

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



Sources: Department of Statistics and World Bank staff calculations.

FIGURE 2 Jordan / Labor market indicators



Sources: Department of Statistics and World Bank staff calculations.

export growth of 40 percent, helped by the spike in potash and phosphates global prices and the solid rebound in travel receipts (251 percent). FDI increased by 0.7 percent in Q1-2022 up from 0.2 percent, yet the BOP registered a deficit of 0.4 percent of GDP (compared to a surplus of 0.2 percent of GDP in Q1-2021). Gross foreign reserves declined by USD 1.3 billion, reaching US$17.8 billion in end-June 2022.

Labor market conditions remain the most significant threat to households' welfare. The latest available data from 2018 indicate a national poverty rate of 15.7 percent, and the labor market conditions suggest that households' welfare may have not fully recovered from the pandemic shock. Despite the growth rebound, labor force participation (33.5 percent in Q2-2022 and 14.2 percent for women—one of the lowest in the world) and the employment rate (26.0 percent in Q2-2022) are persistently low. Unemployment is still above pre-pandemic levels (22.6 percent in Q2-2022), especially among women (29.4 percent) and the youth (46.1 percent among those under 25 years old). Recent price increases are expected to further affect the poorest households since they spend a greater share of their income on food and have become increasingly vulnerable to these types of shocks.

Outlook

With the full reopening of the economy, tourism and other services are expected to further rebound. However, increasing consumer prices, monetary tightening, and the retraction of government spending may weigh on aggregate demand, with growth projected to slightly slow to 2.1 percent. Over the medium-term, growth is expected to marginally pick up, but a significant upside exists should the implementation of structural reforms accelerate.

The fiscal deficit is projected to narrow to 5.2 percent of GDP in 2022, down from 6.4 percent in 2021. On the revenue side, grants will remain stable at 10 percent of revenues, but the termination of real estate registration tax exemptions and higher receipts from corporate income taxes are expected to offset the decline triggered by customs reform. Expenditure-to-GDP is expected to slightly decrease, with the retraction of COVID-related spending and lower public investment – and despite the higher fuel and wheat subsidies and additional cash transfers. However, fiscal pressures from the loss-making electricity and water sector are estimated to increase public and publicly guaranteed gross debt to 115.8 percent of GDP (with debt net of Social Security Investment Fund holdings at around 92.8 percent).

On the external front, the trade balance is expected to deteriorate despite the expected increase in export - but the services balance will benefit from recovering tourism, projected to reach 90 percent of pre-pandemic levels. Hence, the CAD is projected to narrow to 7.1 percent of GDP in 2022 and will continue to do so over the medium term as commodity prices subside and tourism fully recovers.

Household welfare is expected to slightly improve with the recovery in tourism and other services, which provide income for many poor households. This recovery is, nonetheless, limited by an unfavorable environment for private-sector job creation and constrained labor productivity. Short of a revival of growth beyond the low 2 percent, welfare improvements are not expected to be significant and could be reversed by shocks given limited household buffers.

TABLE 2 Jordan / 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	-1.6	2.2	2.1	2.3	2.3
Private Consumption	-1.3	3.4	3.6	2.1	1.9	1.6
Government Consumption	2.1	5.2	5.2	-0.5	1.8	0.5
Gross Fixed Capital Investment	-6.9	-4.9	9.9	-1.9	1.8	3.1
Exports, Goods and Services	6.5	-35.3	30.6	23.1	5.9	3.8
Imports, Goods and Services	-3.1	-17.2	25.5	12.6	3.7	1.8
Real GDP growth, at constant factor prices	2.2	-1.4	2.2	2.1	2.3	2.3
Agriculture	2.6	1.6	2.8	2.1	2.2	2.5
Industry	1.4	-2.4	3.0	2.2	1.9	1.5
Services	2.4	-1.2	1.8	2.1	2.5	2.6
Inflation (Consumer Price Index)	0.8	0.3	1.3	4.0	3.0	2.5
Current Account Balance (% of GDP)	-1.7	-5.7	-8.9	-7.1	-5.1	-4.4
Net Foreign Direct Investment Inflow (% of GDP)	1.5	1.7	1.3	1.5	2.3	2.6
Fiscal Balance (% of GDP)[a]	-4.9	-7.3	-6.4	-5.2	-5.0	-4.6
Debt (% of GDP)[b]	97.4	109.0	113.7	115.6	116.9	117.9
Debt, net of SSIF (% of GDP)[b]	78.0	88.0	91.9	92.6	92.6	91.8
Primary Balance (% of GDP)[a]	-1.3	-3.1	-2.0	-1.3	-0.8	-0.3
GHG emissions growth (mtCO2e)	1.0	-3.3	1.4	2.2	1.9	2.0
Energy related GHG emissions (% of total)	63.2	62.2	62.4	62.4	62.2	61.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ CG fiscal balance incl. grants, use of cash and unident. measures as per IMF-EFF (Jul 2022) of 0.2% of GDP in 2023, and 0.6% of GDP in 2024.
b/ Government and guaranteed gross debt. Includes securitization of domestic arrears in 2019-21.

KUWAIT

Table 1	2021
Population, million	4.3
GDP, current US$ billion	133.1
GDP per capita, current US$	30699.0
School enrollment, primary (% gross)[a]	87.3
Life expectancy at birth, years[a]	75.6
Total GHG emissions (mtCO2e)	131.3

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

Kuwait's economy is expected to recover to its pre-pandemic level in 2022, supported by the easing of COVID-19 restrictions, a significant increase in oil exports, and a rebound in credit to households and the private sector. Consequently, fiscal and external surpluses are projected to improve significantly in 2022. However, economic recovery will moderate in the medium term as oil prices taper. Downside risks to the outlook include emerging coronavirus variants, volatile oil prices, and continued political deadlock over key reforms.

Key conditions and challenges

Kuwait's long-term economic challenges are linked to its dependency on oil, domestic consumption as key driver for growth, and slow implementation of the diversification agenda. Nonetheless, sizable foreign assets continue to underpin Kuwait's economic resilience; however, these assets cannot mitigate the risk of low future oil demand, which necessitates fiscal and structural reforms. Moreover, progress on the diversification agenda has been slow, resulting in credit agencies downgrading Kuwait's sovereign rating in 2022 due to political stalemate which is hindering economic reform implementation.

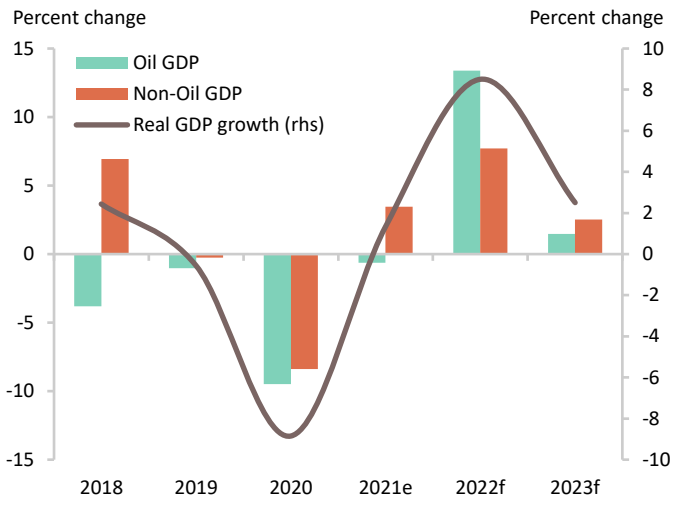
Furthermore, declining productivity presents another long-term growth challenge for Kuwait. In 2021, many expatriates permanently relocated, following a trend exacerbated by the pandemic. The government has been accelerating its Kuwaitisation policy—replacing foreign workers with Kuwaitis in the private and public sectors. The exodus of foreign workers has resulted in labor shortages, which risk hampering growth in the oil and non-oil sectors. Structural reforms targeting sustained, inclusive, and greener growth are urgently needed.

Key short- and medium-term risks include uncertainty over new COVID-19 variants, oil market volatility and structural reform delays. Inversely, continued high oil prices represent a favorable upside risk for Kuwait and provide an opportunity for policymakers to address medium-to-long-term challenges. The newly elected Parliament will offer an opportunity to resolve political constraints and leverage higher oil prices toward implementing urgently needed structural reforms articulated in Vision 2035 and the Government Work Program. Moreover, government may support fiscal sustainability endogenously by containing the public wage bill, gradual phasing out of subsidies consistent with fiscal sustainability objectives within the government work program, and moving ahead with the VAT.

Recent developments

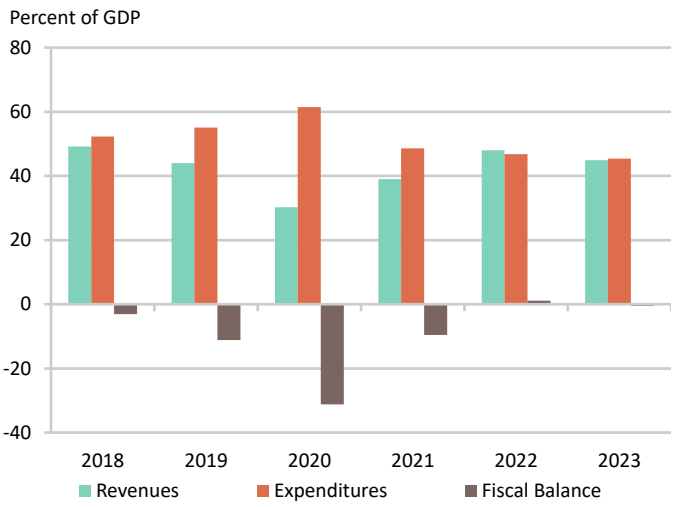
Kuwait's economy is set to continue recovering from the contraction brought fore by the pandemic in 2020. Developments in the oil economy have supported the recovery, with Kuwait's oil price and production levels increasing by 59.3 and 13.5 percent, respectively, during the first seven months of 2022. Oil exports rose by 81 percent during Q1 2022, prompting a 270 percent widening of the current account surplus which is estimated to reach 28.5 percent of GDP during the same period. Growth is further bolstered by non-oil economic activity as mobility restrictions eased following Kuwait's largest COVID-19 outbreak during Q1 2022. High-frequency data suggest a strong rebound in private consumption and investments, with credit to households expanding by 5.5 percent during the first seven months of

FIGURE 1 **Kuwait** / Growth: Real GDP, real oil, and real non-oil sectors



Sources: Kuwait CSB and World Bank, Macroeconomics, Trade and Investment Global Practice.

FIGURE 2 **Kuwait** / General government operations



Sources: World Bank, Macroeconomics, Trade and Investment Global Practice and IMF WEO. Notes: Based on fiscal year cycle (April to March 31).

2022. Non-financial private sector activity was reinforced by a 5.2 percent year-to-date increase in credit facilities from local banks; concentrated in trade, real estate, and construction.

Kuwait registered the highest inflation rate among other GCC countries, averaging 4.4 percent during the 7-months of 2022 and driven mainly by food, education, and apparel. Food constitutes the highest share of merchandise imports in Kuwait compared to other GCC countries, which adds pressure to the high inflation rates. Accordingly, the Central Bank of Kuwait continued tighter monetary conditions in line with the FED's policy; nonetheless, non-performing loans remain low and the local financial sector remains well-provisioned to address headwinds.

On the fiscal front, higher oil prices supported a narrower fiscal deficit during FY2021/22. However, continued political tensions and the dissolution of the National Assembly prevented the approval of FY2022/23 proposed budget. Owing to higher oil prices, FY2022/23 budget sets a path for a fiscal surplus (excluding investment income and including FGF transfers) which will help rebuild fiscal buffers depleted during the pandemic-induced oil price shock.

Kuwait's labor market is highly segmented. According to the 2016-17 Labor Force Survey, nine out of ten employed Kuwaitis work in the public sector and thus were protected from pandemic-related restrictions on economic activity. By contrast, migrant workers are employed mainly in the private sector (64.3 percent) or as domestic workers (31 percent). The ILO estimates a complete rebound in the labor force in 2022 relative to pre-pandemic levels, which follows the partial rebound in 2021 (4.1 percent). This is primarily driven by increased public sector employment among Kuwaitis in 2021, compensating for the decline in migrant workers therein. The ILO estimates that unemployment rates for women and men will decline modestly in 2022 to 8.5 and 1.8 percent, respectively, though they both remain higher relative to 2019.

Outlook

Economic growth is forecasted to accelerate in 2022 to 8.5 percent before moderating to 2.5 percent in 2023 and 2024, respectively. After growing by 13.4 percent in 2022, the oil sector will continue supporting growth as more capacity from the Al Zour refinery comes online in 2023 despite signals for a more cautious approach of OPEC+ scheduled production. Likewise, the non-oil sector is anticipated to continue expanding in 2023 following a 7.7 percent uptick in 2022. More robust demand will be translated into additional upward inflationary pressures, though monetary tightening and decreasing global food prices will moderate inflation in the medium term.

The fiscal balance is anticipated to register a surplus of 1.1 percent of GDP in 2022 supported by stronger oil revenues and lower spending. Oil revenues are projected to increase by 9 percentage points of GDP while expenditures are estimated to drop by 1.5 percentage points of GDP with capital expenditures bearing the brunt of this cut. Fiscal surplus in 2022 might widen even further (5.9 percent of GDP) if the newly elected Parliament approves government's proposal to suspend FGF transfer during this FY. Nonetheless, a negative oil price outlook will narrow fiscal surpluses and revive deficit risks in the medium run. Implementing the economic diversification program and introducing the VAT, in line with other GCC peers, will enable Kuwait to diversify revenues and enhance fiscal sustainability.

Higher oil receipts are expected to more than compensate for the larger imports bill resulting in a significant external balance surplus of 28.6 percent of GDP in 2022. The surplus is expected to continue but narrow over the medium term to an average of 21.4 percent of GDP.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-0.6	-8.9	1.3	8.5	2.5	2.5
Private Consumption	2.3	-4.5	3.2	3.0	3.0	3.0
Government Consumption	7.7	0.0	1.1	7.0	2.4	-1.3
Gross Fixed Capital Investment	-2.6	-4.6	3.9	21.2	10.0	-2.4
Exports, Goods and Services	-10.0	-13.3	2.2	10.3	-0.5	4.5
Imports, Goods and Services	-10.4	-4.0	5.7	12.8	3.7	0.1
Real GDP growth, at constant factor prices	-0.6	-8.9	1.4	10.5	2.0	2.1
Agriculture	-4.6	-3.8	0.5	0.8	0.0	1.0
Industry	-1.0	-12.2	2.2	17.7	3.7	4.6
Services	-0.1	-3.6	0.3	-0.6	-1.0	-2.4
Inflation (Consumer Price Index)	1.1	2.1	3.4	4.0	2.5	2.5
Current Account Balance (% of GDP)	12.5	3.2	16.4	28.6	23.6	19.3
Fiscal Balance (% of GDP)[a]	-11.1	-31.2	-9.6	1.1	-0.5	-4.0
GHG emissions growth (mtCO2e)	2.1	-7.4	3.7	10.5	4.7	3.7
Energy related GHG emissions (% of total)	65.9	63.7	62.9	63.5	62.2	60.5

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). Balances exclude investment income and include transfers to FGF.

LEBANON

Table 1	2021
Population, million	6.8
GDP, current US$ billion	23.1
GDP per capita, current US$	3417.3
National poverty rate[a]	27.4
Gini index[a]	31.8
Life expectancy at birth, years[b]	79.0
Total GHG emissions (mtCO2e)	26.3

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

For three years, Lebanon has been impacted by the most devastating multi-pronged crisis in its modern history. A steep decline in disposable income and an unwavering inflation-depreciation spiral have severely eroded purchasing power with poverty affecting half of the population in 2021. Policy makers have yet to agree on a comprehensive recovery plan. In the continued absence of reforms, real GDP is projected to further contract by 5.4 percent in 2022, while inflation is expected to average 186 percent, one of the highest rates globally.

Key conditions and challenges

Lebanon's economic and financial crisis ranks among the worst crises globally since the mid-nineteenth century. Nominal GDP plummeted from close to US$52 billion in 2019 to an estimated US$23.1 billion in 2021. The central bank's gross foreign reserves have declined by approximately US$20 billion since the onset of the crisis. The gradual depletion of FX reserves has driven a dramatic collapse in basic services. Severe shortages of fuel items resulted in the national electric grid experiencing more than eight rolling blackouts as public electricity supply averages two hours per day. Fuel shortages have also hindered access to healthcare and clean water, while food supply shops, transport service providers, and telecom network operators face severe disruptions to their supply chains.

The protracted economic contraction has led to a marked decline in disposable income. GDP per capita dropped by 36.5 percent between 2019 and 2021, and Lebanon was reclassified by the World Bank as a lower middle-income country, down from upper middle-income status in July 2022. The decline in average income coupled with triple-digit inflation and severe currency depreciation are immensely curtailing purchasing power. The bulk of the economic adjustment is being borne by the most vulnerable segments of society. The newly launched 2019 Lebanon Multidimensional poverty index (MPI) finds that, during the period [2018-2019] preceding the crisis, 53 percent of all residents in Lebanon were multidimensionally poor, while 16 percent of the population were extremely poor, with the largest contributor to national MPI-poverty being the health dimension (30 percent). The multi-pronged crisis has certainly compounded poverty rates and further worsened living conditions.

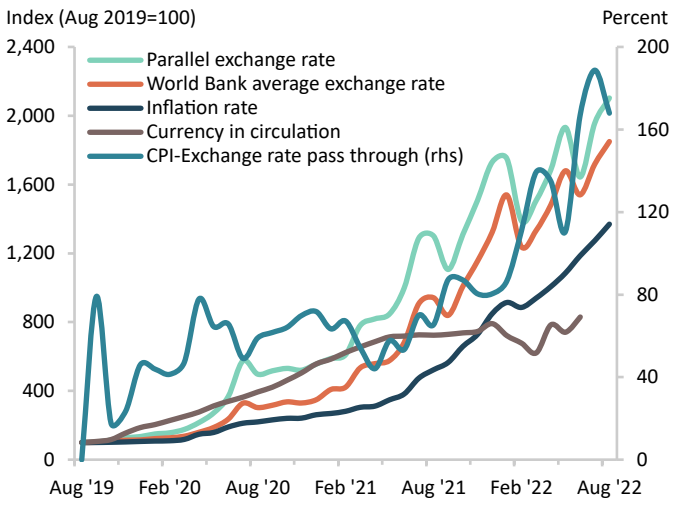
Recent developments

Real GDP is projected to have declined by 7 percent in 2021, after contracting by 21.4 percent in 2020. Tourist arrivals have risen by 132 percent (yoy), up from a Covid-induced low base, while the BLOM-PMI index, which captures private sector activity, averaged 46 in 2021, compared to 40.2 in 2020; a PMI index below 50 represents a contraction.

Public finances improved in 2021 as spending collapsed faster than revenue generation. Revenues are estimated to have declined from an already low 13.1 percent of GDP in 2020 to 6.6 percent of GDP in 2021, one of the lowest rates globally. This was more than offset by a larger decrease in total expenditures, which declined by 10.5 percentage points (yoy) in 2021 to 5.9 percent of GDP. The overall fiscal balance is estimated to have recorded a surplus of 0.7 percent of GDP for the first time in decades.

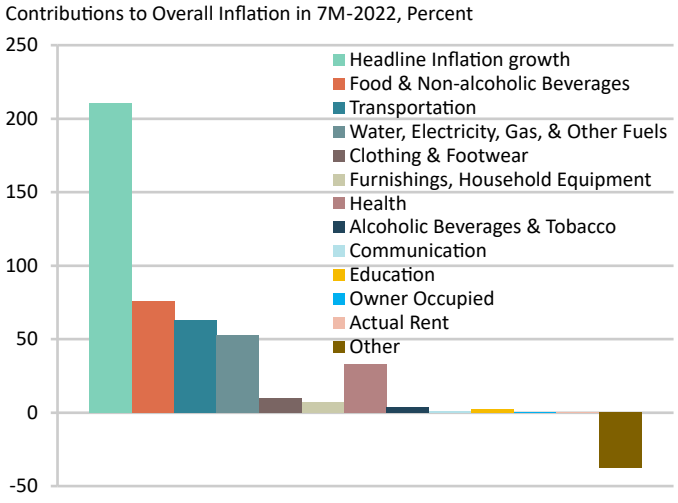
The World Bank-estimated Average Exchange Rate (AER) of the Lebanese Pound

FIGURE 1 Lebanon / Exchange rate depreciation along with surging inflation



Sources: Lebanese authorities and World Bank staff calculations.

FIGURE 2 Lebanon / Inflation in basic items has been a key driver of overall inflation, hurting the poor and the middle class



Sources: Lebanese authorities and World Bank staff calculations.

depreciated by 219 percent in 2021, compared to a 137 percent depreciation in 2020 (Figure 1). The BNR (i.e., the "Bureau" Rate) averaged 20,700 LBP/US$ in H2-2021, primarily driven by the disorderly rationing of the foreign exchange subsidy provided by BdL, the central bank, to fuel importers. Despite BdL's FX interventions to attempt to stabilize the BNR using its gross reserves starting in December 2021, the LBP has continued to steadily depreciate.

Inflation averaged 150 percent in 2021 and reached a high of 240 percent (yoy) in January 2022, primarily driven by an increase in the exchange rate pass-through. Lebanon was the country worst hit by food price inflation since the onset of the Ukraine war, which reached 332 percent (YoY) in June 2022. Overall inflation averaged a record 218 percent (yoy) in H1-2022.

Unemployment increased from 11.4 percent in 2018-19 to 29.6 percent in 2022. The female labor participation in Lebanon is very low (25 percent in 2019), representing a third of the male labor force participation rate, and compounding structural gender inequality.

A staff-level agreement with the IMF has been reached on a $3 billion, 46-months lending program (Extended Fund Facility), subject to the timely implementation of eight prior actions and confirmation of international partners' financial support. To date, limited progress has been made in meeting the prior actions.

Outlook

Real GDP is projected to contract by a further 5.4 percent in 2022 assuming continued political paralysis and no implementation of an adequate macroeconomic recovery strategy and comprehensive reforms. Inflation is expected to average 186 percent in 2022, amongst the highest rates globally, despite narrow money supply growth averaging 11 percent in 2022. This is primarily due to a change in the dynamic relationship between inflation and depreciation: the CPI exchange rate pass-through has averaged 134 percent for 6M-2021, up from an average of 75 percent since the onset of the crisis (Figure 1), mainly on account of the reduced share of goods imported at BdL subsidized exchange rates.

Parliamentary elections on May 15 resulted in a hung parliament and a government has yet to be formed. Prime Minister Mikati, whose government went into caretaker mode upon parliamentary elections, was reappointed as prime minister-designate. Governmental vacuum, coupled with the risk of presidential vacuum as the presidential election deadline approaches (October 31st), will likely further delay any agreement on crisis resolution and much-needed reforms, further worsening socio-economic outcomes.

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

	2019	2020	2021	2022e
Real GDP growth, at constant market prices	-7.2	-21.4	-7.0	-5.4
Private Consumption	-5.9	-15.3	-2.8	-3.3
Government Consumption	6.2	-53.7	-76.0	-80.1
Gross Fixed Capital Investment	-40.7	-55.4	-68.1	-5.0
Exports, Goods and Services	-1.7	-53.7	13.1	-1.8
Imports, Goods and Services	-13.0	-46.0	-12.2	-1.9
Real GDP growth, at constant factor prices	-5.9	-16.2	-5.3	-5.1
Agriculture	6.1	-5.3	-7.1	-7.5
Industry	-17.6	-5.8	-6.9	-7.3
Services	-4.7	-18.5	-4.9	-4.6
Inflation (Consumer Price Index)	2.9	84.3	150.0	186.0
Current Account Balance (% of GDP)	-21.9	-9.3	-12.5	-14.2
Net Foreign Direct Investment Inflow (% of GDP)	2.0	4.1	2.1	2.3
Fiscal Balance (% of GDP)	-10.5	-3.3	0.7	0.5
Debt (% of GDP)	171.1	179.2	172.5	180.7
Primary Balance (% of GDP)	-0.5	-0.8	1.7	1.1
GHG emissions growth (mtCO2e)	1.5	-19.4	-7.1	-5.0
Energy related GHG emissions (% of total)	73.6	72.4	74.3	74.7

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

LIBYA

Table 1	2021
Population, million	7.0
GDP, current US$ billion	41.6
GDP per capita, current US$	5977.9
School enrollment, primary (% gross)[a]	109.0
Life expectancy at birth, years[a]	73.1

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

The political and security situation remained fragile and undermines the adequate functioning of institutions. Armed clashes, protests, and inadequate maintenance have disrupted oil production and export amid rising global prices. Higher food prices due to the impacts of the war in Ukraine have increased pressures on vulnerable households already strained by the conflict and COVID-19 containment measures. Social protests have recently erupted across the country as citizens voiced frustrations over the deteriorating political and economic conditions.

Key conditions and challenges

The political and security condition remained fragile. Competition between rival governments led to armed clashes in the capital. Incidents of social protests occurred as citizens protested the deteriorating political and economic conditions.

The fragmented and volatile political and security situation undermines the adequate functioning of institutions and policymaking. Without an approved budget for 2022, the Government of National Unity (GNU) has continued to spend on essential line items, excluding capital spending, following the 1/12 rule.[1] In June 2022, the House of Representatives approved the 2022 National budget of the Government of National Stability (GNS) and requested the Central Bank (CBL) to finance it. The blockade of oil facilities by protesters brought production to two third of its potential during the second quarter of 2021.

Higher food prices due to the impacts of the war in Ukraine are increasing pressures on vulnerable households already strained by the conflict and COVID-19 containment measures.

1/ The 1/12 rule allows the government to make current spending. This spending is cut at the average monthly spending of the previous year.

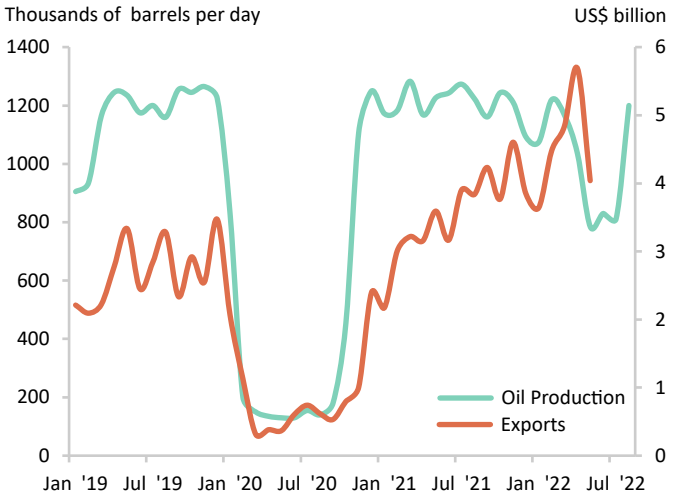
Recent developments

Following the end of the UN-backed transitional period and the formation of the GNS in March 2022, political and security tensions heightened leading to blockades and shutdowns of oil facilities by politically motivated armed groups. Starting in April 2022, oil production declined to 0.88 million barrels per day (mb/d) during the second quarter, 33 percent less than during the first quarter of 2022. Foregone oil export revenues since the beginning of the partial cutoff in April 2022 amounted to over USD 3.9 billion (9 percent of 2021 GDP). Oil production resumed to 1 mb/d in July-August with the easing of disruptions to oil production.

The impacts of the war in Ukraine have fueled inflationary pressures. The cost of the Minimum Expenditure Basket (MEB) and its food portion rose, respectively, by 37 and 41 percent year-on-year in April 2022 only or 13 and 15 percent compared to their pre-war level (February 2022). Inflationary pressures have been higher in the Western part of Libya. Food price inflation remained high in June despite authorities' decision to tighten price controls, ban basic food exports and create a strategic cereal reserve.

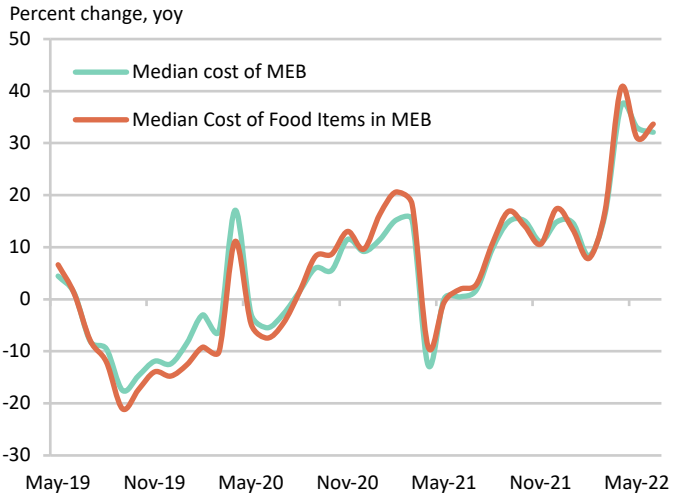
Key informant interviews conducted by the REACH humanitarian initiative in October-November 2021 found that high food prices and low income were the main drivers of food insecurity in Libya. According to REACH's Multi-Sectoral Needs Assessment, 27 percent of Libyans earned less

FIGURE 1 **Libya** / Oil production and exports



Sources: Organization of the Petroleum Exporting Countries (oil production) and IMF Direction of Trade Statistics (exports).

FIGURE 2 **Libya** / Median cost of Minimum Expenditure Basket (MEB) and its food portion



Sources: REACH and World Bank staff estimates.

than needed to afford a basic expenditure basket, with a higher incidence in the southern part of the country.

The GNU's fiscal surplus, excluding National Oil Corporation's (NOC) spending, reached LYD 25 billion (13 percent of 2021 GDP) by the end of August 2022, compared to LYD 13 billion (7 percent of 2021 GDP) during the same period in 2021, driven by improved oil revenues and freezing of capital spending. Government revenues reached LYD 67 billion or 36 percent of GDP, 98 percent of which are generated by the hydrocarbon sector, lower than LYD 70 billion or 37 percent of GDP last year. Government expenditure, excluding NOC, topped LYD 41 billion with wages and salaries and subsidies, and social transfers accounting for close to 86 percent of spending. Including NOC's spending, the GNU would register a surplus of LYD 10 billion.

Data for the first 5 months of 2022 reveal a trade surplus of USD 14 billion growing by 72 percent in nominal USD terms compared to the same period in 2021. Exports grew by 50 percent driven by rising oil prices while imports grew by 24 percent due to higher food prices.

As of August 2022, the official exchange rate depreciated by 6.6 percent compared to January 2022 and 9.8 percent since January 2021 due to political and security tensions and associated oil production and export disruptions. The ratio between the parallel and official exchange rate narrowed slightly from 1.07 to 1.04, much lower than before the devaluation in December 2020 when it stood at 4.26.

Outlook

It is impossible to forecast economic outcomes with any degree of confidence due to the high level of uncertainty surrounding political and security developments. If Libya could sustain current levels of oil production and exports without major extended disruptions, the country would benefit from soaring global oil prices which would translate into higher fiscal revenues and an inflow of hard currency. This would positively affect the trade, current account, and fiscal balances. However, the war in Ukraine may lead to further supply chain disruptions and sharper-than-expected agricultural product price increases and in turn higher inflation and lower consumption.

Downside risks to the outlook are elevated. Political tensions relating to national elections and rival governments are high, which raises the specter of a potential backslide into violence. Competition between the rival governments will likely continue to impact the functioning of state institutions impeding the state's ability to deliver public services. A sharper-than-expected slowdown in global growth could reduce global oil demand, thereby translating into reduced exports and government revenues for Libya, with knock-on effects on economic growth, fiscal and current account balances, and foreign reserves.

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

	2018	2019	2020	2021e	2022e
Real GDP growth, at constant factor prices	15.1	2.5	-31.3	99.3	3.4
Hydrocarbon GDP	35.9	4.3	-52.3	203.9	2.0
Non-Hydrocarbon GDP	1.8	1.0	-12.8	48.7	3.8
Exchange Rate (USD/LYD)	1.4	1.4	1.4	4.5	4.7
Current Account Balance (% of GDP)	21.4	11.6	-34.8	23.4	27.9
Fiscal Balance (% of GDP)	-7.0	1.7	-64.4	10.6	25.8
Crude oil production (million barrels per day)	1.0	1.2	0.4	1.2	1.2

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

MOROCCO

Table 1	2021
Population, million	37.3
GDP, current US$ billion	142.5
GDP per capita, current US$	3816.9
National poverty rate[a]	4.8
Lower middle-income poverty rate ($3.65)[a]	9.8
Gini index[a]	39.5
School enrollment, primary (% gross)[b]	115.2
Life expectancy at birth, years[b]	76.9
Total GHG emissions (mtCO2e)	93.3

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

After a solid recovery in 2021, the Moroccan economy has abruptly slowed amidst a string of adverse shocks. A severe drought is resulting in a sharp contraction of agricultural output while rising prices are hampering private consumption and investment. The government has engaged in an ambitious reform agenda centered so far on the health, education, and social protection systems. Its success will be crucial to foster social inclusion, at a time when progress toward poverty reduction and inequality is threatened.

Key conditions and challenges

The liberalization process launched at the turn of the Century and a large State-led investment effort paved the way for a sustained economic expansion and poverty reduction that lasted until the COVID-19 shock. However, potential growth had been on a declining trend even before the pandemic due to the presence of various structural bottlenecks, including a human capital deficit, very low female labor force participation (FLFP), and weak competition.

Morocco has embarked on an ambitious effort to accelerate growth and foster social inclusion. The New Development Model unveiled in 2021 highlights the reforms needed to reach these objectives. So far, the authorities have focused on the universalization of access to public health, education, and social protection systems. Private sector development is another priority, and Morocco has initiated its SOE reform, which could help level the playing field for private operators. By 2035, Morocco intends to bring FLFP from close to 23 percent in 2018 to 45 percent.

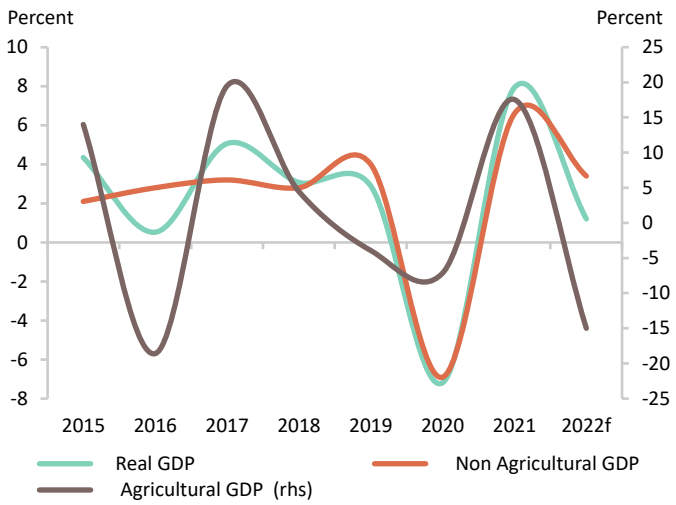
The impacts of the COVID-19 pandemic, the recent surge in commodity prices, and increasingly frequent climate-related shocks highlight the importance of strengthening the resilience of the Moroccan economy and households. The authorities' proactive approach has been effective to manage and mitigate these shocks but has eroded fiscal space. Rebuilding Morocco's fiscal buffers will be needed over the medium term to fund ongoing reforms and improve resilience.

Although Morocco has made important progress in poverty reduction, its underperforming labor market remains a major structural driver of social exclusion, especially for women and the youth. In addition, large spatial inequalities persist across regions and between urban and rural areas, with a high share of agricultural workers (close to a third of the labor force) still lacking access to key services and disproportionately affected by the impacts of climate change.

Recent developments

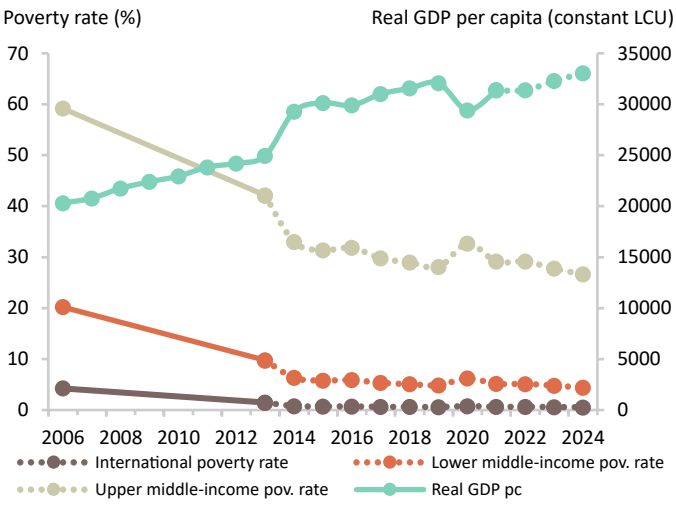
Morocco's post-COVID rebound has stalled amid headwinds emanating from abnormally low precipitations and a deterioration of global conditions. Real GDP expanded by 7.9 percent in 2021, enabling the country to recover the output losses during the first year of the pandemic. However, a new string of shocks dragged overall GDP growth down to 0.3 percent y-o-y in Q1-2022. After a strong agricultural campaign in 2020-21, Morocco is going through another severe drought which is leading to a sharp contraction of agricultural GDP (-14.3 percent in Q1-2022). Rising prices and deteriorating market sentiment are adversely impacting private consumption and investment, which declined by 1.1 percent and 0.7 percent respectively in Q1-2022.

FIGURE 1 **Morocco** / Growth rate volatility 2014-2022



Sources: HCP and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

On the other hand, Morocco´s sizeable tourism sector is finally staging a strong recovery, as travel restrictions have been relaxed and ferry connections with Europe reopened.

The inflationary pressures that emerged towards the end of 2021 have intensified following the war in Ukraine. The CPI reached 8 percent y-o-y at the end of August (core inflation at 6.5 percent) forcing the central bank to raise the policy rate by 50 basis points to 2 percent. Price pressures have been driven mainly by food items (+12 percent) and transport (+18.3 percent). The dirham has depreciated vis-à-vis the dollar, with minor movements vis-à-vis the euro. On the external side, the commodity price shock is fueling the merchandise trade deficit (+48.7 percent in H1-2022), although the impact on the current account is softened by rising tourism revenues (+27.9 percent) and resilient remittances (+6.1 percent).

The government has maintained pre-existing price subsidies on energy (butane gas and electricity) and food (flour and sugar) to mitigate the impact of the shock on households' purchasing power. This is resulting in additional pressures on public spending, up by 11.4 percent y-o-y in 2022-H1. Total subsidies are projected to reach 2.6 percent of GDP in 2022, up by 60.7 percent from 2021 levels. However, the deficit declined by 37.8 percent in 2022-H1 owing to a rebound in tax revenues that is partly linked to the strong performance of the economy in 2021 (CIT, +57.3) and rising import prices (VAT on imports, + 33.3; customs duties, +23.9).

Inflation likely resulted into an important deterioration of welfare, disproportionately concentrated in the bottom of the distribution and rural areas. Importantly, these impacts could have been twice as big without the current subsidy system.

Outlook

GDP growth is expected to decelerate to 1.2 percent in 2022, driven mainly by a sharp contraction of agricultural output in the context of the current drought. Non-agricultural GDP should be more resilient, sustained by the good performance of services led by the tourism sector. The economic slowdown in Europe and rising inputs' prices, instead, will result in a deceleration of the manufacturing sector (+2 percent). On the demand side, inflationary pressures and heightened uncertainty will continue to feed a slowdown in private consumption and investment, only partly offset by still robust growth in public spending.

Growth is expected to increase to 4 percent in 2023 under the assumption that agricultural output recovers and that inflationary pressures gradually subside. However, risks remain tilted to the downside as water scarcity and price pressures could be more persistent than currently anticipated, continuing to erode households' purchasing power and potentially forcing the central bank to continue tightening monetary policy; as the slowdown in European markets could intensify in the context of a protracted war and of a further tightening of global financial conditions.

Despite the spending pressures exerted by subsidies and ongoing reforms, the solid recovery of tax revenues and the windfall profits obtained by the national phosphate company (OCP) should result in a slight reduction of the budget deficit to 5.5 percent of GDP in 2022. The current account deficit, instead, is projected to widen to 4.9 percent of GDP due to the rising import bill.

After the improvement in living conditions in 2021, the bad performance of the agricultural sector has negatively affected rural labor income. While distributionally neutral GDP-based projections suggest poverty has stagnated in 2022, it has more likely worsened in rural areas and among agricultural workers, already among the poorest and vulnerable to climatic shocks.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.9	-7.2	7.9	1.2	4.0	3.5
Private Consumption	2.2	-5.6	8.2	1.6	3.0	3.4
Government Consumption	4.8	-0.5	5.6	5.4	4.7	3.7
Gross Fixed Capital Investment	1.7	-10.0	9.3	2.7	4.8	4.8
Exports, Goods and Services	5.1	-15.0	8.7	9.1	9.3	9.6
Imports, Goods and Services	2.1	-11.9	11.8	11.7	7.2	8.4
Real GDP growth, at constant factor prices	3.0	-7.0	7.8	1.2	4.0	3.5
Agriculture	-3.9	-7.1	17.6	-15.0	12.8	3.8
Industry	4.1	-5.2	6.8	2.0	3.3	3.4
Services	3.9	-7.9	6.4	4.3	2.8	3.5
Inflation (Consumer Price Index)	0.2	0.7	1.4	5.3	2.6	2.0
Current Account Balance (% of GDP)	-3.4	-1.2	-2.3	-4.9	-4.2	-3.7
Net Foreign Direct Investment Inflow (% of GDP)	0.6	0.8	1.2	1.4	1.4	1.4
Fiscal Balance (% of GDP)	-3.7	-7.1	-5.9	-5.5	-5.4	-4.8
Debt (% of GDP)	60.3	72.2	68.9	71.0	72.9	72.7
Primary Balance (% of GDP)	-1.3	-4.6	-3.8	-3.4	-3.4	-2.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.6	0.7	0.6	0.6	0.6	0.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.9	6.2	5.1	5.1	4.7	4.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	28.1	32.7	29.1	29.1	27.8	26.6
GHG emissions growth (mtCO2e)	7.4	-2.1	4.5	16.3	3.1	4.1
Energy related GHG emissions (% of total)	73.4	73.0	74.0	77.4	77.5	77.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2013-ENCDM. Actual data: 2013. Nowcast: 2014-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2013) with pass-through = 0,87 (Med (0.87)) based on GDP per capita in constant LCU.

OMAN

Table 1	2021
Population, million	5.2
GDP, current US$ billion	85.9
GDP per capita, current US$	16440.5
School enrollment, primary (% gross)[a]	104.5
Life expectancy at birth, years[a]	78.1
Total GHG emissions (mtCO2e)	102.0

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

Oman's economic growth is strengthening thanks to increased hydrocarbon output and continued rebound in non-oil activities. Higher hydrocarbon prices and continued fiscal consolidation measures are helping both fiscal and external balances to return to surplus in 2022, placing the debt trajectory on a downward path. Key risks arise from uncertainty surrounding the global oil market, renewed COVID-19 infections, and increased inflationary pressures, which would undermine growth potential and fiscal adjustment efforts.

Key conditions and challenges

Oman's economy remains highly dependent on oil and natural gas. Despite diversification efforts, hydrocarbon revenues continue to account for about 80 percent of total budget revenues. As such, the Sultanate suffered from the pandemic-induced recession and the collapse of oil prices, which amplified fiscal and external vulnerabilities. These have added to the pre-existing upward trend of debt accumulation. Recognizing the severity of the crisis, the government announced the Medium-Term Fiscal Balance Plan (MTFP) 2020-24 in 2020 with several fiscal adjustment reforms aiming at boosting non-hydrocarbon revenues, rationalizing expenditures, and placing public debt on a sustainable path. A new economic stimulus plan was later announced in March 2021 to address the continued economic decline and promote diversification, including the strengthening of the business and investment environment.

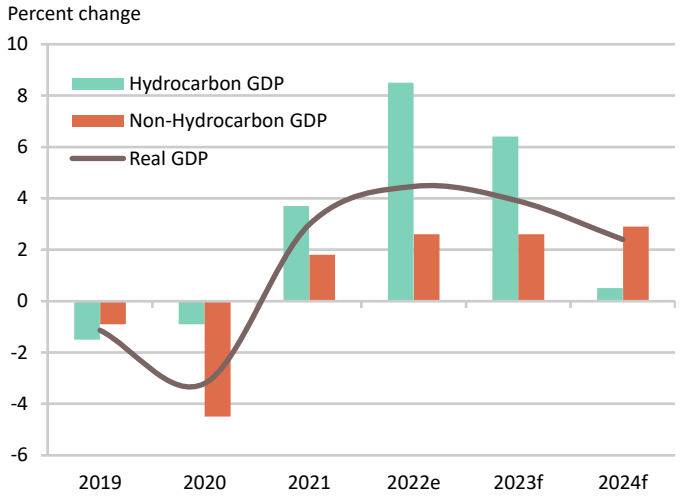
Higher oil and gas production, the lifting of all pandemic restrictions, and ongoing efforts to diversify the economy away from the hydrocarbon sector will strengthen growth potential. Diversification efforts include, but are not limited to, streamlining the wage bill, targeting subsidies, and fostering a friendly business environment. The windfall from higher hydrocarbon prices supported by fiscal adjustment measures is expected to significantly improve fiscal and external balances, turning them into surpluses from 2022 through the forecast horizon and leading to a sharp fall in the debt-to-GDP ratio.

While Oman's economic outlook is encouraging, challenges remain. These include uncertainties surrounding new COVID-19 variants, intensification of climate change shocks, and macroeconomic volatility. Downside risks stem from unfavorable oil prices, tightening of global financial conditions, and increased inflationary pressures from higher global commodities prices, which could reintroduce financing challenges. On the upside, longer-than-forecast high oil prices accompanied with steadfast implementation of the MTFP would materially improve the outlook and support advancing climate change agenda, digitalization, and spur a strong, inclusive, and green recovery.

Recent developments

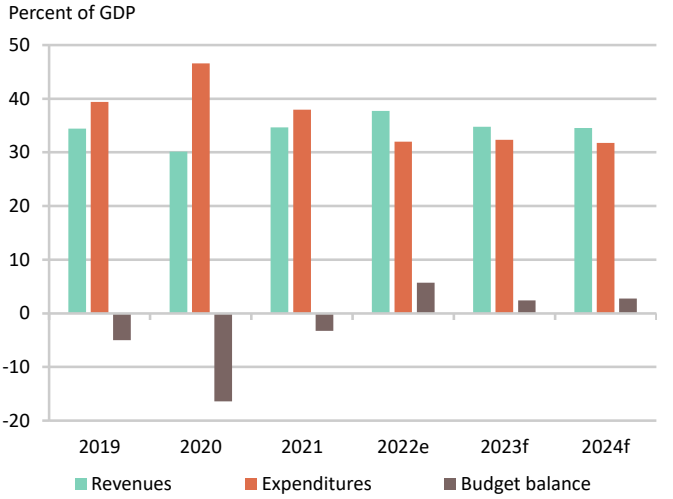
Oman's economy is gradually strengthening largely driven by the buoyant hydrocarbon sector and continued recovery in non-hydrocarbon activities. Official data reveals that the real economy grew by 2.1 percent in the Q1 2022 supported by strong performance in the hydrocarbon sector, which grew by 8 percent. In contrast, the non-hydrocarbon economy contracted by 0.4 percent due to a sharp drop in the agricultural sector (driven by droughts) and the contraction in non-oil industry, (mainly in the construction sector as a result of higher input prices).

FIGURE 1 **Oman** / Real annual GDP growth



Sources: Oman authorities, IMF, and World Bank staff projections.

FIGURE 2 **Oman** / General government operations



Sources: Oman authorities and World Bank staff projections.

Inflation picked up to an average of 3.2 percent in the first 7 months of 2022 reflecting the recovery of domestic demand and rising global food and commodities prices.

Public finance data reveals a substantial increase in budgetary revenues (almost 54 percent) during the first seven months of 2022 (7M-22) mainly driven by higher hydrocarbon receipts and higher non-hydrocarbon revenues. On the expenditures side, the government continued the implementation of fiscal discipline measures by introducing public wage bill reforms and rationalizing subsidies and transfers. As a result, Oman's fiscal position shifted to a US$2.7 billion surplus (nearly 2.4 percent of GDP) during 7M-22, against a US$3.1 billion deficit (3.7 percent of GDP) in 7M-21.

The trade balance surplus widened in the first 5 months of 2022 to US$10 billion (9 percent of GDP) compared to US$3.4 billion (4 percent of GDP) during the same period of last year. The surplus is driven by higher merchandised exports, of which 78 percent is hydrocarbon-based. This significantly pushed foreign reserves up (to US$17 billion in June 2022).

The performance of the labor market is mixed. While the unemployment rate in Oman improved sharply (1.9 percent in July 2022 compared to 3.2 percent in July 2021), unemployment is significantly higher among the young population (aged 15 to 24: 10.8 percent) and among women, (5.8 percent). The number of Omanis employed in the private sector increased by 9.7 percent between July 2021 and July 2022. This is considerably below the increase in the number of expatriates working in the private and family sectors, which increased by 15 percent and 14 percent, respectively. By contrast, expatriates working in government dropped by 24.3 percent. The new labor law, under discussion, is expected to increase female labor force participation, encourage private sector jobs for Omani nationals, and raise competitiveness.

Outlook

The economy is projected to continue its recovery and strengthen over the medium-term driven by robust energy prices, expansion of oil and gas production, and wide-ranging structural reforms. The hydrocarbon sector will remain the driving force of the economy, which is projected to grow by over 8 percent in 2022 and to remain strong during 2023-24. The non-oil economy is anticipated to continue its recovery trajectory and grow by 3 percent annually during the period 2022-24 supported by stronger exports and logistics sectors, increased industrial capacity from renewable energy, and the resurgence in tourism. Against this background, GDP growth is forecast to exceed 4 percent in 2022 before moderating to an average of 3 percent in 2023-24. Inflation is forecast to pick up to 3.2 percent in 2022 to reflect domestic demand recovery and higher prices of imports but to moderate in the following years.

Public finances are forecast to gradually improve supported by higher hydrocarbon receipts and the implementation of fiscal consolidation measures under the MTFP. As a result, the overall fiscal deficit is expected to turn into a surplus of nearly 6 percent of GDP in 2022—the first surplus in almost a decade—reducing gross financing needs. The budget surplus is forecast to average almost 3 percent in the medium term supported by continued fiscal reforms. Accordingly, the public debt-to-GDP ratio is anticipated to significantly decline to an average of 44 percent in 2022-24 from 63 percent in 2021.

The external balance is swinging back into surplus (6 of GDP in 2022)—the first surplus in 7 years—on the back of higher oil receipts and recovery in non-oil exports. Gross foreign reserves are estimated to surge to over US$24 billion (over 6 months of imports) in 2022 and to remain elevated over the medium-term supported by more favorable terms of trade.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-1.1	-3.2	3.0	4.5	3.9	2.4
Private Consumption	-3.8	-4.2	2.3	4.3	3.7	2.5
Government Consumption	2.5	-6.5	-1.2	2.4	2.0	1.2
Gross Fixed Capital Investment	-10.4	-8.2	3.4	4.2	5.6	3.4
Exports, Goods and Services	1.9	-25.9	5.7	8.9	6.0	5.0
Imports, Goods and Services	-3.4	-16.5	4.5	6.5	5.3	5.0
Real GDP growth, at constant factor prices	-1.1	-3.2	3.0	4.5	3.9	2.4
Agriculture	4.3	14.3	4.2	0.8	3.0	3.1
Industry	-2.3	-2.9	2.7	5.1	3.7	3.2
Services	0.1	-4.4	3.2	4.1	4.2	1.5
Inflation (Consumer Price Index)	0.1	-0.9	1.5	3.2	1.8	2.0
Current Account Balance (% of GDP)	-4.8	-11.7	-6.0	6.4	3.8	2.7
Fiscal Balance (% of GDP)	-5.0	-16.4	-3.3	5.7	2.4	2.8
Debt (% of GDP)	53.3	71.0	63.2	47.0	43.4	41.4
GHG emissions growth (mtCO2e)	2.7	-0.3	21.1	13.0	10.0	-17.9
Energy related GHG emissions (% of total)	84.1	84.0	85.3	86.1	86.5	83.8

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

PALESTINIAN TERRITORIES

Table 1	2021
Population, million	4.9
GDP, current US$ billion	18.0
GDP per capita, current US$	3664.0
Upper middle-income poverty rate ($6.85)[a]	20.5
Gini index[a]	33.7
School enrollment, primary (% gross)[b]	96.4
Life expectancy at birth, years[b]	74.2

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

The recovery of the Palestinian economy from the COVID-19 shock has continued through 2022, albeit at a slower rate than the 2021 initial rebound. Despite improving revenue outturns, the fiscal situation has reached a critical level, in 2022, in a context of very low external aid. This forced the Palestinian Authority to accrue large arrears to the private sector and public pension fund, and to pay partial salaries to public employees. The outlook remains precarious and subject to political stability, security, and health-related downside risks.

Key conditions and challenges

Already dire socio-economic conditions in the Palestinian territories have been exacerbated by the COVID-19 breakout and the war in Ukraine. The Palestinian economy remained stagnant for years prior, due to restrictions by Israel (on trade, movement, and access of people and goods),[1] recurrent hostilities, the internal divide between the West Bank and Gaza, a weak business environment, and falling aid inflows. During 2017-19, annual GDP growth averaged 1.3 percent, driven by factor accumulation rather than by improvements in productivity, and growing slower than the population, resulting in decreasing per capita incomes and increasing poverty. Over the last 5 years, gross investment has been robust, averaging 25 percent of GDP, though the bulk of it has been channeled into non-tradable activities rather than sectors that could help boost growth through job creation. The combination of sluggish productivity and the complexity of political, security, and health risks have inhibited investment attraction, with negative net FDI levels in the last 5 years.

Subnational trends paint a highly heterogeneous picture, where the West Bank and Gaza display substantial disparities in economic activity and income per capita levels.

1/ According to the Government of Israel these restrictions are in place to protect Israeli citizens.

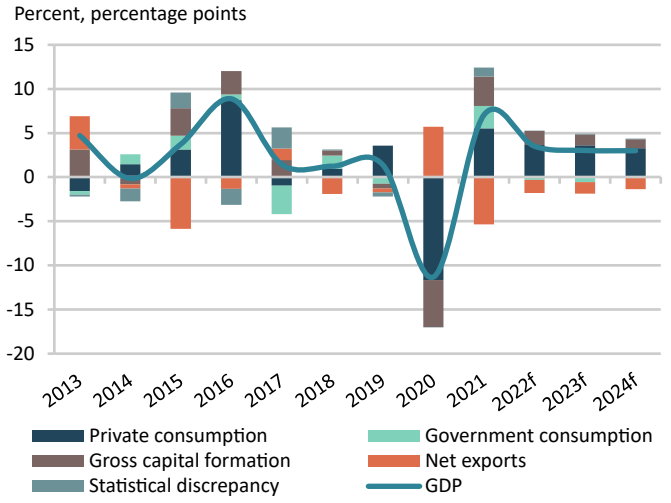
In 2021, GDP per capita in Gaza was estimated at US$1,440 - around a quarter of the West Bank's, where it exceeded US$5,300. In 2016/17, around 20.5 percent of Palestinians lived below the upper-middle income poverty line ($6.85 2017 PPP a day), according to the latest national household survey. Poverty is significantly more prevalent in Gaza, with almost half of the population living below the poverty line in 2016/17, compared to less than 10 percent in the West Bank.

Recent developments

The ease in lockdowns and the pickup in the vaccination campaign in 2021 had a positive impact on consumer confidence, consumption, and business activity boosting growth by 7.1 percent, in real terms. The Palestinian economy continued its recovery in the first months of 2022, although at a slower rate, with real GDP growth reaching 5.7 percent, year-on-year (y-o-y) in Q1. The increase in the number of Palestinians working in Israel and the settlements aided the recovery, as the average daily wage of these workers is more than twice the average daily wage in the Palestinian territories. Despite this positive trajectory, the economy has not yet reached its pre-pandemic levels.

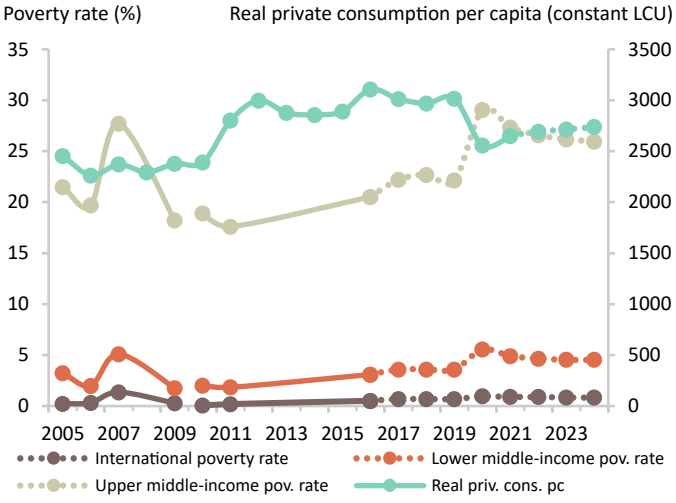
Stronger aggregate demand, coupled with rising global commodity prices and the supply-side shocks determined by the Ukrainian war, generated an inflationary push that brought the CPI up to 3.6 percent (y-o-y) in the first seven months of 2022,

FIGURE 1 Palestinian territories / Real GDP growth and contributions to real GDP growth



Sources: Palestinian Central Bureau of Statistics and World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

from negative territory in 2020. On the other hand, the appreciation of the Israeli Shekel (i.e. the main currency in circulation in the Palestinian territories) contributed to mitigating inflation, in comparison to other MENA countries.

The economic recovery supported revenue mobilization, while the authorities kept public expenditure contained by reducing transfers. Thus, in H1 2022, the overall fiscal deficit (after grants) improved by 80 percent y-o-y, in nominal terms, albeit suffering from the deductions made by Israel from VAT and import taxes collected on behalf of the PA (i.e. clearance revenues). The resulting deficit has been largely financed by the accumulation of arrears to the private sector and the public pension fund. Since November 2021, the PA has also been paying 80 percent of public sector salaries, while protecting the lowest earners.

Unemployment remained high in Q2 2022, at 24.2 percent, despite marginal improvements from 2021. This overall rate, however, masks wide regional divergences between the West Bank, where unemployment stood at 13.8 percent in Q2 2022, and Gaza where it reached 44.1 percent, reflecting the devastating implications of the movement and access restrictions on the Strip that have created a nearly closed economy in Gaza.

Based on GDP per capita growth trends, it is estimated that the poverty rate spiked to 29.1 percent in 2020, an increase of over 8 percentage points from 2016 (the latest available official data). As the impact of the pandemic receded, over the course of 2021, the poverty rate is estimated to have declined to 27.3 percent. These rates represent a population of approximately 1.5 million people who are deemed poor.

Outlook

Full-year growth in 2022 is estimated at 3.5 percent, as the COVID-19-related lockdown measures are expected to remain lifted and the number of Palestinians working in Israel and the settlements increase. Under a baseline scenario that assumes i) a continuation of the restrictions enforced by Israel, ii) persistence of the internal divide and iii) stagnating aid levels, growth is expected to hover around 3 percentover the forecast period. Consequently, the poverty rate is projected to decline to 26.6 percent in 2022, and then to further gradually decrease to 26 percent by 2024.

On the fiscal front, revenues are projected to increase driven by the PA's efforts to enhance the revenue task force and place a renewed focus on large taxpayers. Total public expenditures are expected to decline, on account of reduced transfers - reflecting delays in funding the National Cash Transfer Program. The overall fiscal deficit, including grants and the deductions from clearance revenues, is thus expected to narrow to 3.3 percent of GDP in 2022, down from 5.7 percent in 2021.

Downside risks remain elevated. As a net oil and food importer – the Palestinian economy would suffer significant additional pressure should the war in Ukraine extend. In this context, any escalations in the clashes between Palestinians and the Israeli forces in the West Bank and Gaza, or any restrictions on the movement of Palestinian workers to Israel, would leave little-to-no room to absorb any external shocks, with potentially severe consequences on growth and poverty reduction outcomes.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.4	-11.3	7.1	3.5	3.0	3.0
Private Consumption	4.1	-13.1	6.3	4.2	4.1	3.7
Government Consumption	-3.5	0.3	11.1	-1.4	-2.5	-0.2
Gross Fixed Capital Investment	-2.6	-20.9	14.7	6.4	5.0	4.0
Exports, Goods and Services	2.0	-11.2	18.8	4.2	3.8	3.8
Imports, Goods and Services	1.4	-14.2	16.6	4.0	3.6	3.6
Real GDP growth, at constant factor prices	1.3	-12.0	6.3	3.5	3.0	3.0
Agriculture	0.9	-9.1	-2.3	3.0	3.0	3.0
Industry	-0.5	-19.4	6.2	3.3	2.9	2.9
Services	2.0	-10.0	7.3	3.6	3.0	3.0
Inflation (Consumer Price Index)	1.6	-0.7	1.2	3.8	1.6	1.2
Current Account Balance (% of GDP)	-10.4	-12.3	-8.2	-8.3	-8.7	-9.4
Net Foreign Direct Investment Inflow (% of GDP)	1.1	0.9	1.0	1.0	1.0	1.0
Fiscal Balance (% of GDP)	-7.5	-7.5	-5.7	-3.3	-2.7	-2.3
Debt (% of GDP)	39.5	53.9	54.9	54.3	54.8	55.2
Primary Balance (% of GDP)	-7.2	-7.1	-5.1	-2.7	-2.1	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	1.0	0.9	0.9	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.6	5.6	4.9	4.7	4.5	4.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	22.1	29.1	27.3	26.6	26.2	26.0

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 2016-PECS. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

QATAR

Table 1	2021
Population, million	2.9
GDP, current US$ billion	166.6
GDP per capita, current US$	56829.4
School enrollment, primary (% gross)[a]	103.9
Life expectancy at birth, years[a]	80.4
Total GHG emissions (mtCO2e)	117.5

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

Higher energy prices from the Russia-Ukraine war are favorable for Qatar, on balance. The country will also be hosting the FIFA World Cup starting in November of this year. Large surpluses on the current account and fiscal balance are set to remain in place for the next several years. The country will become the world's largest producer of LNG by mid-decade as production from the North Field kicks in. Higher interest rates to tame inflation, however, have weakened credit demand and private sector consumption growth that will be partly compensated by stronger government expenditures. Introduction of VAT may be placed on hold until inflationary pressures ease.

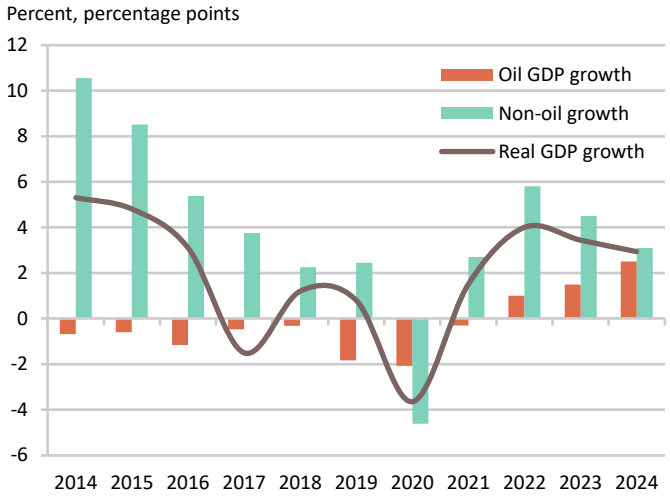
Key conditions and challenges

The war in Ukraine has raised energy and food prices globally. On balance, this is economically favorable for Qatar, which is the world's largest LNG (Liquified Natural Gas) exporter and third largest producer.
Continuing waves of Covid-19 have sparked new outbreaks of infection in Qatar where more than 90 percent of the population has been vaccinated. But unlike previous episodes, the death rate has been nearly nil during this latest wave, attesting to the weakened lethality of new Covid-19 strains. Preparations for the FIFA World Cup have also been completed and the games will begin in November bringing in an expected flock of tourists.
In the medium term the greatest challenge that the country faces will be how to continue to diversify away from hydrocarbons. In the last ten years, the size of the oil economy in relation to total GDP has declined significantly from 50 percent to approximately 38 percent. But investments expanding LNG capacity over the next five years will intensify dependence on hydrocarbons. The country must continue to pursue reforms in order to further diversify the economy.

Recent developments

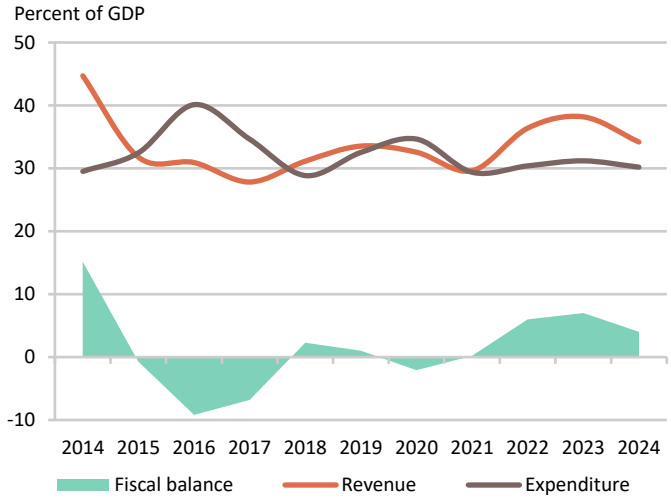
In the last several months, booming energy prices resulting from the war in Ukraine have propelled a number of major oil companies to bid and be selected for partnering with Qatar Energy (the State-owned hydrocarbon company) to expand production in the North Field East gas field in the Persian Gulf. Together with the southern sector, the North Field is the largest natural gas reserve in the world. Accordingly, Qatar has implemented the first phase of raising production of liquefied natural gas to 110 million tons by 2025, a 43 percent increase. The second phase of expansion in the southern sector of the North Field is set to begin in 2023, and it aims to increase the capacity of LNG by a further 15 percent for a total production of 126 million tons per year by 2027. This would make the country the largest producer of LNG in the world (currently behind the United States and Australia).
Inflation has risen in Qatar following a bout of deflation on the heels of Covid restrictions in 2020 but remains moderate compared to the US and the EU. Inflation climbed to 6.4 percent on an annual basis at the end of last year. Nonetheless, it has eased somewhat during the current year to 5.4 percent (June), despite the continuing war in Europe, as rising interest rates and a strong currency (pegged to the US dollar) have eased the pass-through of higher imported prices onto consumers.
Nonetheless, higher interest rates have been accompanied by a steep deceleration in credit growth which had been growing at approximately 14 percent in mid-2021 to currently below 2 percent. Publicly funded forbearance during the height of the Covid-19 pandemic has kept a lid on NPL (Non-Performing Loans) which are still below 2.5 percent at the end of 2021. Despite

FIGURE 1 **Qatar** / Real GDP growth



Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

FIGURE 2 **Qatar** / Fiscal balance



Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

weakening credit demand, economic activity has remained quite strong with the Purchasing Manager Index (PMI) at 61 percent (above 50 implies expansion) as of June 2022, though off the highs registered a few months ago which peaked at 67.5. Similarly, the annualized first-quarter real GDP growth rate of this year came in at a relatively subdued 2.5 percent.

Recently adopted labor market reforms have included dismantling the kafala sponsorship system and implementing a minimum wage with the objective of reducing migrants' poverty. Qatar is the first country among the GCC to achieve the abolition of the kafala system. The non-discriminatory minimum wage reform in Qatar applies to all workers of all nationalities, in all sectors, including domestic workers. A grievance mechanism has also been introduced that provides a unified platform for complaints and disputes, which allows all members of society to submit reports against violations of the labor law and their employers. However, questions have been raised by international human rights organizations about the implementation of the reforms and actual improvement of labor conditions.

Outlook

Real GDP is estimated to rise to 4.0 percent in 2022 with exports (5.4 percent) and government consumption (4.8 percent) leading on the demand side. Growth in private consumption may be slightly below 4.5 percent, driven by higher interest rates and prices. Consumer prices are projected to average 4.6 percent this year and to remain a full percentage point above levels recorded last year as far out as 2024.

Both the current account and fiscal balance surpluses are projected to widen significantly in 2022 given their dependence on booming hydrocarbon prices. While we note that there has been an intensification of the bidding process related to the first phase of the expansion of the North Field, there is no evidence that investments have been accelerated beyond what had been planned prior to the war in Ukraine which should see LNG production increase by 60 percent by 2027. Accordingly, the bulk of higher LNG prices recorded this year will feed directly into the current account surplus (20.1 percent growth in relation to GDP) and should remain in double-digit surpluses in the next few years if oil and gas prices remain high. Similarly, the fiscal balance will remain strongly in surplus in the coming years.

The continuation of high oil prices with a premium expected for natural gas in Europe from geopolitical tensions, combined with the EU's recent classification of this hydrocarbon feedstock as a green target investment, bodes well for Qatar. The expansion of LNG production by 2027 should boost overall GDP by at least 20 percent. While the authorities are committed to VAT, the introduction may be delayed given the high current CPI inflation.

With regard to Green House Gas emissions, the forecast is for a decrease from 6.4 kilotons of carbon dioxide (ktCO2) in 2022 to 5.2 in 2024.

TABLE 2 Qatar / 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	-3.6	1.5	4.0	3.4	2.9
Private Consumption	3.5	-5.6	3.4	4.5	3.0	2.6
Government Consumption	2.5	10.3	2.8	4.6	3.4	2.6
Gross Fixed Capital Investment	2.5	-3.1	2.3	2.8	2.4	2.1
Exports, Goods and Services	1.1	-6.8	2.4	5.4	5.3	5.6
Imports, Goods and Services	6.0	-2.7	4.7	6.0	6.1	6.1
Real GDP growth, at constant factor prices	0.8	-3.6	1.5	3.9	3.4	2.8
Agriculture	2.9	18.5	0.5	5.4	3.0	3.0
Industry	-1.4	-3.2	0.7	3.2	3.9	3.0
Services	5.6	-4.4	3.1	5.4	2.4	2.4
Inflation (Consumer Price Index)	-0.7	-2.7	2.3	4.6	4.0	3.3
Current Account Balance (% of GDP)	2.4	-2.5	14.6	20.1	16.2	11.0
Fiscal Balance (% of GDP)	1.0	-2.1	0.2	6.0	7.0	4.0
Primary Balance (% of GDP)	2.7	-0.3	1.9	7.3	8.2	5.0
GHG emissions growth (mtCO2e)	5.1	-1.2	3.6	6.3	5.4	5.2
Energy related GHG emissions (% of total)	76.1	75.5	76.2	77.4	78.4	79.3

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

SAUDI ARABIA

Table 1	2021
Population, million	34.1
GDP, current US$ billion	841.1
GDP per capita, current US$	24666.9
School enrollment, primary (% gross)[a]	100.2
Life expectancy at birth, years[a]	75.3
Total GHG emissions (mtCO2e)	711.2

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

The Saudi Arabian economy is on an accelerated growth path in 2022; driven by higher oil and non-oil activities as the oil sector strengthens and pandemic pressures fade. Inflation remains contained with a low passthrough of higher international prices reducing future inflationary pressures. Direct trade flows with Russia and Ukraine are limited; however, higher oil prices as a result of the conflict have strengthened the medium-term fiscal and external outlook. A breakout of new COVID-19 variants, tighter global financial conditions, and volatile oil prices are key risks to the outlook.

Key conditions and challenges

Direct impacts of a prolonged war in Ukraine on Saudi Arabia's economy are limited due to weak trade and investment flows with Ukraine and Russia. However, further sanctions and disruptions to supply chains could adversely affect the Kingdom through slower-than-anticipated global growth and higher import prices. On the upside, higher energy prices and output would further strengthen external and fiscal positions.

Risks to the non-oil sector recovery remain. Especially, those originating from an outbreak of new COVID-19 variants that are vaccine-resistant which would risk movement restrictions and delay recovery. Furthermore, domestic monetary policy is set to tighten further in line with the US monetary policy, which might dampen recovery and job creation. Finally, delays or digressions in implementing structural reforms highlighted in the Vision 2030, perhaps due to international shocks or because of the foreseen comfortable twin-balance surpluses, would reduce prospects for stronger long-term growth and employment.

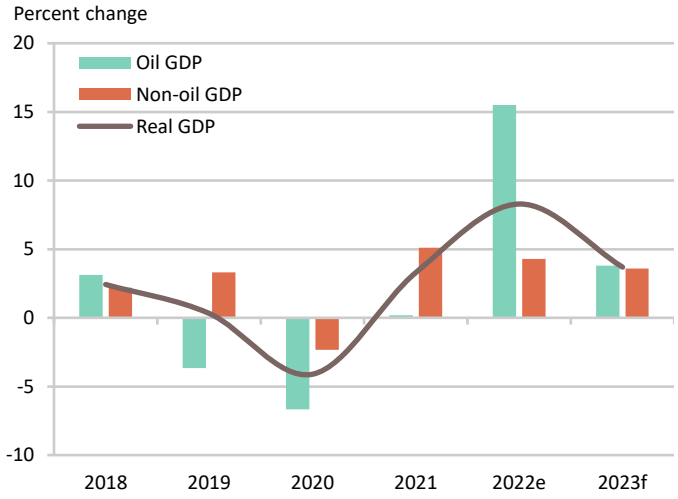
Recent developments

Supported by high vaccination rates and swift COVID-19 response policies, Saudi Arabia continues to recover strongly from the pandemic-induced recession during H1 2022. Furthermore, spillovers of the war in Ukraine via energy markets have benefited Saudi Arabia with oil production increasing faster than originally planned and in line with OPEC+ raising output quotas by 50 percent in July and August 2022.

The latest official data suggest that the economy grew by 11 percent during H1 2022—the fastest growth pace since 2011. This record growth was mainly driven by the oil sector, which registered a rapid 21.6 percent growth rate, reflecting a favorable base effect of the voluntary 1 mbpd output cut initiated by the Kingdom during February and April 2021. Saudi Arabia continued to raise oil production with output estimated to average 10.7 mbpd in July 2022. The non-oil sector also continued recovery registering a 6 percent growth during H1 2022. Recent PMI data suggests that non-oil activity lost some steam in July 2022; however, it continues to be strong and within the expansionary range (50+ mark). Despite increased international commodity prices, headline inflation is contained, averaging 2.1 percent during the first 7 months of 2022. Low passthrough of international prices due to subsidies, e.g. capping of local gasoline prices since July 2021; appreciation of the US dollar; as well as stable housing rents (21 percent of CPI basket), have kept inflation rates at low levels.

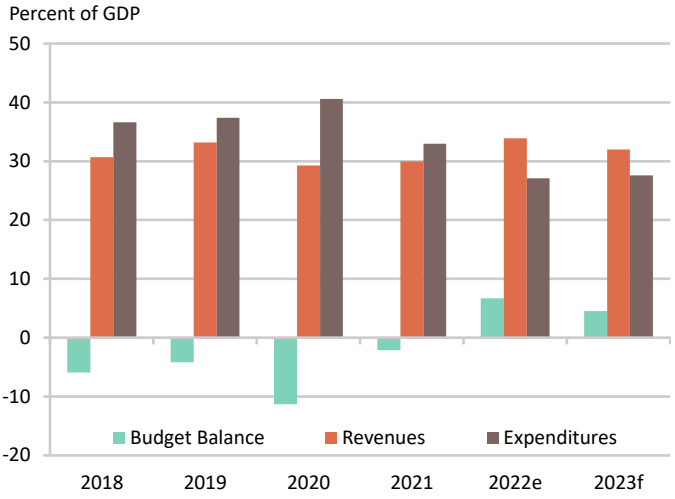
Higher oil revenues and fiscal consolidation measures have shifted the fiscal balance from a deficit of SAR 73 billion (2.4 percent of GDP) in 2021 to a surplus of SAR 135 billion (6.8 percent of GDP) during H1 2022.

FIGURE 1 **Saudi Arabia** / Annual real GDP growth



Sources: GASTAT Saudi Arabia and World Bank staff estimates.

FIGURE 2 **Saudi Arabia** / Central government operations



Source: World Bank, Macroeconomics, Trade, & Investment Global Practice.

Thus far, the government refrained from moving towards a looser fiscal stance; with one exception of announcing the relief package of SAR 20 billion (0.5 percent of GDP) to ease pressure on households from inflationary pressures. Public debt remains low and is expected to stay constant in nominal terms as the government plans to refinance the existing debt instead of using the large fiscal surplus to repay it.

Driven by higher oil export receipts and the recovery of religious tourism, the current account remains firmly in surplus registering SAR 131 billion (6.6 percent of GDP) during H1 2022, raising net foreign assets.

There is no publicly available information on official poverty rates in Saudi Arabia and access to microdata from household surveys is limited. The effort to increase the number of Saudis working in the private sector continued to pay off. According to administrative data, the number of Saudi nationals employed in the private sector in Q4 2021 reached 1.91 million, up from 1.8 million in Q1 2021 and 1.72 million in Q1 2020. By contrast, the number of non-Saudi nationals employed in the private sector decreased to 6.17 million in Q4 2021 from 6.67 million in Q1 2020.

Labor force participation of Saudi women continued to increase from 26 percent in Q1 2020 (and 32 percent in Q1 2021) to 34 percent in Q1 2022. Overall, unemployment among Saudi nationals stood at 10 percent in Q1 2022, down from 11.7 percent in Q1 2021. Official estimates from the Labor Force Survey (LFS) show a decrease in average wages between Q1 2021 and Q1 2022 (-2.6 percent in real terms). The decrease was higher among Saudi nationals (-8.9 percent) than among non-Saudis (-2.2 percent). Wage disparities by gender and nationality persist; the average wage of Saudi men is 41 percent higher than among Saudi women, 145 percent higher than among non-Saudi men, and 328 percent higher than among non-Saudi women.

Outlook

Growth is expected to accelerate to 8.3 percent in 2022 before moderating to 3.7 and 2.3 percent in 2023 and 2024, respectively. In spite of recent signals for a more cautious approach to OPEC+ planned production, the oil sector will remain the main driver behind this growth with output estimated to grow by 15.5 percent in 2022. The non-oil sector is expected to continue its growth trajectory, estimated at 4.3 percent in 2022 supported by the economic relief package before moderating to 3.4 percent in coming years. Despite headwinds from tighter fiscal and monetary policies in the medium term, stronger private consumption, an increase in religious tourism, and higher domestic capital spending—signaled through the PIF and other state agencies—are anticipated. Headline inflation is expected to stay subdued during 2022 and hover around 2.5 percent as a result of a stronger US dollar, subsidies and price controls, and stable rents. Inflation is expected to average 2.3 percent in the medium term.

The budget balance should register a surplus of 6.8 percent of GDP in 2022—the first surplus in nine years—driven by higher oil receipts. Fiscal performance in the medium term is underpinned by the authorities' commitment to compress expenditures and build credible fiscal frameworks. With most capital spending channeled through the PIF, the overall fiscal stance is more expansionary than officially reported by the budget.

Higher oil receipts are expected to more than compensate for the larger imports bill resulting in a significant external balance surplus of 18.8 percent of GDP in 2022. The surplus is expected to continue, but narrow, over the medium term to an average of 13.1 percent of GDP.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.3	-4.1	3.2	8.3	3.7	2.3
Private Consumption	4.5	-6.3	9.7	3.0	3.1	2.8
Government Consumption	-3.2	4.1	-0.2	0.0	0.3	3.5
Gross Fixed Capital Investment	0.7	-11.7	10.1	6.4	7.2	3.3
Exports, Goods and Services	-5.0	-10.2	2.0	18.3	5.1	2.0
Imports, Goods and Services	9.6	-19.8	3.3	7.6	5.4	4.3
Real GDP growth, at constant factor prices	0.3	-4.1	3.3	8.2	3.7	2.3
Agriculture	1.2	-1.7	2.6	3.0	2.0	2.0
Industry	-2.2	-6.0	1.7	10.4	2.8	0.9
Services	3.9	-1.7	5.3	5.9	4.9	4.1
Inflation (Consumer Price Index)	-1.2	3.4	3.1	2.5	2.5	2.0
Current Account Balance (% of GDP)	5.0	-3.3	5.3	18.8	15.6	10.5
Fiscal Balance (% of GDP)	-4.6	-11.5	-2.4	6.8	4.5	2.5
Debt (% of GDP)	23.0	34.0	30.8	23.7	23.6	23.0
Primary Balance (% of GDP)	-3.9	-10.5	-1.5	7.7	5.4	3.4
GHG emissions growth (mtCO2e)	1.1	-2.7	1.0	2.9	1.6	0.9
Energy related GHG emissions (% of total)	69.1	69.2	69.5	69.4	69.4	69.3

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

SYRIAN ARAB REPUBLIC

Table 1	2021
Population, million	21.3
GDP, current US$ billion	11.4
GDP per capita, current US$	534.3
School enrollment, primary (% gross)[a]	81.7
Life expectancy at birth, years[a]	73.7
Total GHG emissions (mtCO2e)	44.9

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

As a net importer of food and fuel, soaring commodity prices triggered by the war in Ukraine have adversely affected Syria's fiscal and external balances, inflation, and international reserves. Food insecurity - already severe prior to the war in Ukraine - has worsened further due to prolonged armed conflict, soaring food prices, diminished subsidies, and low crop production. Uncertainty surrounding the pandemic and climatic shocks may further weaken already dire socioeconomic conditions.

Key conditions and challenges

A decade-long conflict has had devastating socioeconomic consequences. Although the intensity of the conflict has declined from a peak in the mid-2010s, Syria continues to rank amongst the top countries in terms of violent deaths. Close to two-fifths of facilities remain either partially damaged or destroyed in certain conflict-affected cities, according to the latest damage assessment of the World Bank in late 2021. More than half of Syria's pre-conflict population remains displaced, including 6.8 million internally displaced persons (IDPs) and 6.9 million refugees abroad. The destruction of physical capital, casualties, forced displacement, and the breakup of economic networks have halved the size of the economy compared to 2010. The dramatic decline in Gross National Income per capita prompted the World Bank to reclassify Syria as a low-income country since 2018.

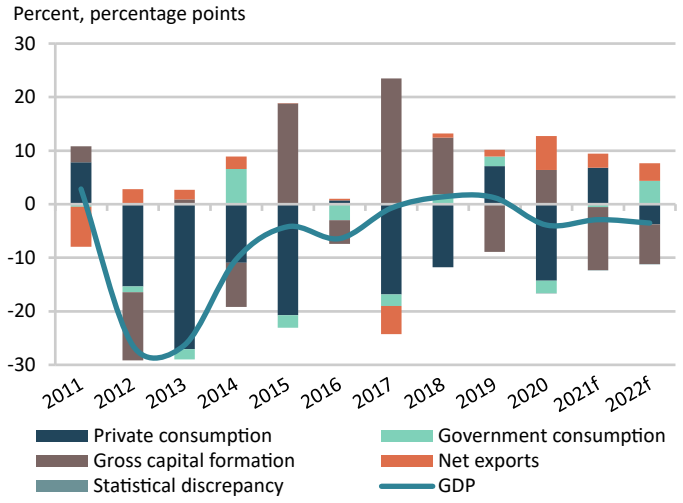
Conflict, displacement, and the collapse of economic activity have all contributed to the decline in household welfare. Extreme poverty has consistently risen since the onset of the conflict, reflecting deteriorating livelihood opportunities and a progressive depletion of household coping capacity. Access to shelter, health, education, water, and sanitation have all worsened dramatically with the conflict. The Human Development Index (HDI) positioned Syria as 150th out of 190 countries globally in 2021, down from 110th out of 169 countries in 2010.

In recent years, multiple regional and global shocks have further aggravated the humanitarian and economic crisis. External economic ties have been severely restrained by the deepening crisis in neighboring Lebanon and Turkey and the introduction of new US sanctions under the Caesar Act, which caused shortages of essential goods and rapid currency depreciation. The market exchange rate of the Syrian pound against the US dollar weakened by 26 percent year-on-year (yoy) in 2021, after a 224 percent (yoy) depreciation in 2020. With a severely degraded healthcare system, COVID-19 has exacerbated the vulnerable situation. Since early 2022, soaring commodity prices triggered by the war in Ukraine have adversely affected Syria's position as a net food and fuel importer.

Recent developments

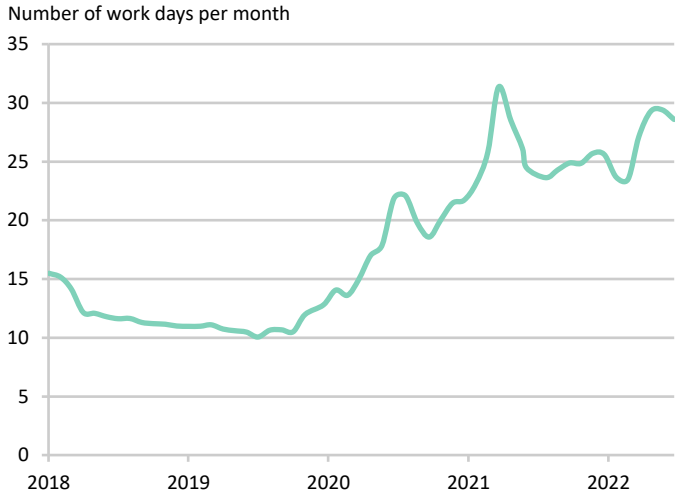
Socioeconomic conditions continue to deteriorate in 2022. Following a record-low crop production in 2021, wheat yield in 2022 remains low due to drought conditions and shortages of agricultural inputs. Consequently, acute food insecurity has worsened in recent months. According to the World Food Program (WFP), nearly 9.5 million Syrians were severely food insecure in June 2022, with an additional 2.5 million at risk of falling into food insecurity. Syria ranks among the ten most food-insecure countries globally.

FIGURE 1 Syrian Arab Republic / Real GDP growth and contributions to real GDP growth



Sources: Central Bureau of Statistics of Syria and World Bank estimates.

FIGURE 2 Syrian Arab Republic / Work days per month needed to afford minimum food basket



Sources: WFP Market Price Market Price Watch Bulletin and World Bank estimates.

Inflation is on the rise. By July 2022, the WFP minimum food basket has increased by 33 percent since the beginning of the war in Ukraine, up 87 percent compared to the same time last year. The Syrian pound has depreciated by about 10 percent against the US dollar since the war in Ukraine, contributing to high inflation. Rising prices have also eroded real wages. It is estimated that a low-skilled worker needs to work on average 28 days per month to afford the minimum food basket in June 2022. In addition, fuel prices have been raised several times in 2022, further reducing the purchasing power of vulnerable households.

Higher costs of essential goods triggered by the war in Ukraine have made fiscal policies more restrictive. Immediately after the start of the war, authorities announced a limit on public spending to cover only priorities over the next months. Some construction projects have reportedly been suspended. Authorities also tightened the supply of essential food and fuel commodities to ensure that supply can be sustained for a longer period. For instance, the authorities cut the heating oil and gasoline allocation per family by half.

Outlook

Subject to extraordinarily high uncertainty, real GDP is projected to contract by 3.5 percent in 2022, after declining by 2.9 percent in 2021. Private consumption will remain subdued with continued erosion of purchasing power amid rising prices and currency depreciation. Private investment is projected to remain weak as the security situation is assumed to remain volatile, and economic and policy uncertainties persist. Government spending, especially capital expenditures, will continue to be constrained by low revenues and lack of access to financing.

Inflation is projected to decline but remains substantial in 2022, due to the pass-through effects of currency depreciation, persistent food and fuel shortages, and price increases of subsidized goods and services. The fiscal deficit is expected to widen further in 2022, as efforts to tighten fiscal policy are projected to only partly offset the cost-driven increase in expenditures. A more costly import bill is expected to increase the current account deficit. Persistent twin deficits are projected to further drain foreign exchange reserves, increasing depreciation pressures.

Risks to the growth outlook are significant and tilted to the downside. In the event of more contagious and deadly COVID-19 variants in Syria, slow vaccination rollouts and inadequate health facilities will exacerbate its impact. A prolonged war in Ukraine and recurring climate shocks could further exacerbate inflationary pressures, which are likely to hurt the poor more. As donors prioritize funding for Ukraine, some aid might be diverted away from Syria, exacerbating the already acute food insecurity. On the upside, foreign investment restrictions in northwest Syria were eased, and non-governmental organizations (NGOs) were permitted to extend operations in early 2022. These measures may potentially facilitate trade, investment, and humanitarian operations.

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

	2019	2020	2021	2022e
Real GDP growth, at constant market prices[a]	1.2	-3.9	-2.9	-3.5
Inflation (Consumer Price Index)	13.4	114.2	89.6	42.8
Current Account Balance (% of GDP)	-4.1	-4.0	-3.9	-4.5
Fiscal Balance (% of GDP)	-8.1	-8.4	-7.5	-9.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Projections based on nighttime light data.

TUNISIA

Table 1	2021
Population, million	11.9
GDP, current US$ billion	45.3
GDP per capita, current US$	3794.4
National poverty rate[a]	15.2
Lower middle-income poverty rate ($3.65)[a]	2.2
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	113.4
Life expectancy at birth, years[b]	76.9
Total GHG emissions (mtCO2e)	34.3

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

Tunisia's economic outlook remains highly uncertain. After a moderate economic rebound in 2021, the economy slowed down in the first semester of 2022 amid rising global energy and food prices. The price rally has aggravated the fiscal and current account deficit linked to generous consumer subsidies. This exacerbates the already significant debt sustainability concerns and financing needs. Accelerating the recovery and stabilizing the economy will require speedy implementation of structural reforms.

Key conditions and challenges

A decade after the Jasmin revolution, Tunisia faces increasingly difficult economic conditions. Weak reform implementation has left the economy inefficiently closed to investment and trade and ill-equipped to exploit opportunities in the global economy. As growth and private job creation stagnated, the State stepped in as an employer of last resort and price stabilizer through subsidies. This has caused a deterioration of the fiscal situation under the weight of a large public sector wage bill, higher energy and food subsidies, and underperforming state-owned enterprises. The COVID-19 pandemic first and the Ukraine war more recently have exacerbated these weaknesses.

Tunisia's growth prospects hinge critically on timely and decisive structural reforms to address economic distortions and fiscal pressures. The government aims to advance some key reforms including: (i) eliminating business entry permits and unnecessary licenses, (ii) gradually phasing out controls to capital outflows; (iii) reducing consumer subsidies while compensating vulnerable households; (iv) improving the performance of state-owned enterprises; (v) making the tax system fairer; and (vi) reducing the public sector wage bill. Progress in these reforms is critical to stabilize the macroeconomic situation and to secure a new IMF program which is essential to mobilize multilateral and bilateral financing and regain access to international financial markets.

Recent developments

After the moderate rebound in 2021, when GDP grew by an estimated 3.3 percent (following an 8.7 percent drop in 2020), the economy has grown 2.8 percent in the first semester of 2022 relatively to the same period in 2021. The mild slowdown was driven by the slow Q2 growth, a likely sign of the fallout of the Ukraine war including the increase in global energy and food prices.

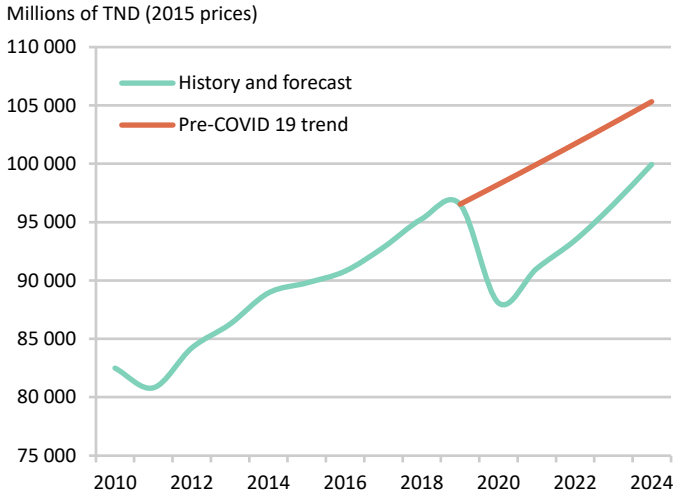
The commodity price hike has caused the trade deficit to widen by 56 percent year-on-year in the first six months of 2022, reaching 8.1 percent of GDP (compared to 7.5 percent in 2017-19). The increase was in spite of the encouraging trends in remittances and tourism receipts (reaching 3.8 percent of GDP compared to 3.2 percent in 2017-19).

The increase in global commodity prices has also created additional pressures on public finances, mainly through the energy and food subsidy bill. This translates into further pressure on public debt, which between 2017 and 2021 had already increased from 66.9 to 82.4 percent of GDP (without including government guarantees and SOE debts). This is well above the emerging market debt burden benchmark of 70 percent of GDP.

Banks' liquidity needs to be increased during the first half of the year, largely driven by the financing needs of the sovereign and also reflecting a renewed, albeit moderate, growth of credits to the economy.

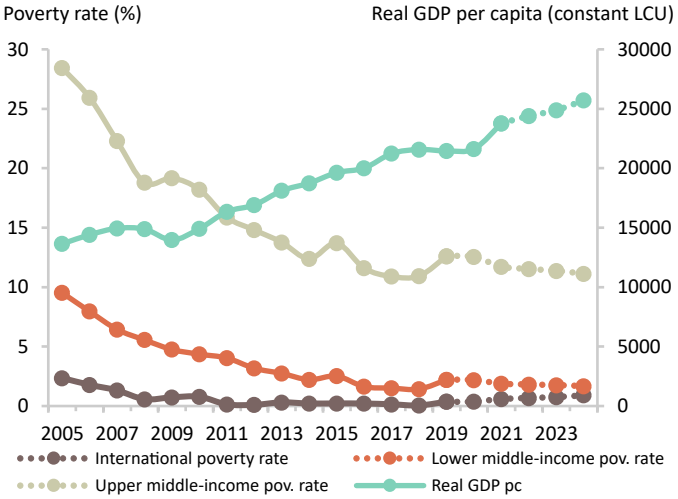
Inflation is also on the rise amid rising global prices and a weakening of the Dinar

FIGURE 1 **Tunisia** / Real GDP: Actual, forecast and pre-COVID-19 trend



Sources: National Institute of Statistics and World Bank.
Note: Projection using neutral distribution (2015) with pass-through = 0.7 (Low) based on GDP per capita in constant LCU.

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



Source: World Bank. Notes: see Table 2.

vis-à-vis the US Dollar (-11 percent in January-August 2022). In August 2022, consumer prices increased for the 12th consecutive month to 8.6 percent, up from 6.7 percent in January and 6.4 percent in July 2021. Rising inflation pushed the Central Bank to raise its policy rate by 75 basis points in May 2022, the first increase since October 2020. However, the real interest rate remains negative which leaves further room for maneuvering.

Even with moderate economic growth, the unemployment rate declined to 15.3 percent in Q2 2022 from 16.2 percent in Q1 2022 and 17.9 percent a year ago; and it returned close to pre-pandemic levels (15.1 percent in Q2 2019). This is still one of the highest rates in the region – and it is particularly high among youth and women - and it is associated with a slight year-on-year reduction in labor force participation (from 47 in Q2 2021 to 46 percent in Q2 2022).

Outlook

With a projected growth rate of 2.7 percent in 2022, the economy appears to be slowing down relatively to the trend in 2021, reflecting the challenging global environment and the lack of structural reforms. With this growth rate, real GDP at the end of 2022 would still be 3.2 percent below 2019 levels. Growth is expected to eventually gain ground, but it remains modest at around 3.6 percent a year over the medium term, dragged by pre-existing structural weaknesses and the economic consequences of and uncertainty around the Russian invasion of Ukraine.

Tunisia's public finance and external account will remain precarious in the absence of an IMF program and uncertain global conditions. Although preparation has progressed, the timing of a new program with the IMF remains uncertain. The budget deficit is expected to rise to 9.3 percent of GDP in 2022 (compared to 7.4 percent of GDP in 2021), driven by increasing subsidy expenditures linked to the commodity price hike (subsidies are expected to grow from 4.2 percent of GDP in 2021 to 7.3 percent of GDP in 2022). Gross public financing needs are projected at around 14.7 percent of GDP, half of which is for external amortization. Similarly, the current account deficit (CAD) is projected to widen significantly to 10.3 percent of GDP in 2022, driven by surging energy and food prices and mitigated by rebounding tourism and strong remittances. With FDI projected to be relatively stable and with minimal portfolio investments, foreign lending would have to shoulder much of the financing of the widening CAD. The economic consequences of the Russian-Ukrainian war and associated sanctions pose significant downside risks to the Tunisian economy. As a net commodity importer, continued upsurges in energy and food prices would add further pressure on Tunisia's external account through higher import bills, while higher subsidy costs could weigh heavily on the fiscal position. Inflationary pressures, stemming from rising commodity prices, may lead to additional interest rate hikes and limit the scope for large-scale debt monetization.

Poverty using the US$3.65/person/day line (in 2017 PPP term) is projected to decline to 2.4 percent in 2022 and 2.3 percent in 2023. The share of poor and vulnerable at the upper-middle income country poverty line $6.85 line (US$6.85/person/day in 2017PPP) is projected to decline from 19.6 percent in 2021 to 19.1 percent in 2022 and 18.3 percent in 2023 and is expected to return to pre-Covid levels in 2024.

TABLE 2 Tunisia / 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	-8.8	3.4	2.7	3.3	3.6
Private Consumption	2.3	-7.0	0.1	3.4	3.7	5.4
Government Consumption	1.4	-4.2	-3.0	-1.5	-5.2	-3.0
Gross Fixed Capital Investment	0.5	-30.0	-0.3	-6.1	-0.6	-1.3
Exports, Goods and Services	-4.2	-20.2	10.3	8.8	8.5	8.0
Imports, Goods and Services	-8.4	-16.7	8.0	4.5	4.5	7.1
Real GDP growth, at constant factor prices	1.3	-8.8	3.4	2.7	3.3	3.6
Agriculture	5.2	1.3	-4.6	1.5	4.0	4.0
Industry	-1.2	-9.2	8.1	3.2	3.2	3.5
Services	1.7	-10.0	2.9	2.7	3.2	3.5
Inflation (Consumer Price Index)	6.7	5.6	6.5	8.0	7.0	6.0
Current Account Balance (% of GDP)	-8.1	-6.0	-6.3	-10.3	-8.5	-8.3
Fiscal Balance (% of GDP)	-2.8	-8.6	-7.2	-9.3	-6.1	-5.2
Debt (% of GDP)	68.0	77.8	82.4	78.1	81.5	81.4
Primary Balance (% of GDP)	-0.2	-5.4	-4.4	-6.2	-3.1	-2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.1	0.2	0.2	0.2	0.1	0.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	2.1	2.8	2.6	2.4	2.3	2.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	17.0	20.5	19.6	19.1	18.3	17.3
GHG emissions growth (mtCO2e)	0.5	-8.3	-1.1	1.8	3.7	2.7
Energy related GHG emissions (% of total)	70.6	69.3	68.8	68.7	68.9	68.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2015-NSHBCSL. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

UNITED ARAB EMIRATES

Table 1	2021
Population, million	9.6
GDP, current US$ billion	466.0
GDP per capita, current US$	48743.6
School enrollment, primary (% gross)[a]	115.4
Life expectancy at birth, years[a]	78.1
Total GHG emissions (mtCO2e)	261.2

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

The UAE's recovery from the pandemic-induced recession is aided by supportive economic policies, a strong vaccination program, and an easing of global travel restrictions. However, the booming oil sector will ultimately drive GDP growth in 2022, while a healthy non-oil sector will add further impetus to the recovery. Growth will be moderated by rising international commodity prices and higher competition from regional peers. A break-out of new COVID-19 variants, tighter global financial conditions, and volatile oil prices are key risks to the outlook.

Key conditions and challenges

Over the past decade, authorities made progress to diversify the economy away from hydrocarbons, successfully positioning the UAE as the region's trade, financial, and travel hub. However, the UAE will increasingly face greater regional competition for foreign investment, especially from Saudi Arabia and Qatar as they adopt economic plans similar to Abu Dhabi's Economic and Environment Vision 2030 and Dubai's Industrial Strategy 2030. While the non-hydrocarbon sector accounts for two-thirds of UAE's GDP, their economy continues to rely on hydrocarbon activity as the main source of government revenue and engine for growth. Steps towards diversifying public revenues are underway with the recent introduction of a corporate income tax (CIT) effective in 2023, representing a major shift for the country noted for historically low taxation rates on businesses.

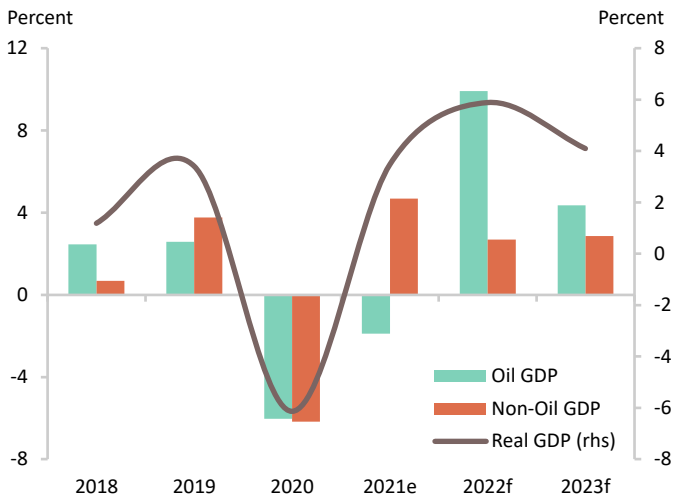
While UAE's economic outlook is encouraging, challenges remain. Direct spillovers of a prolonged war in Ukraine on UAE's economy are limited due to weak trade and investment flows with Ukraine and Russia. However, the main impact of a dragging war will be through oil price volatility and shocks to the tourism sector. Despite revival in tourism sector in late 2021 and early 2022 on the back of Dubai Expo and easing of COVID-19 restrictions, tourist numbers remain well below pre-pandemic levels. On the upside, higher energy prices and output would further strengthen external and fiscal positions, providing financial buffers for a protracted non-oil recovery.

Risks to the non-oil sector recovery also remain. Especially, those originating from an outbreak of new COVID-19 variants that are vaccine-resistant which would risk movement restrictions and delay recovery. Furthermore, domestic monetary policy is set to tighten further in line with the FED's policy, which might dampen recovery and job creation. Finally, delays or digressions in implementing structural reforms would reduce prospects for stronger long-term growth and employment.

Recent developments

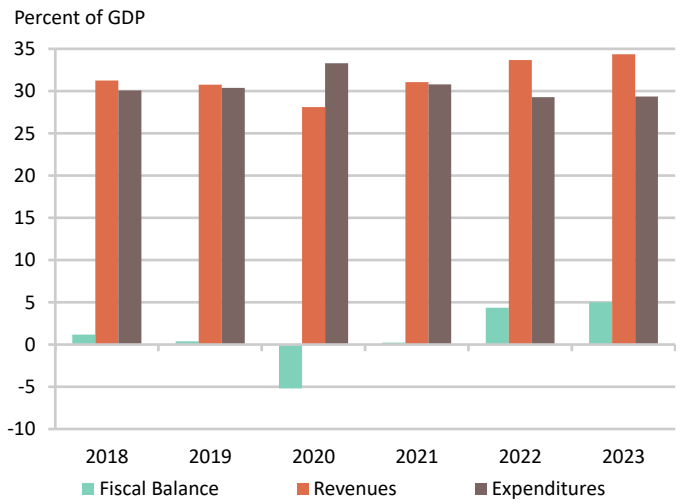
Following the pandemic-induced recession, the UAE's counter-cyclical economic policies and a highly advanced vaccination program continue to push the economy toward recovery. The Central Bank of UAE reported growth during the first quarter of 2022 at 8.2 percent year-on-year, driven by a sharp increase in oil production and an improvement in non-oil GDP. Higher oil prices and a loosening of OPEC+ quotas pushed oil production to an average of 3 mbpd in the first half of 2022, representing an increase of 14.3 percent (y/y). Recent official data on non-oil sector estimate growth at 6.1 percent (y/y) during the first quarter of 2022. High-frequency data confirm that the non-oil sector continues growing at a

FIGURE 1 United Arab Emirates / Annual GDP growth rate



Sources: UAE authorities, IMF, and World Bank staff estimates.

FIGURE 2 United Arab Emirates / Public finances



Sources: UAE authorities, IMF, and World Bank staff estimates.

faster pace with the Purchasers Managers Index (PMI) reaching above its historical long-term average as businesses recover from COVID-related restrictions and benefit from higher oil liquidity spillovers.

Official data estimate inflation at 3.4 percent during the first quarter of 2022, generally in line with global rates. However, more timely data for Dubai show inflation reaching 7.1 percent in July, mainly driven by higher transport costs as well as housing and utilities. Moving in line with the Fed's tighter monetary policy, the Central Bank of UAE has been hiking interest rates, bringing it up to 2.9 percent in July to maintain the currency peg with the US dollar.

The spike in oil prices will bolster fiscal revenue, offsetting the negative effects of rising inflation and monetary tightening has on economic activity. The government's fiscal balance largely follows oil market developments, as the authorities continue to rely heavily on hydrocarbon revenue to push economic reform agenda forward. Hydrocarbon revenue rose strongly in 2022, thereby pushing the fiscal balance to comfortable positions. Higher oil and non-oil exports continue to position the current account balance firmly in surplus as the signing of recent free-trade agreements strengthens non-oil activity and re-exports to large Asian markets.

Understanding of poverty, inequality, and livelihoods in the UAE continues to be limited due to sparse representative household and labor data. According to the Central Bank of UAE, employment in March 2021 remained at the same level of December 2020, while salaries paid in Q1 2021 were higher than at the end of 2020 and higher than in February 2020 (the last pre-crisis month), as per the Central Bank's Wage Protection System.

Outlook

Higher oil export volumes coupled with a revival in non-oil demand will support strong economic growth in 2022. This is further supported by a favorable business environment and world-class infrastructure. Real GDP is expected to grow by 5.9 percent in 2022 before moderating to 4.1 percent in 2023 as slower global demand dampens growth due to tightening financial conditions.

Oil GDP is projected to grow by 9.9 percent and 4.4 percent in 2022 and 2023, respectively; depending largely on the evolution of the war in Ukraine and its impact on global oil markets. Due to sanctions on Russia, exports from OPEC+ members will likely accelerate, although many members already have limited spare production capacity. In this context, UAE is one of the few countries within this group that could increase oil production and fill some of this gap. As for the non-oil sector, slower global demand will dampen growth, as we expect the non-oil economy to grow by 3.6 and 3.7 percent in 2022 and 2023, respectively.

Higher oil receipts supplemented with a gradual non-oil recovery will bolster fiscal revenue. Fiscal surplus, which is estimated to hover around 4.4 percent of GDP in 2022 and 5.0 in 2023, may be lower than previously anticipated as the UAE aims to mitigate the impacts of higher inflation by doubling support to low-income households. With a pegged exchange rate, monetary policy will continue to track US Federal Reserve's tighter policy by raising future interest rates. Headline inflation is expected to reach 4.0 percent in 2022 before trending downwards to 2.8 percent in 2023 as oil prices decline and monetary tightening effects channel into the economy.

Recent bilateral free trade agreements with Asian partners will open major markets, e.g. India, boosting non-oil exports and acting as a counterbalance to global headwinds and tightening financial conditions. This will help place the current account balance at 11.2 and 11.9 percent of GDP in 2022 and 2023; respectively, keeping the external account in a comfortable position as oil prices moderate.

TABLE 2 United Arab Emirates / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.4	-6.1	3.5	5.9	4.1	2.3
Private Consumption	10.0	-12.5	5.0	4.9	3.8	3.1
Government Consumption	10.0	0.7	1.4	2.9	3.3	2.0
Gross Fixed Capital Investment	0.0	5.8	5.4	5.1	3.7	3.6
Exports, Goods and Services	-1.3	-7.0	6.7	6.8	5.1	4.0
Imports, Goods and Services	-5.5	-6.4	8.8	6.2	4.6	3.9
Real GDP growth, at constant factor prices	3.4	-6.1	3.5	5.9	4.1	2.3
Agriculture	3.8	6.9	3.8	3.4	4.0	4.8
Industry	2.6	-5.5	1.3	8.4	4.2	2.9
Services	4.2	-6.9	5.6	3.6	4.1	1.6
Inflation (Consumer Price Index)	-1.9	-2.1	0.2	4.0	2.8	2.0
Current Account Balance (% of GDP)	8.9	5.9	10.5	11.2	11.9	12.5
Fiscal Balance (% of GDP)[a]	0.4	-5.2	0.3	4.4	5.0	2.7
GHG emissions growth (mtCO2e)	6.2	-2.5	10.0	6.6	1.6	2.0
Energy related GHG emissions (% of total)	73.6	72.9	74.6	75.8	76.0	76.0

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

REPUBLIC OF YEMEN

Table 1	2021
Population, million	30.5
GDP, current US$ billion	19.9
GDP per capita, current US$	653.0
School enrollment, primary (% gross)[a]	93.6
Life expectancy at birth, years[a]	66.2
Total GHG emissions (mtCO2e)	23.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2016); Life expectancy (2020).

Economic conditions remain highly fragile in Yemen. Humanitarian needs have worsened due to compounding crises, including the recent Ukrainian war. Glimmers of hope are offered by a combination of extraordinary financial support announced by bilateral partners, geopolitical conditions that may be conducive to redeveloping the hydrocarbon sector, and some timid progress on the de-escalation process, as demonstrated by an extended truce. However, the already dire socio-economic conditions of the country keep being challenged by poor institutional capacity, uncoordinated policy decisions, and administrative bifurcation.

Key conditions and challenges

After eight years of military conflict, which prompted an unprecedented economic and humanitarian crisis, several developments during 2022 have generated cautious optimism about Yemen's peace and growth prospects. On the domestic front, an UN-sponsored truce has been extended since April 2022. Days after announcing the truce, President Hadi transferred authority to a "Presidential Leadership Council" on the last day of GCC-sponsored peace consultations. Only hours later, the KSA and UAE announced a US$3.3b financing package. These positive developments were supplemented by an almost complete halt of monetary financing, which significantly curbed inflationary trends. Moreover, oil exports recently recovered to around 2014 levels, in terms of GDP, due to both quantity and price effects.

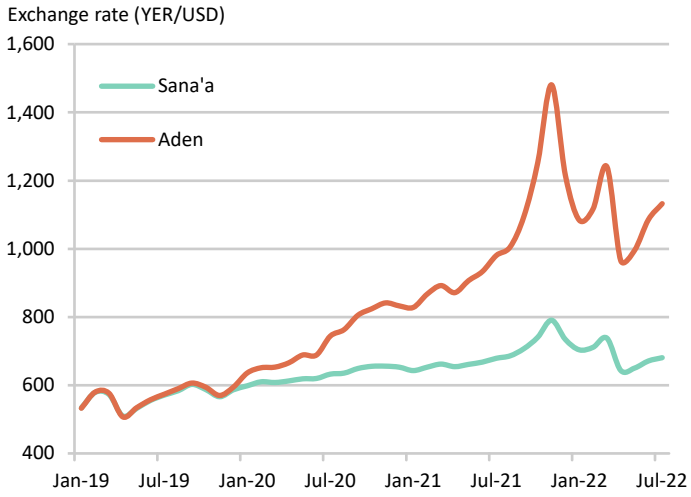
Despite encouraging developments, Yemen's external financing challenges remain substantially unaltered. While the announced CBY deposit can meaningfully mitigate risks, the timeline associated with its implementation remains unclear. On the other hand, oil sector growth remains heavily contingent on Yemen's capability to attract foreign investment, which – in turn – is tightly dependent on security and peace conditions. Non-oil activity continues to suffer from essential services interruptions and acute input shortages, compounded by double taxation, pervasive corruption practices, market distortions triggered by uncoordinated policy approaches, and the multiplicity of Yemen's institutions.

Despite cautious optimism for growth, any trickle-down effects on Yemeni households remain doubtful. Yemen's economy is mainly informal; households cannot meet basic needs without external support, and recent food assistance reductions are likely to affect living conditions severely. A large portion of Yemenis is currently reliant on (decreasing) remittances and aid flows. Recent floods have further compounded the precarity of socio-economic conditions, particularly for those living in and around displacement sites. Additionally, Yemen is one of the countries with the lowest COVID-19 vaccination rates: as of July 2022, the rollout reached only 1.4% of the population. After the collapse of the oil sector and inconsistent payments to public sector employees (the largest source of employment pre-conflict), agriculture – primarily of subsistence nature – dominates the real economy while being highly exposed to increasing climate, environmental and pest-related disruptive events.

Recent developments

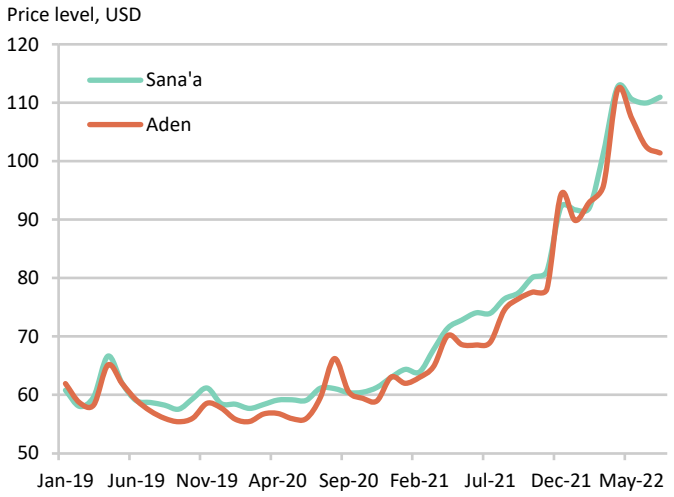
Yemen's GDP is expected to grow, in real terms, by 2 percent in 2022, after a 2-year-long recession. The rebound has been preliminarily driven by the oil sector: real oil GDP is predicted to expand

FIGURE 1 Republic of Yemen / Exchange rate trend: Sana'a and Aden



Sources: WFP and World Bank staff calculations.

FIGURE 2 Republic of Yemen / Survival and minimum expenditure basket price



Sources: WFP and World Bank staff calculations.

by 15.5 percent due to an uptick in output and higher oil prices. On the other hand, a relatively more stable currency, slower inflation, and a drastic decline in hostile activities support private sector activity; thus, non-oil GDP is estimated to grow by 0.6 percent.

On the fiscal side, the Internationally Recognized Government's (IRG) total public revenues are expected to increase, supported by a rise in hydrocarbon revenues, which not only reflects rising fuel exports but also MoF's decision to account for hydrocarbon revenues at the markets exchange rate. Total public expenditure has also recently grown, relative to 2021. The expansion is mainly caused by inflationary pressures, the resumption of debt servicing payments (following the suspension of DSSI and CCRT), and a sizable real increase in government consumption – concentrated on current expenditures. Overall, the IRG's fiscal deficit is moving on a declining trend for the 4th year in a row, and we expect it to close the year at -1.9 percent of GDP. Fiscal deficit financing sources are assumed to include elements of monetization – albeit significantly less than in the past – and some degree of arrears on lower-priority expenses.

Monetary conditions have tightened during 2022, as CBY drastically reduced fiscal deficit monetization to levels complying with its stated money supply growth targets. Moreover, CBY's hard currency auction mechanism proved relevant in supporting exchange rate stability. As a result, inflation declined from the double-digits of 2021, despite specific commodity prices still registering an inflation rate of around 30 percent (particularly in the food sector), negatively impacting households' purchasing power and consumption capacity. In a context where the macroeconomic fundamentals, the political context, and other structural factors affecting exchange rate dynamics have remained substantially unaltered, the exchange rate fluctuations appear to be highly responsive to sentiment and psychological factors. For instance, the exchange rate spread between Aden and Sanaa drastically shrank at the announcement of foreign assistance packages, to then gradually return to hovering around 600 pp as of September 2022.

Yemen's current account deficit has been widening and is expected to grow 3-fold in nominal US$ terms by the end of 2022 (or 2-fold relative to GDP). Declining official development assistance and remittance receipts – as neighboring countries apply more protectionist labor policies – have offset the predicted increase in oil exports. Considering CBY's reserve position, Yemen's difficulties in financing its external deficit remain significant; to date, the country has relied on successfully liquidating previously frozen foreign currency deposits. However, should the announced foreign-financed assistance fail to materialize (or materialize with delay), the level of foreign currency reserves could slip under one month worth of imports.

Outlook

Economic conditions in 2023 and beyond remain highly uncertain and continue to be a function of three major factors: conflict resolution, commodity market developments, and the availability of external financing options. Economic expansion over the medium term is conditional on prudent policy-making and a robust reform effort. Assuming the conflict is resolved, hydrocarbon prices remain at current levels, and the announced financial assistance initiatives materialize, Yemen's economy could – from a macroeconomic standpoint – register more sustained growth. Nevertheless, economic stability will remain dependent on predictable and sustainable hard currency inflows and – further upstream – from a resolution of the conflict. Other risks to the outlook include unexpected terms of trade shocks, as well as a resurgence in hostile activities caused by regional or domestic tensions. Policy inaction is also one of the most significant risks to Yemen's outlook. While favorable energy commodity price conditions and CBY's prudence lay the ground for potentially more pronounced economic optimism, there is no substitute for structural reforms, which are a conditio-sine-qua-non to maximize the inclusiveness of any growth outturns, and to reinforce the resilience, private initiative, and resourcefulness for which the Yemenis are renowned.

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

	2019	2020	2021	2022e	2023f
Real GDP growth, at constant market prices	1.4	-8.5	-1.0	2.0	3.3
Inflation (Consumer Price Index)[a]	10.0	35.0	58.5	29.2	7.7
Current Account Balance (% of GDP)	-3.8	-5.9	-5.1	-11.5	-7.3
Fiscal Balance (% of GDP)	-5.9	-4.8	-2.2	-1.9	-1.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Inflation rates refer to end-of-period figures.

South Asia

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AFGHANISTAN

August 15, 2021, political transition led to a significant economic contraction, increasing food insecurity, and widespread deprivation. The resumption of off-budget aid during the year helped cushion some of the negative impacts of the widespread humanitarian crisis. There are signs that the economy has reached an inflection point and is likely plateauing around a low-level equilibrium. While inflation remains high, some indicators saw improvement, (i) exports have increased, (ii) exchange rate volatility has lessened, and (iii) domestic revenue collection is relatively healthy. Living conditions showed marginal improvements in the last few months, though deprivation remains very high across the country, and the persistent inflation might erode these welfare gains. Sustaining this outcome will require the continuation of off-budget international support, including the US$ cash shipment by the UN.

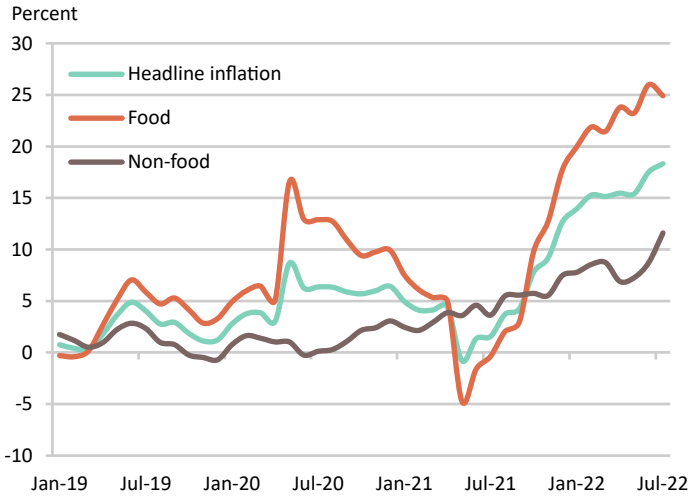
Key conditions and challenges

Immediately after Aug 15, 2021, the cessation of aid caused public spending and aggregate demand to contract severely. This, in turn, undermined private sector activity, especially in the aid-driven services sector, which significantly contributed to output and growth since 2001. Afghanistan's central bank lost its ability to manage the payment systems and conduct monetary policy due to the freeze of offshore assets and its inability to print new AFN notes. The resulting shortage of US$ and AFN currency notes and the sanctions triggered a banking sector's confidence crisis. The US Government has issued licenses to ease the sanctions concerns and support humanitarian delivery. Still, international banks are reluctant to reestablish correspondent relations with the Afghan banks due to Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) concerns. Formal payments flowing into/from Afghanistan remain problematic for all actors, including the Interim Taliban Administration (ITA), for critical imports such as electricity and medicines, the private sector, and humanitarian agencies. Over the year, off-budget aid resumed (estimates ~US$2 billion including ~US$1.2 billion through direct cash shipments) primarily to support humanitarian delivery and basic services; yet this was significantly lower than in the past. This aid, low corruption, and enhanced security helped the recovery of some economic activities and stabilization of the exchange rate.

Recent developments

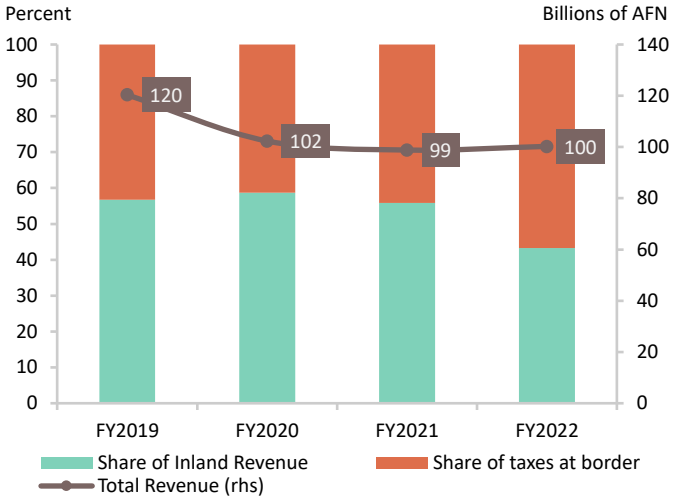
Despite reduced incomes and domestic demand, prices have rapidly increased, indicating a strong supply shock owing to supply disruptions and increased international prices. Official data for July 2022 shows headline consumer price index inflation at 18.3 percent, mainly driven by 25 percent Y-o-Y inflation in the food segment. Non-Food segment Y-o-Y inflation for July 2022 was recorded at 11.6 percent. The private sector businesses faced the brunt of the crisis and reacted by closing and reducing their operations as a coping strategy. A recent survey of firms shows that reduced demand is one of the critical constraints to business recovery. While no information on poverty is collected for the country, estimates for Q4-2021 showed that close to 70 percent of the country's population had difficulties covering their most basic expenses. Labor earnings plummeted across the country, and the contraction in salaried employment resulted in increased self-employment and other low-productivity jobs. However, more recent information collected this summer shows a slight improvement in living conditions, as the share of households reporting difficulties covering their most basic expenses has fallen to 64 percent compared to 70 percent at end-2021. Salaried employment has also recovered slightly in urban areas,

FIGURE 1 **Afghanistan** / Headline inflation



Source: National Statistic and Information Authority, Afghanistan.

FIGURE 2 **Afghanistan** / Revenue mobilization



Source: Ministry of Finance, Afghanistan.
Note: Data covering Dec 22nd through mid-August for all years.

though it remains below pre-COVID19 levels. On the downside, high inflation is eroding household earnings' real value, pushing food insecurity again and forcing households to adopt potentially harmful coping strategies.

The ITA has severely restricted access to public expenditure statistics. Recent revenue data shows good performance, with total revenue reaching AFN100 billion (US$1.1 billion) for December 22, 2021, to mid-August 2022 (exceeding last year's collection during the same period) thanks to an increase in revenues collected at borders (import duties and Business Receipt Tax). The budgeted revenue for the fiscal year 2022 is AFN186.7 billion (US$2.05 billion) against AFN203 billion (US$2.2 billion) in recurrent expenditures and AFN27.9 billion (US$0.3 billion) in development allocations. However, the ITA did not make the granular expenditure allocation public. A deficit of AFN44 billion (US$500 million) remains explicitly unfinanced.

Economic contraction drove the reduction in imports: goods imports fell by 47 percent over the second half of 2021 relative to the same period in 2020. In the first quarter of 2022, while imports of fuel and petroleum products increased by 57 percent because of higher international prices, imports of other categories of goods declined significantly, resulting in an overall decline in total imports by 11.3 percent Y-o-Y. Exports have picked up since the fourth quarter of 2021, and the momentum continued into Q1-2022 (with US$408.7 million in goods exports compared to US$200.2 million in Q1-2021), reflecting a surge in the export of coal and fruits. Recent mirror trade data for July 2021 to June 2022 from Pakistan authorities shows that Afghanistan has a trade surplus of US$ 79 million.

The AFN has depreciated against most major trading currencies after August 2021 and lost 40 percent of its value against the US$ between mid-August 2021 and mid-December 2021. However, it has recovered since then, primarily due to the US$ cash shipments by the UN and strengthened controls by ITA in the foreign exchange market, including by regulating the Money Service Providers and prohibiting the use of foreign currency for domestic transactions. The AFN value against the US$ has hovered between 85 to 93 since mid-February 2022, and as of Sep 08, 2022, it is trading close to 88.19 AFN per US$, 2.3 percent below its August 15, 2021 value.

Afghanistan's financial sector remains in crisis. Capacity gaps at the central bank (Da Afghanistan Bank – DAB) continue to limit its ability to undertake critical functions, including banking supervision, monitoring illicit financial flows, and performing AML/CFT monitoring. The bank run during the August 2021 crisis has eroded confidence in the banking sector. The mandatory transition to Islamic Banking for all financial institutions is also creating operational difficulties. All banks, but one, have reported significant losses for the first quarter of 2022. The losses are predominantly due to the inability to collect interest income and FX losses. NPLs remain underreported due to the central bank's forbearance measures. There are rapidly escalating stability risks in the banking sector, which are made more worrisome as DAB's Bank Resolution capacity is very limited.

Outlook

The economy is now re-adjusting from the "aid bubble," and the international community's ongoing humanitarian and off-budget basic service support is expected to mitigate some negative impacts of the contraction. Still, it will not be sufficient to bring the economy back on a sustainable recovery path. Under the baseline scenario where the country receives minimal international support for humanitarian activities and basic core services, the real GDP is projected to contract between 16 to 19 percent in 2022, with an accumulated contraction of close to 30 percent between 2021 and 2022. The economy is projected to move to a low growth path (2.0 to 2.4 percent) for the next two years—with no improvement in per capita incomes owing to high population growth and no significant changes in poverty or food insecurity. Inflation is expected to remain high immediately due to global commodity price increases and supply constraints, further eroding the real value of household incomes. At the same time, ITA's restrictive policies on women's education and work will lower Afghanistan's growth prospects. This outlook is subject to significant downside risks. These include (i) the potential discontinuation/reduction in aid from the current levels, (ii) a stoppage of US$ cash shipments which could undermine exchange rate stability, and (iii) potential stability concerns in the banking sector.

BANGLADESH

Table 1	2021
Population, million	166.3
GDP, current US$ billion	416.3
GDP per capita, current US$	2503.1
International poverty rate ($2.15)[a]	13.5
Lower middle-income poverty rate ($3.65)[a]	51.6
Upper middle-income poverty rate ($6.85)[a]	86.9
Gini index[a]	32.4
School enrollment, primary (% gross)[b]	119.6
Life expectancy at birth, years[b]	72.9
Total GHG emissions (mtCO2e)	252.8

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

A post-pandemic growth rebound continued in FY22, led by resilient private consumption. However, a surge in imports led to a record current account deficit, lower foreign exchange reserves, and a depreciating exchange rate. GDP growth is projected to decelerate to 6.1 percent in FY23, as higher inflation and austerity measures dampen the recovery. Poverty is expected to continue declining gradually. Downside risks include further increases in commodity prices, weak export demand, and worsening financial sector vulnerabilities.

Key conditions and challenges

GDP grew rapidly over the past two decades, supported by a demographic dividend, sound macroeconomic policies, and an acceleration in readymade garment exports. However, the pace of job creation and poverty reduction slowed over the last decade. Persistent structural weaknesses include low public sector institutional capacity, highly concentrated exports, growing financial sector vulnerabilities, unbalanced urbanization, and a business climate that lags peer economies, while Bangladesh remains vulnerable to the effects of climate change. After graduation from the UN's Least Developed Country status in 2026, Bangladesh will begin to lose preferential access to advanced economy markets and external concessional financing.

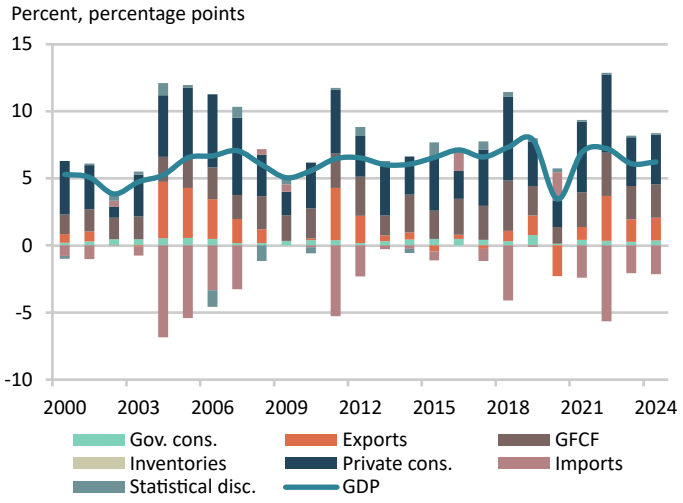
Bangladesh's economy performed well during the COVID-19 pandemic compared to peer countries. Relatively low debt-to-GDP provided a fiscal buffer, and a stimulus program protected manufacturing capacity. A robust recovery continued in FY22 as movement restrictions were lifted. Rising commodity prices and a surge in imports in the second half of FY22 resulted in a substantial Balance of Payments (BoP) deficit and accelerating inflation. A series of policy measures to suppress imports and preserve foreign exchange reserves is expected to dampen growth, including electricity cuts and reduced business hours.

Downside risks to the outlook persist and external risks remain elevated. A further rise in commodity prices (oil, natural gas, fertilizer, grains) may increase imports, while worsening global economic conditions may limit export growth. Although not fully reflected in official data due to continued regulatory forbearance, the pandemic has deepened longstanding financial sector vulnerabilities, including high levels of non-performing loans (especially in state-owned banks) and weak capital buffers.

Recent developments

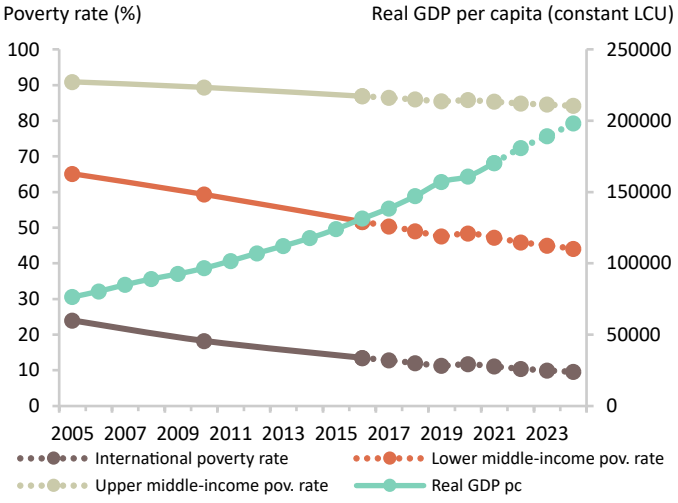
Provisional estimates of GDP growth by the Bangladesh Bureau of Statistics increased to 7.2 percent in FY22, notwithstanding rising inflation and external pressure in the second half of the fiscal year. On the demand side, exports rose by an estimated 31.3 percent in FY22, as Bangladesh gained readymade garment market share. However, imports also surged by an estimated 33.2 percent over the same period. Higher intermediate goods imports were driven by rising prices as well as higher volumes to meet export demand. Strong private consumption growth and implementation of infrastructure projects led to rising consumer and capital goods imports. On the supply side, the industrial production index showed strong growth in manufacturing in the first half of FY22. However, energy shortages disrupted industrial production in H2 FY22

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



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

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



Source: World Bank. Notes: see Table 2.

and early FY23. Services growth was supported by a decline in COVID-19 movement restrictions, while agricultural growth was dampened by widespread flooding in H2 FY22.

Inflation accelerated to 7.5 percent by July 2022, driven by rising global commodity prices and a 40 to 50 percent upward revision in domestic fuel prices. Bangladesh Bank raised the main policy rate by 75 basis points in FY22. However, monetary policy transmission has been impaired by caps on deposit and lending rates.

The current account deficit reached a record US$ 18.7 billion in FY22, as the trade deficit widened to US$ 37.2 billion. Official remittances declined in FY22 as the use of informal transfer channels normalized, reversing an unexpected surge in official inflows stemming from pandemic-related travel restrictions over the previous two fiscal years. Higher external financing flows increased the financial account surplus. However, the overall BoP deficit rose to US$ 5.4 billion in FY22. Foreign exchange reserves declined to US$ 41.8 billion by the end of FY22 (5.2 months of prospective imports), down from US$ 46.4 billion at the end of FY21 as Bangladesh Bank sold reserves to slow the depreciation of the taka.

The fiscal deficit is estimated to have widened. Nominal tax revenues increased by 16.8 percent (y-o-y) in H1 FY22, primarily supported by trade-related taxes on rising imports. Expenditure growth was led by subsidies (fertilizer, food, fuel) and incentives (export and remittances). As expenditure growth outpaced revenue growth, the fiscal deficit rose to an estimated 4.6 percent of GDP in FY22.

After increasing marginally during the COVID-19 pandemic, the poverty rate declined to an estimated 10.4 percent in FY22. Recent phone surveys point to improving labor market conditions in urban slums, although wages remain below pre-pandemic levels.

Outlook

Real GDP growth is expected to slow to 6.1 percent in FY23 as import suppression measures disrupt economic activity. Higher inflation will dampen private consumption growth, following substantial energy price increases. Export growth is expected to slow, as economic conditions in key export markets deteriorate, while rolling blackouts, gas rationing, and rising input costs weigh on manufacturers. A gradual reduction in poverty is expected, declining from 10.4 percent in FY22 to 10.0 percent in FY23.

The fiscal deficit will continue to rise in FY23, as subsidy and incentive expenditure pressure increases. However, government investment is expected to slow while austerity measures will moderate government consumption growth, keeping the fiscal deficit within 5 percent of GDP.

The pressure on the external sector is likely to persist in FY23. The current account deficit is expected to gradually decline as import costs moderate, supported by growing remittance inflows driven by strong labor market demand in the Middle East. Foreign exchange reserves are projected to decline moderately in FY23 supported by elevated external financing. Over the medium term, the balance of payments is projected to return to surplus as import growth moderates.

Addressing longstanding structural challenges would help sustain GDP growth over the medium term, including increasing domestic revenues, modernizing the tariff regime, resolving financial sector vulnerabilities, and improving the business climate.

TABLE 2 Bangladesh / 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	7.9	3.4	6.9	7.2	6.1	6.2
Private Consumption	4.9	3.0	8.0	8.8	5.4	5.6
Government Consumption	13.4	2.0	6.9	5.8	4.4	6.4
Gross Fixed Capital Investment	6.9	3.9	8.1	10.0	7.5	7.4
Exports, Goods and Services	11.5	-17.5	9.2	31.3	12.9	12.2
Imports, Goods and Services	0.5	-11.4	15.3	33.2	9.8	9.8
Real GDP growth, at constant factor prices	8.0	3.8	7.0	7.2	6.1	6.2
Agriculture	3.3	3.4	3.2	2.2	2.9	2.9
Industry	11.6	3.6	10.3	10.4	8.8	8.9
Services	6.9	3.9	5.7	6.2	4.8	5.0
Inflation (Consumer Price Index)	5.5	5.6	5.6	6.1	8.0	6.7
Current Account Balance (% of GDP)	-1.5	-1.6	-1.1	-4.1	-3.6	-3.3
Net Foreign Direct Investment Inflow (% of GDP)	0.7	0.3	0.3	0.5	0.4	0.6
Fiscal Balance (% of GDP)	-4.9	-4.9	-3.7	-4.6	-4.9	-4.4
Debt (% of GDP)	28.5	31.7	32.4	33.6	34.9	35.7
Primary Balance (% of GDP)	-3.0	-2.9	-1.7	-2.5	-2.7	-2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	11.3	11.7	11.1	10.4	10.0	9.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	47.6	48.4	47.2	45.9	45.0	44.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.5	85.8	85.3	84.9	84.5	84.2
GHG emissions growth (mtCO2e)	3.4	2.4	3.8	3.5	3.9	4.0
Energy related GHG emissions (% of total)	39.0	39.6	40.6	41.3	42.2	43.2

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 SAR-POV harmonization, using 2010-HIES and 2016-HIES. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2016) with pass-through = 1 based on GDP per capita in constant LCU.

BHUTAN

Table 1	2021
Population, million	0.8
GDP, current US$ billion	2.4
GDP per capita, current US$	3138.0
International poverty rate ($2.15)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	9.4
Upper middle-income poverty rate ($6.85)[a]	39.5
Gini index[a]	37.4
School enrollment, primary (% gross)[b]	105.8
Life expectancy at birth, years[b]	72.1
Total GHG emissions (mtCO2e)	-5.5

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

Output is estimated to have grown by 4.6 percent in FY21/22, after two years of economic contraction. The pandemic and higher commodity prices have put pressure on the country's fiscal and external positions. Measures to support fiscal consolidation and financial sector stability are crucial to address short-term macroeconomic vulnerabilities and support the economic recovery. Poverty increased in 2020 and 2021 as the economic contraction translated into lower household incomes and a full recovery to pre-pandemic poverty levels is unlikely until 2023.

Key conditions and challenges

Rapid economic growth in Bhutan has contributed to substantial poverty reduction over the last two decades. Annual real GDP growth averaged 7.5 percent since the 1980s, driven by the public sector-led hydropower sector and strong performance in the services sector, including tourism. The poverty rate dropped from 27 percent to 9 percent between from 2007 to 2017, based on the $3.65/day poverty line.

The COVID-19 pandemic reversed some progress. The economy contracted for two consecutive fiscal years with the non-hydro industry and services sectors being adversely affected by supply chain disruptions, shortages of foreign labor, and the sharp fall in tourism-related activity. This has had a direct impact on production, livelihoods and worker earnings, all of which contributed to the estimated poverty rate rising from 8.8 percent in 2020 to 9.4 percent in 2021 based on $3.65/day. The youth unemployment rate, which was already high before the pandemic, doubled from 11.9 percent in 2019 to 20.9 percent in 2021.

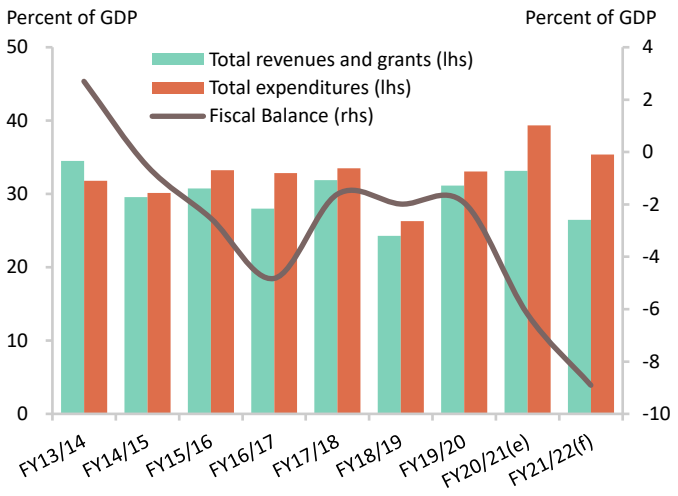
Macroeconomic vulnerabilities have increased amid the pandemic and global ramifications of the war in Ukraine. COVID-19 relief measures for individuals and businesses and subdued revenue performance have resulted in high fiscal deficits from FY20/21. Higher global energy and commodity prices are weighing on the balance of payments, with declining international reserves. Fiscal risks increased due to vulnerabilities in an already weak financial sector with elevated non-performing loans, given that over 90 percent of assets are controlled by the public sector. Labor shortages during the pandemic resulted in delays of hydro projects and hence expected delays in additional hydro revenue flows, constraining the country's ability to strengthen fiscal and external balances in the medium term.

In addition to continued global uncertainties, downside risks to the country's growth outlook also include delays in fiscal consolidation and financial sector vulnerabilities, which would constrain the government's ability to support a robust recovery.

Recent developments

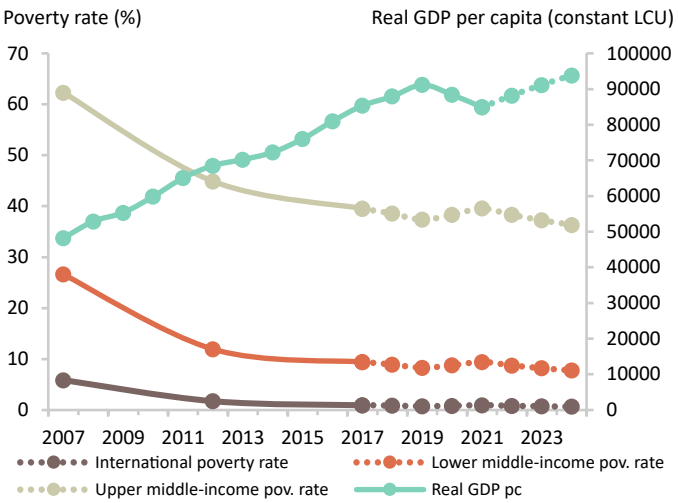
The economy has grown by 4.6 percent in FY21/22 (July 2021 to June 2022), supported by the easing of social and mobility restrictions in the second half of FY21/22 and high vaccination rates. The industry sector grew by 5.0 percent, supported by a recovery in the construction, manufacturing and mining sectors. The electricity sector contracted due to maintenance of the Tala hydropower plant, resulting in lower hydro exports and revenues. Services sector output increased by 4.6 percent, driven by transport and trade activities. The tourism industry remained largely inactive in FY21/22. On the demand side, public and

FIGURE 1 **Bhutan** / Fiscal indicators



Sources: Ministry of Finance and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

private investment and private consumption supported growth.

Average inflation moderated from 8.2 percent in FY20/21 to 5.9 percent in FY21/22, driven by a slowdown in food inflation due to favorable base effects. However, non-food inflation has accelerated to 7.0 percent, reflecting higher fuel and transport prices. The moderation in prices has led to an increase in consumption and a slight decrease in poverty to 8.7 percent in 2022 based on $3.65/day.

The current account deficit (CAD) has more than doubled to 27.4 percent of GDP in FY21/22. Exports remained subdued (as a share of GDP) due to near-zero tourism-related services exports. Higher non-hydro goods exports, mainly base metals, were offset by a decline in hydro exports. Imports surged with an increase in ICT equipment and capital goods for hydropower projects, as well as higher fuel and food prices. As a result, gross international reserves declined rapidly in FY21/22, reaching US$840 million in June 2022 (a 37 percent decline, y-o-y), equivalent to 7.1 months of imports.

The fiscal deficit widened further to 8.9 percent of GDP in FY21/22. Total expenditures declined (as a share of GDP) as COVID-19 relief measures (6.5 percent of GDP in FY20/21) have been financed by the King in FY21/22 outside of the budget. Capital expenditures increased, reflecting continued fiscal support to boost economic activity through accelerated implementation of the Twelfth Five Year Plan (FYP). Total revenues declined even more because of lower hydro revenues and external grants. Public debt declined to 130.9 percent of GDP in FY21/22 due to a decline in hydropower debt.

Outlook

The economy is expected to grow by 4.1 percent in FY22/23. The broader reopening of borders in September 2022 is expected to support growth in the industry and services sector. Tourist arrivals are expected to remain subdued because of weaker consumer confidence globally and the new tourism levy act, which tripled the sustainable development fee for international tourists. While output is returning to pre-pandemic levels, slower domestic demand recovery due to high inflation and lower hydro investments are expected to decelerate growth in FY22/23. Growth is expected to remain subdued in FY23/24 due to lower public investments in the first year of the Thirteen FYP and delays in several hydropower projects.

Inflation is projected to remain elevated in the short and medium term, owing to continued supply disruptions and higher commodity prices. While the $3.65/day poverty rate is expected to decline from 2022 onwards, a full recovery to poverty headcount rates estimated before the COVID-19 pandemic is not likely to be achieved until 2023 given elevated consumer prices.

The CAD is expected to moderate from FY22/23 due to a lower trade deficit. Higher non-hydro goods and tourism-related services exports offset lower hydro exports amid an increase in domestic electricity demand. Import demand is expected to ease on investment moderation.

The fiscal deficit is expected to decrease slightly with recurrent expenditure rationalization, although it will remain elevated at 8.2 percent of GDP in FY22/23 due to continued fiscal support though capital expenditures and subdued revenue performance. The deficit would decline to 5.5 percent of GDP in FY23/24 due to lower public investments in the first year of the Thirteen FYP and measures to improve spending efficiency.

Despite a decline in hydropower debt, public debt is projected to remain elevated as a share of GDP in the short to medium term due to high fiscal deficits. Risks to debt sustainability are expected to remain moderate as the bulk of the debt is linked to hydro project loans from India (to be paid off from future hydro revenues) with low refinancing and exchange rate risks.

TABLE 2 **Bhutan** / 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	4.4	-2.3	-3.3	4.6	4.1	3.7
Private Consumption	10.4	0.1	-1.2	11.0	4.0	2.0
Government Consumption	7.0	7.3	4.9	-12.4	0.3	-1.5
Gross Fixed Capital Investment	-11.2	-16.5	-3.0	54.9	-18.9	-4.6
Exports, Goods and Services	9.6	-4.1	-7.3	15.6	7.4	7.7
Imports, Goods and Services	0.0	-9.2	0.8	51.4	-13.5	-3.5
Real GDP growth, at constant factor prices	4.6	-0.7	-2.2	4.6	4.1	3.7
Agriculture	2.7	2.9	3.3	3.5	3.5	3.5
Industry	-1.6	-5.5	-5.9	5.0	4.9	3.9
Services	11.1	2.5	-0.5	4.6	3.6	3.5
Inflation (Consumer Price Index)	2.8	3.0	8.2	5.9	5.9	5.0
Current Account Balance (% of GDP)	-20.5	-15.8	-12.1	-27.4	-17.1	-13.4
Fiscal Balance (% of GDP)	-2.0	-1.9	-6.2	-8.9	-8.2	-5.5
Debt (% of GDP)	106.5	122.8	132.4	130.9	129.2	126.5
Primary Balance (% of GDP)	-1.1	-1.5	-5.2	-7.0	-6.4	-3.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.8	0.8	0.9	0.8	0.7	0.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	8.3	8.8	9.4	8.7	8.2	7.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	37.4	38.3	39.6	38.3	37.2	36.3
GHG emissions growth (mtCO2e)	-0.2	1.5	1.6	-1.6	-1.6	-1.4
Energy related GHG emissions (% of total)	-15.6	-15.1	-14.5	-15.2	-15.9	-16.6

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 SAR-POV harmonization, using 2007-BLSS and 2017-BLSS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2007-2017) with pass-through = 1 based on GDP per capita in constant LCU.

INDIA

Table 1	2021
Population, million	1393.4
GDP, current US$ billion	3175.9
GDP per capita, current US$	2279.3
International poverty rate ($2.15)[a]	10.0
Lower middle-income poverty rate ($3.65)[a]	44.8
Upper middle-income poverty rate ($6.85)[a]	83.8
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	99.9
Life expectancy at birth, years[b]	69.9
Total GHG emissions (mtCO2e)	3100.3

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

The Indian economy will slow down in FY23, coming off a strong but incomplete recovery in FY22 (April 2021-March 2022). The spillovers from the Russia-Ukraine war and the global monetary policy tightening cycle weigh on India's economic outlook: elevated inflation on the back of higher prices of key commodities, heightened global uncertainty, and rising borrowing costs will affect domestic demand while slowing global growth inhibits India's export growth.

Key conditions and challenges

India's growth rebounded after the pandemic. The recovery in FY22 was strong but incomplete. Real output reached the pre-pandemic level, due to robust investment activity and moderate recovery in private consumption reflecting the weakness in the labor market. On the supply side, the recovery in contact-intensive services lagged overall growth. Monetary and fiscal policy response supported the recovery through the provision of liquidity in the financial market and the public capital expenditure program. However, India's recovery is now faced with spillovers from the Russia-Ukraine war and global monetary policy tightening. The surge in global oil prices pushed headline inflation to about 7 percent and the trade deficit to 5.4 percent of GDP in Q1 FY23. To mitigate inflationary pressures, the government implemented supply-side measures, while the RBI hiked policy rate multiple times along with repeated interventions in the foreign exchange market.

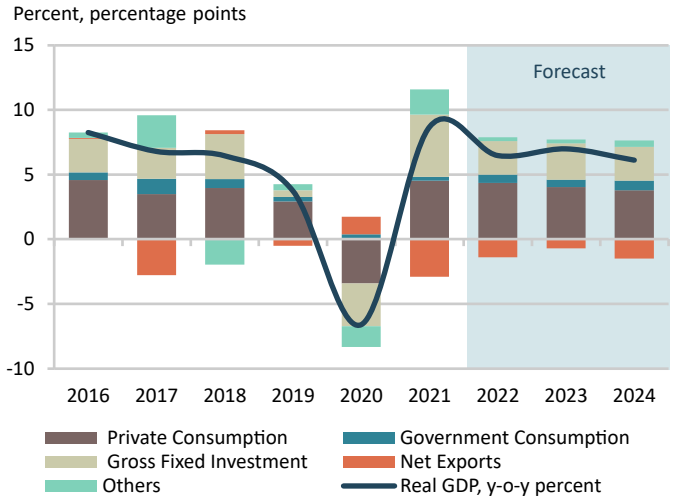
There are major headwinds to growth in FY23. Private consumption will be constrained by elevated inflation and labor market weakness, while private investment growth is likely to be dampened by heightened uncertainty and higher financing costs. Export growth will moderate amid the slowing global growth. To mitigate the inflationary impact, the government will likely spend more on food and fertilizer subsidies and, reduce taxes on fuel. The government will continue to support investment through its infrastructure program and the production-linked incentives scheme, logistics development, and simplifying business regulations.

Recent developments

The real GDP expanded by 13.5 percent y-o-y in Q1 FY23, from a low base in Q1 FY22 when the second COVID-19 wave hit India. Private consumption growth was robust but investment growth moderated. Net exports constituted a large drag on growth, with imports boosted by increased demand for petroleum, capital goods, and consumer durables. On the supply side, agriculture sector expanded, benefiting from a bumper winter crop, while the moderate growth in manufacturing and construction sectors reflected slowing global growth and muted investment activity, respectively. Within the services sector, robust growth in business and IT services was offset by soft growth in contact-intensive services.

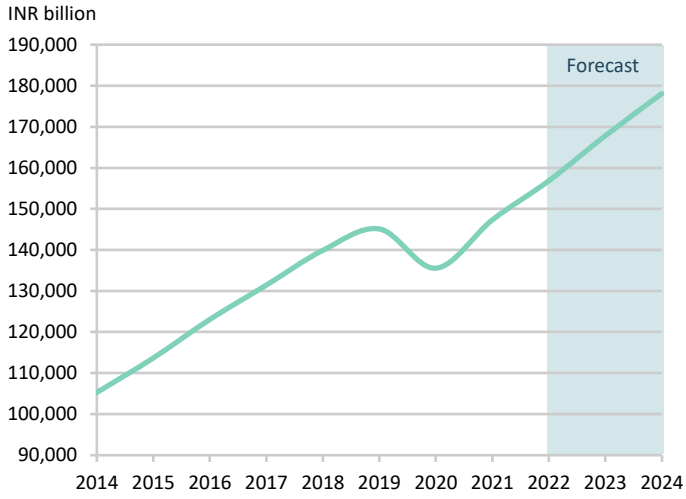
Headline inflation eased to 6.7 percent y-o-y in July 2022, after peaking at 7.8 percent in April 2022, but remains significantly above the RBI's tolerance range (2-6 percent). Low base and, rising prices of fuel and food - due to domestic and global supply constraints - pushed headline inflation beyond 7 percent during March-April. Since then, inflation has eased partly due to moderating fuel and food inflation, higher base and, the policy response of the

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



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

FIGURE 2 **India** / Real GDP



Sources: National Statistics Office (NSO) and World Bank staff calculations.
Note: 2014 refers to the fiscal year 2014-15 (FY15) and so on.

government through reduction in import duties on edible oils and lower taxes on fuel prices. The RBI has hiked the policy rate by a cumulative 140 basis points since May 2022.

The general government fiscal deficit declined to 10.3 percent in FY22; a largely revenue-based consolidation. Public debt is estimated to have declined to 86 percent of GDP in FY22. Based on the budget for FY23, the central government is committed to reducing current spending and boosting capital expenditure. Helped by strong revenue performance, the government remains on track to meet its target.

Labor markets continued to recover with unemployment reaching pre-pandemic average of 7.5 percent (Jan- Aug 2022). Urban employment has consistently increased by 4 and 1.7 percentage points for men and women, respectively. While labor force participation for rural women have increased by around 8 percentage points to reach a third of working-age women in 2020-21 relative to 2017-18, the corresponding rates for urban women have increased by only 2 percentage points. The overall increase in employment is accompanied by a higher share of the self-employed and casual-wage workers, while the share of regular salaried workers declined in April-June 2022, relative to the same quarter in 2021.

Outlook

Real GDP is projected to expand by 6.5 percent in FY23- slower than expected a few months ago- due to the deteriorating external environment. Amid slowing global growth, export growth will moderate while import growth will be driven by recovering domestic demand. Despite improved balance sheets of banks and corporate sector, increased capacity utilization in manufacturing, and Production Linked Incentive scheme, private investment will be dampened by heightened global uncertainty, elevated input prices and rising borrowing costs. Private consumption growth will be constrained by high inflation and persisting weakness in some sections of the labor market.

Headline inflation will gradually ease, averaging 7.1 percent in FY23 and likely to revert to the RBI's tolerance range by end-FY23. Favorable base effect and gradual moderation in input costs are likely to reign-in food inflation while easing global oil prices will bring down the domestic fuel inflation. Gradual monetary policy normalization will continue.

Rising merchandise trade deficit will push the current account deficit to 3.2 percent of GDP in FY23. Nonetheless, stable portfolio capital inflows, given the relatively strong macroeconomic fundamentals, buoyant FDI and high reserves provide buffers against the external financing risks. Gradual fiscal consolidation will be led by strong revenue growth and continued decline in current spending as a share of GDP. Despite the declining fiscal deficit, slower growth will keep the public debt over 83 percent of GDP in FY23 and FY24.

The expected headwinds brought by lower growth and higher inflation are likely to lead to slow income growth. Hence, poverty and vulnerability are unlikely to recede to pre-pandemic levels and preserving some of the social protection measures adopted during the pandemic may be warranted.

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

	2019/20	2020/21	2021/22	2022/23e	2023/24f	2024/25f
Real GDP growth, at constant market prices	3.7	-6.6	8.7	6.5	7.0	6.1
Private Consumption	5.2	-6.0	7.9	7.7	7.0	6.6
Government Consumption	3.4	3.6	2.6	6.1	5.4	7.1
Gross Fixed Capital Investment	1.6	-10.4	15.8	7.9	8.6	7.8
Exports, Goods and Services	-3.4	-9.2	24.3	8.0	9.9	8.8
Imports, Goods and Services	-0.8	-13.8	35.5	11.9	10.4	12.2
Real GDP growth, at constant factor prices	3.8	-4.8	8.1	6.3	6.9	6.2
Agriculture	5.5	3.3	3.0	3.2	3.8	3.6
Industry	-1.4	-3.3	10.3	4.9	6.0	6.5
Services	6.3	-7.8	8.4	8.0	8.2	6.8
Inflation (Consumer Price Index)	4.8	6.2	5.5	7.1	5.2	4.5
Current Account Balance (% of GDP)	-0.9	0.9	-1.2	-3.2	-2.5	-1.8
Net Foreign Direct Investment Inflow (% of GDP)	1.5	1.6	1.2	1.6	1.6	1.6
Fiscal Balance (% of GDP)	-7.2	-13.3	-10.2	-9.6	-8.4	-7.9
Debt (% of GDP)	73.7	87.6	86.0	84.6	83.9	83.7
Primary Balance (% of GDP)	-2.5	-7.8	-5.0	-4.2	-3.0	-2.5
GHG emissions growth (mtCO2e)	0.1	-11.3	3.9	5.5	4.6	2.6
Energy related GHG emissions (% of total)	70.5	67.1	67.6	68.9	69.9	70.2

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

MALDIVES

Table 1	2021
Population, million	0.5
GDP, current US$ billion	5.1
GDP per capita, current US$	9388.4
Upper middle-income poverty rate ($6.85)[a]	3.9
Gini index[a]	29.3
School enrollment, primary (% gross)[b]	98.0
Life expectancy at birth, years[b]	79.2
Total GHG emissions (mtCO2e)	2.6

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

Tourism is recovering faster than expected and arrivals are likely to reach pre-pandemic levels this year, supporting projected robust growth of 9.5 percent on average in 2022–24. Higher global commodity prices have, however, put pressure on inflation. Government also faces additional spending pressures from rising food and fuel subsidies, and growing debt payments. Increasing inflation and austerity measures are a risk to poorer households unless well-targeted.

Key conditions and challenges

Tourism is the main driver of economic growth in Maldives and has seen a rapid recovery following the COVID-19 crisis. While the Russia-Ukraine war initially reduced tourists from Russia – one of Maldives' key markets – Russian arrivals have been recovering since the resumption of Aeroflot flights in May. The recovery of arrivals from traditional European markets and new interest from Middle East countries have further bolstered growth.

However, a heavy reliance on tourism and limited sectoral diversification remain a key structural challenge as the country is highly vulnerable to external and macroeconomic shocks. As an economy that is also heavily import-dependent, Maldives is now facing significant current account and inflationary pressures due to the sharp rise in global commodity prices. This is also putting pressure on public finances given the government's blanket provision of generous food and fuel subsidies through SOEs to help contain domestic price increases.

To promote development and enhance growth, Maldives has scaled up infrastructure investments since 2016. This has boosted construction activity, tourism capacity, productivity, and medium-term growth prospects. Investments in physical and social infrastructure have also contributed to poverty reduction and better living standards for Maldivians. However, financing of these large investments through external non-concessional sources and sovereign guarantees has contributed to growing fiscal and debt vulnerabilities. While Maldives has managed to roll over a significant portion of its foreign debt due in 2022, debt servicing risks are expected to remain elevated in the medium term.

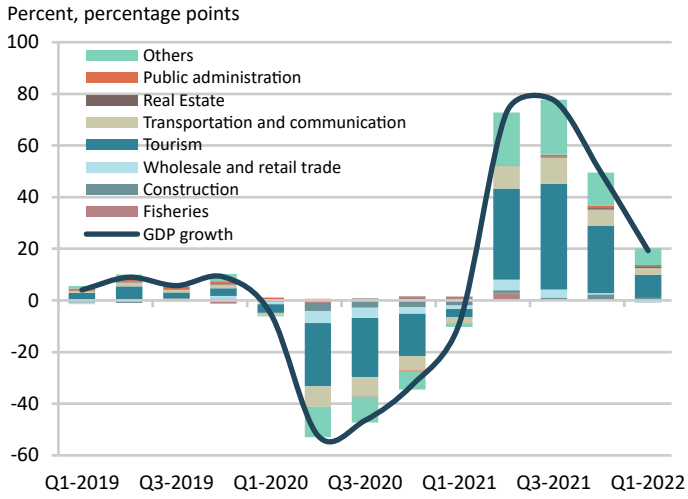
Although 3.9 percent of the population were below the international poverty line (US$6.85/person/day) in 2019, more than 90 percent of the poor were concentrated in the atolls. In line with the decline in GDP per capita, poverty is estimated to have temporarily increased to 19.8 percent in 2020, but, with the economic rebound, is expected to drop to 3.8 percent by the end of 2022.

Recent developments

With the sustained recovery in tourism, the economy grew, in real terms, by 19.3 percent (y-o-y) in Q1 2022. The sector continues to grow faster than expected with arrivals reaching 813,211 in H1 2022, a 59 percent increase from the same period in 2021. Given this strong performance, arrivals are expected to reach pre-pandemic highs of 1.7 million by the end of the year, which exceeds the 2022 forecast of 1.57 million.

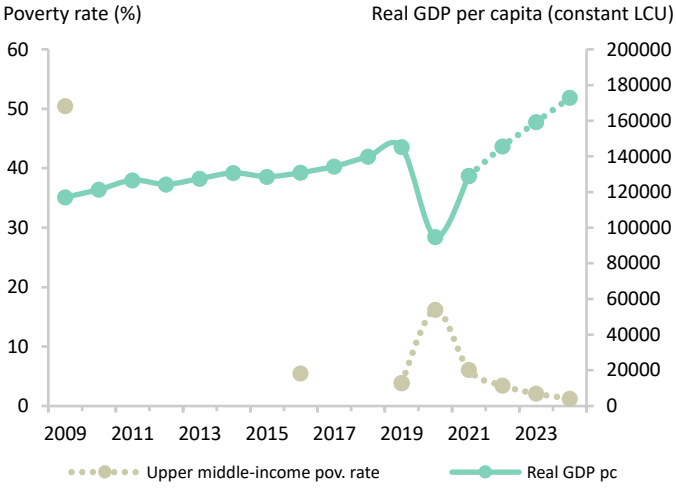
Despite the recovery in tourism driving stronger export earnings, the merchandise trade deficit expanded significantly

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



Sources: Maldives monetary authority and World Bank staff calculations.

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



Source: World Bank. Notes: see table 2.

in H1 2022 driven by a 48 percent (y-o-y) increase in imports following the surge in commodity prices and growth in imports of capital goods and construction materials. At the same time, official reserves fell by 7 percent to US$750.4 million at the end of June, with reserve coverage falling to 2.9 months of imports from 3.8 months at the end of 2021. Prices of services, transportation, food, and housing were also affected by the rise in commodity prices, with headline inflation increasing by 1.2 percent (annual average) in July 2022 compared to 0.5 percent in 2021.

While revenues remain broadly in line with budget expectations for H1 2022, the annual budget for subsidies, Aasandha (government's health insurance scheme), and development project investments were fully spent by the end of June. Given that inflationary pressures are likely to persist and with ongoing plans to complete key infrastructure projects, the government may find it increasingly difficult to finance the subsidy program in its current form and other expenditures in H2 2022. This could have a negative impact on the poor unless subsidies on food, fuel, and health are better targeted.

Outlook

Driven by robust tourism growth, the economy is projected to grow, in real terms, by 12.4 and 8.2 percent in 2022 and 2023, respectively, supported by: (i) greater capacity in the tourism sector due to the completion of Velana International Airport and opening of new resorts, (ii) the expected return of Chinese tourists, and (iii) continued spending on infrastructure, housing, and renewable energy projects. Although inflation is projected at 3.5 percent in 2022, it will likely moderate in 2023 as global energy prices normalize. The current account deficit is expected to remain elevated over the medium-term, as imports grow in response to increased domestic consumption and sustained public investments.

The fiscal deficit is projected to widen in 2022 due to higher capital expenditures and subsidy support. Although the government has announced austerity measures, recurrent spending is likely to increase over the medium-term as the Public Sector Pay Harmonization Policy is implemented. The fiscal deficit is, however, expected to narrow in 2023/24 as revenues grow alongside robust tourism performance and following plans to increase general and tourism GST rates. Despite a narrowing of the fiscal deficit, public debt is expected to remain high at 118 percent of GDP in 2024.

Downside risks persist. Tourism could be adversely impacted by further global shocks. Further increases in commodity prices may cause an additional fiscal burden. With a significant widening of the current account deficit amidst the rising import bill, official reserves have declined to the lowest level since 2018. The government faces external debt servicing payments of about US$330 million on average over the next three years, even as global financing conditions tighten. Stronger-than-expected tourism, including from the traditional markets of China and Western Europe, and newer markets such as India and the Middle East, could offer upside potential for the growth outlook.

More effective revenue mobilization measures, coupled with reforms to Aasandha and existing subsidy programs, and better investment management are critical to bring down the high level of public debt, replenish fiscal buffers against future shocks, and lower the cost of growth-enhancing investments, especially with large debt service obligations.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.9	-33.5	37.0	12.4	8.2	8.1
Private Consumption	4.4	-27.2	29.0	9.1	9.0	9.2
Government Consumption	-4.3	5.4	9.4	7.6	4.7	15.1
Gross Fixed Capital Investment	-2.6	-36.6	15.0	19.5	13.8	3.8
Exports, Goods and Services	6.7	-51.4	89.5	10.9	6.3	7.3
Imports, Goods and Services	-0.3	-41.1	35.2	31.0	8.1	7.9
Real GDP growth, at constant factor prices	6.9	-31.3	33.1	12.4	8.2	8.1
Agriculture	-7.6	7.0	14.8	2.3	2.0	1.8
Industry	1.9	-25.4	6.6	5.3	4.9	2.5
Services	8.6	-34.3	39.0	14.0	9.0	9.1
Inflation (Consumer Price Index)	0.2	-1.4	0.5	3.5	1.3	1.1
Current Account Balance (% of GDP)	-26.6	-35.5	-9.0	-29.1	-19.1	-17.6
Net Foreign Direct Investment Inflow (% of GDP)	17.1	11.8	8.7	10.4	11.3	11.4
Fiscal Balance (% of GDP)	-6.7	-23.5	-14.6	-16.1	-9.6	-8.7
Debt (% of GDP)	78.8	150.3	120.2	122.8	119.0	118.3
Primary Balance (% of GDP)	-4.9	-20.7	-11.9	-13.3	-6.2	-5.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	3.9	19.8	7.0	3.8	2.1	1.0
GHG emissions growth (mtCO2e)	2.2	-11.0	11.1	13.6	11.8	10.5
Energy related GHG emissions (% of total)	81.1	82.4	84.1	85.9	87.2	88.3

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

NEPAL

Table 1	2021
Population, million	29.7
GDP, current US$ billion	36.3
GDP per capita, current US$	1222.8
International poverty rate ($2.15)[a]	8.2
Lower middle-income poverty rate ($3.65)[a]	40.0
Upper middle-income poverty rate ($6.85)[a]	80.4
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	126.9
Life expectancy at birth, years[b]	71.1
Total GHG emissions (mtCO2e)	46.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2010), 2017 PPPs.
b/ Most recent WDI value (2020).

After a strong recovery in FY21 and FY22, Nepal's GDP growth is projected to moderate as monetary policy normalizes and remaining pandemic support measures are unwound. The current account deficit is expected to improve as the rise in commodity prices stabilizes, import demand moderates, and remittances rise. Key risks include higher-than-expected inflation and continued or new distortionary measures to protect reserves. Bright spots include the commissioning of additional hydropower generation capacity.

Key conditions and challenges

Nepal achieved solid yet volatile growth averaging 5.2 percent between FY12 and FY19, elevating the country to lower middle-income status in 2020. Growth benefited from substantial remittance inflows averaging 23.2 percent of GDP per year which financed consumption and poverty reduction but constrained the development of export-oriented domestic industries. The COVID-19 pandemic has stalled progress in poverty reduction.

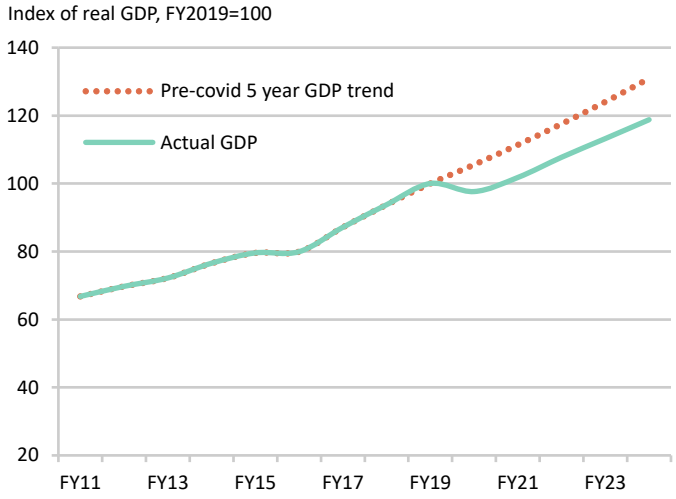
Nepal's macroeconomic outlook is stable, but the country faces structural challenges. The economy suffers from productivity shortfalls driven by infrastructure gaps, challenging geographic conditions, and remittances appreciating real exchange rates and thus hindering the development of an export sector. A structural deficit has emerged following the transition to federalism as spending responsibilities have yet to be fully devolved. Nepal's external sector maintains a fragile equilibrium in which remittances finance most of Nepal's large trade deficit, with the remainder covered by reserves and borrowing. Attracting additional foreign exchange inflows through foreign direct investment and export growth is necessary to enhance resilience and alleviate pressure on reserves.

Recent developments

Nepal's economy has emerged strongly from the pandemic with GDP estimated to have grown by 5.8 percent in FY22, up from 4.2 percent in FY21. Growth was driven by industry and services benefiting from post-pandemic demand and generous financing conditions. Agricultural growth, by contrast, slowed due to unseasonal rains. Average consumer inflation rose from 3.6 percent in FY21 to 6.3 percent in FY22, including price increases in transportation, education, and housing. Inflation has been broad-based, and the rising cost of basic necessities negatively impacts the poor and vulnerable.

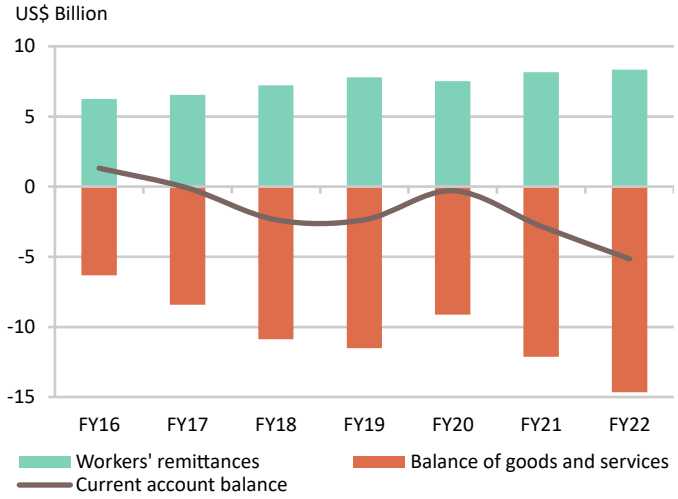
The rapid increase in domestic demand, coupled with rising prices for imported goods, fueled imports early in FY22. By contrast, remittances - Nepal's largest source of foreign exchange earnings - did not begin growing again until late FY22 and have remained below FY21 levels as a percentage of GDP. Remittances are an important income for households and impact welfare across the distribution. As a result, the current account deficit (CAD) widened to 12.8 percent of GDP in FY22, which Nepal opted to finance through concessional borrowing, trade credits, and a drawdown in reserves which declined from USD 11.8 billion in mid-July 2021 to USD 9.5 billion in mid-July 2022, equivalent to 6.9 months of import cover. Reserves are deemed adequate, above the 5.5 months of imports recommended by the IMF but lower than the central bank policy

FIGURE 1 **Nepal** / Real GDP levels: Actual vs. pre-covid trend



Sources: World Bank staff projections and Nepal Central Bureau of Statistics.

FIGURE 2 **Nepal** / Current account deficit



Sources: World Bank staff calculations and Nepal Rastra Bank.

floor of 7 months. To reduce demand for imports and thus foreign currency, the government raised the policy rate in February 2022, imposed a ban on the import of selected "non-essential goods" in April 2022, and raised letters of credit and cash backing requirements on imports.

The fiscal deficit narrowed from 4.1 to 3.5 percent of GDP in FY22, driven by substantial capital budget under-execution, delayed passage of the FY22 budget, and greater trade-related revenues associated with elevated imports. Public debt has begun to stabilize, as the debt to GDP ratio rose by 0.8 percentage points of GDP to reach 41.5 percent of GDP in FY22. The most recent Joint Bank-Fund Debt Sustainability Analysis of December 2021 finds that the risk of debt distress remains low.

The uneven and slow labor market recovery poses risks to poverty reduction and can exacerbate existing inequalities. A World Bank COVID monitoring survey at the end of 2021 suggests that the economic contraction had a major impact on jobs and incomes. While most jobs lost in 2020 had been regained by the end of 2021, 22 percent of jobs lost had not been recovered. The recovery was much faster in 2021 than it was in 2020 when only 14 percent of those who lost their job found a new one. The recovery from earnings losses has been slower: 53 percent of those who recovered from a job loss by late 2021 reported an earnings loss.

Outlook

The baseline scenario assumes no new pandemic containment measures, an end to ongoing import restrictions, and recovery of tourist arrivals by FY24. The forecast projects growth moderating to 5.1 percent in FY23 and 4.9 percent in FY24, reflecting monetary policy normalization, the end of pandemic monetary support measures, and still relatively high commodity prices. A rebound in tourism is projected to support the services sector, although higher interest rates could weigh on demand in other subsectors. Industrial growth should be strong due to increased hydroelectricity production and an increased supply of electricity to other industrial sectors. Continued fertilizer shortages are expected to weigh on agricultural growth in FY23. Inflation is expected to moderate to 5.3 percent in FY24 as commodity prices stabilize and a hawkish monetary policy is fully implemented.

The fiscal deficit is projected to fall from 3.4 percent of GDP in FY23 to 2.4 percent in FY24 as the remaining COVID-19 support measures and FY23 electoral spending end, and the government implements revenue-enhancing reforms. Total public debt is projected to decrease to 40.9 percent of GDP by FY24.

The CAD is expected to narrow to 8.8 percent of GDP in FY23 and 5.7 percent in FY24 as tightened monetary policy increases import financing costs and commodity prices stabilize. Remittances are expected to increase by 0.7 percentage points of GDP between FY22 and FY24 reflecting increased outmigration and exports, while small in magnitude, are projected to rise. FDI is projected to remain low, leaving external borrowing and reserves drawdowns to continue financing the CAD.

Risks to the outlook are balanced. Higher than expected inflation would reduce household purchasing power and drag growth, as would an extension of import restrictions. Welfare recovery remains uncertain due to rising inflation and risks to agricultural production. While a steeper drop in commodity prices would reduce the import bill and ease external pressures, a strong correction in oil prices could lower the demand for migrants in Gulf countries and weigh on remittances inflows.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.7	-2.4	4.2	5.8	5.1	4.9
Private Consumption	8.1	3.6	4.3	5.4	2.9	2.1
Government Consumption	9.8	3.8	-1.7	5.5	3.0	-5.3
Gross Fixed Capital Investment	11.3	-8.9	9.8	4.6	5.8	9.0
Exports, Goods and Services	5.5	-15.9	-21.1	35.0	20.3	18.4
Imports, Goods and Services	5.8	-20.8	16.3	15.0	3.9	4.1
Real GDP growth, at constant factor prices	6.4	-2.4	3.8	5.5	5.1	4.9
Agriculture	5.2	2.4	2.8	2.3	2.0	2.1
Industry	7.4	-4.0	4.5	10.2	8.9	9.2
Services	6.8	-4.5	4.2	5.9	5.6	5.1
Inflation (Consumer Price Index)	4.6	6.1	3.6	6.3	5.5	5.3
Current Account Balance (% of GDP)	-6.9	-0.9	-7.8	-12.8	-8.8	-5.7
Net Foreign Direct Investment Inflow (% of GDP)	0.3	0.5	0.5	0.4	0.4	0.4
Fiscal Balance (% of GDP)	-5.0	-5.4	-4.1	-3.5	-3.4	-2.4
Debt (% of GDP)	27.2	36.9	40.6	41.5	41.6	40.9
Primary Balance (% of GDP)	-4.5	-4.7	-3.3	-2.6	-2.3	-1.2
GHG emissions growth (mtCO2e)	-1.2	-4.1	1.2	2.2	1.7	3.5
Energy related GHG emissions (% of total)	28.3	24.7	23.7	23.3	23.6	23.8

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

PAKISTAN

Table 1	2021
Population, million	225.2
GDP, current US$ billion	348.3
GDP per capita, current US$	1546.5
International poverty rate ($2.15)[a]	4.9
Lower middle-income poverty rate ($3.65)[a]	39.8
Upper middle-income poverty rate ($6.85)[a]	84.5
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	95.5
Life expectancy at birth, years[b]	67.4
Total GHG emissions (mtCO2e)	456.3

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

Supported by accommodative macroeconomic policy, Pakistan's economy saw robust growth in FY22, at the cost of growing economic imbalances. The Government has begun to further tighten policy to constrain aggregate demand. However, the catastrophic flooding is likely to disrupt activity and may lead to delays in the required fiscal consolidation. Economic growth is expected to slow substantially in FY23. Unanticipated flood damages, policy slippages, and political uncertainty pose substantial risks.

Key conditions and challenges

Despite an economic rebound in FY21 and FY22, persistent structural weaknesses of the Pakistani economy, such as low productivity growth due to low investment and exports, are hindering a sustained recovery. Expansionary COVID-related macroeconomic policies supported aggregate demand that have contributed to pressures on domestic prices, external sector, the exchange rate, and foreign reserves. In response, the Government, amid the ongoing monetary tightening, passed a contractionary FY23 Budget and reversed unsustainable energy price subsidies.

Continued policy tightening has become more challenging on account of the catastrophic floods. The Government will face challenges in implementing the planned fiscal consolidation, given extensive relief and recovery needs. Additional downside risks include unexpected damages resulting from the still evolving flooding situation that could further reduce output and worsen economic imbalances, political pressures that undermine the implementation of a coherent and prudent macroeconomic policy mix, unanticipated deterioration of external conditions, and risks associated with large fiscal and external financing needs. To manage these uncertainties, the Government should adhere to sound economic management, while carefully targeting any new expenditures and maintaining progress on critical structural reforms, including in the energy sector.

Recent developments

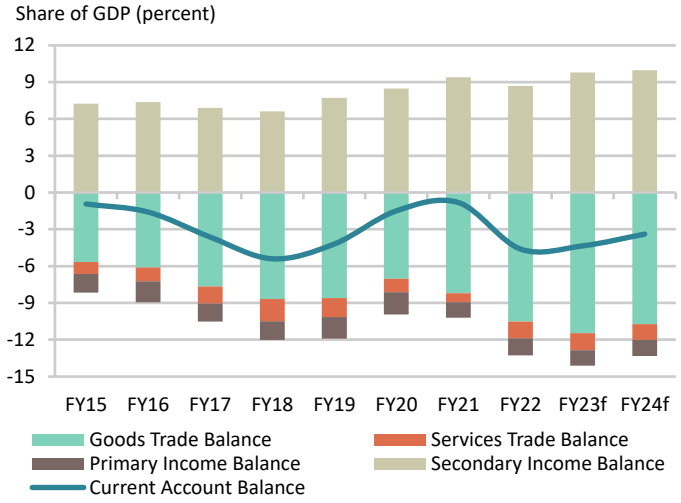
Growth of real GDP at constant 2015-16 factor prices for FY22 was estimated at 6.0 percent. Agricultural output growth increased significantly on larger crop production, in line with overall better weather conditions, and stronger livestock output. Growth of industry and services sectors remained strong but some industries, such as food and textiles, are weakening in line with the deteriorating macro conditions.

On the external front, strong domestic demand and high global commodity prices led to a current account deficit (CAD) of 4.6 percent of GDP in FY22, the largest in 4 years (Figure 1). The large CAD, together with ongoing political and policy uncertainty, weakened investor confidence and the currency depreciated 23.1 percent against the U.S. dollar in FY22. Foreign reserves dwindled to 1.5 months of import cover at end-FY22.

The weaker Rupee, high commodity prices, and the overheating economy, pushed up inflation, which reached an average of 12.2 percent in FY22, an 11-year high. Accordingly, the State Bank of Pakistan tightened monetary policy and raised the policy rate by a cumulative 800 bps beginning September 2021. However, at the current policy rate of 15 percent, the real interest rate is still negative.

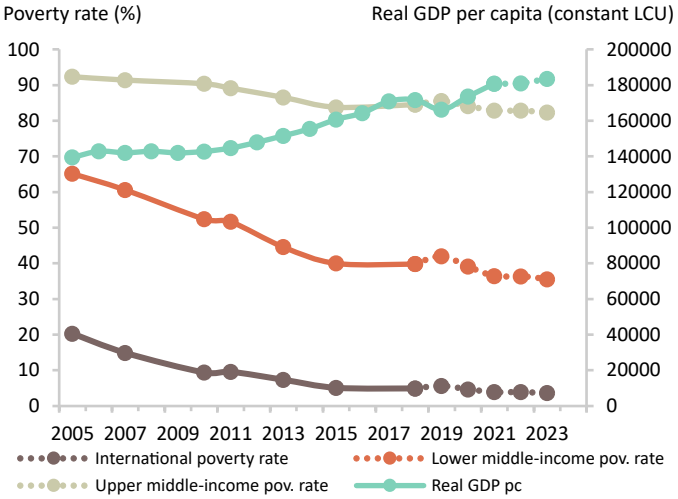
Partly due to energy price subsidies, the FY22 fiscal deficit widened to 7.8 percent

FIGURE 1 Pakistan / Current account balance and major components



Sources: State Bank of Pakistan and World Bank staff estimates.
Notes: Pakistan reports data on a fiscal year (FY) basis. The fiscal year runs from July 1 through June 30.

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



Source: World Bank. Notes: see Table 2.

of GDP and public debt rose to 78.0 percent of GDP. Banking sector sovereign exposure continued to increase, with lending to the public sector accounting for nearly 70 percent of all bank credit at end-June 2022. Considering the mounting risks, rating agencies downgraded Pakistan's government bonds, while bond yields rose sharply. The Government responded with a contractionary FY23 budget targeting a primary surplus of 0.2 percent of GDP and adjustments to energy prices, leading to some improvement in sentiment and stabilization of yields, and the exchange rate in early FY23.

Outlook

The economic outlook and prospects for overdue adjustment have been significantly affected by the floods. Agricultural output is expected to decline sharply, with losses to cotton, date, wheat, and rice crops. Nearly a million livestock is estimated to have perished. Cotton losses are expected to weigh on the domestic textile industry and the wholesale and transportation service industries. Public relief and limited reconstruction activities are expected to partially offset the loss in activity. Real GDP growth is therefore expected to slow to 2.0 percent in FY23, but recover to 3.2 percent by FY24, supported by a recovery in agricultural production, reconstruction efforts, and projected lower global inflationary pressures.

Due to higher energy prices, flood disruptions, and the weaker Rupee, inflation is projected to rise to 23.0 percent in FY23 but moderate over the forecast horizon with declining international energy prices and resolution of flood-related supply constraints. Despite flood-associated effects, the CAD is expected to narrow slightly to 4.3 percent of GDP in FY23 with slower domestic economic activity and is projected to shrink further in FY24 as exports recover from flood impacts.

In line with fiscal consolidation efforts, the fiscal deficit is projected to contract modestly to 6.8 percent of GDP in FY23, despite negative revenue impacts from the flooding and increased expenditure needs. The fiscal deficit is expected to gradually narrow over the medium term as revenue mobilization measures, particularly GST harmonization and personal income tax reform, take hold. With rapid nominal GDP growth, public debt as a share of GDP is projected to decline gradually over the forecast period, despite continued primary deficits. The macroeconomic outlook is predicated on the IMF-EFF program remaining on track.

The high inflation and devastating floods will have an adverse impact on poverty. While rising prices reduced real purchasing power of all households, the floods primarily affected rural areas in Sindh and Balochistan where poverty rates are already high. Poorer households are more dependent on agricultural income and spend a larger share of their income on food, and therefore will be disproportionally affected by the loss of the harvest and assets like housing and livestock, and rising prices. As a direct consequence of the floods, the national poverty rate could increase by 2.5 to 4.0 percentage points, with adverse human development effects in disaster-affected areas. The size and duration of shocks will vary across locations and households, depending on the intensity of the flooding as well as the quality of relief and reconstruction efforts.

TABLE 2 Pakistan / 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	2.5	-1.3	6.5	6.2	2.0	3.2
Private Consumption	5.6	-2.8	9.3	10.0	3.1	3.3
Government Consumption	-1.6	8.5	1.8	-3.4	7.0	0.3
Gross Fixed Capital Investment	-11.1	-6.7	4.5	2.5	-9.7	2.9
Exports, Goods and Services	13.2	1.5	6.5	8.4	1.5	3.1
Imports, Goods and Services	7.6	-5.1	14.5	15.6	2.3	1.8
Real GDP growth, at constant factor prices[a]	3.1	-0.9	5.7	6.0	2.0	3.2
Agriculture	0.9	3.9	3.5	4.4	-1.8	3.0
Industry	0.2	-5.7	7.8	7.2	2.4	2.9
Services	5.0	-1.2	6.0	6.2	3.2	3.4
Inflation (Consumer Price Index)	6.8	10.7	8.9	12.2	23.0	9.5
Current Account Balance (% of GDP)	-4.2	-1.5	-0.8	-4.6	-4.3	-3.3
Net Foreign Direct Investment Inflow (% of GDP)	0.4	0.9	0.5	0.4	0.6	0.7
Fiscal Balance, including grants (% of GDP)	-7.8	-7.0	-6.0	-7.8	-6.8	-6.1
Debt (% of GDP)	78.0	81.1	75.6	78.0	71.7	71.9
Primary Balance, including grants (% of GDP)	-3.0	-1.5	-1.1	-3.0	-2.8	-2.1
International poverty rate ($2.15 in 2017 PPP)[b,c]	4.9	5.6	4.7	3.9	3.9	3.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	39.8	42.0	39.1	36.4	36.4	35.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	84.5	85.5	84.1	82.9	82.8	82.4
GHG emissions growth (mtCO2e)	2.5	0.0	3.9	3.2	3.1	2.5
Energy related GHG emissions (% of total)	42.9	41.9	42.3	42.2	42.0	41.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ The Government's provisional FY22 estimate of real GDP growth (at 2015-16 prices) is 6.0 percent.
b/ Calculations based on SAR-POV harmonization, using 2018-HIES. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

SRI LANKA

Table 1	2021
Population, million	22.0
GDP, current US$ billion	88.9
GDP per capita, current US$	4040.6
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	13.8
Upper middle-income poverty rate ($6.85)[a]	52.8
Gini index[a]	39.3
School enrollment, primary (% gross)[b]	100.3
Life expectancy at birth, years[b]	77.1
Total GHG emissions (mtCO2e)	48.1

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

Sri Lanka faces an unsustainable debt and severe balance of payments crisis, which is having a negative impact on growth and poverty. The fluid political situation and heightened fiscal, external and financial sector imbalances pose significant uncertainty for the outlook. Debt restructuring and the implementation of a deep structural reform program are critical for economic stabilization. The crisis is expected to increase poverty substantially, making mitigation efforts a key priority.

Key conditions and challenges

The economy was already showing signs of weakness before the COVID-19 pandemic. Growth and poverty reduction had slowed down in the last five years. A restrictive trade regime, weak investment climate, episodes of loose monetary policy, and an administered exchange rate had contributed to external imbalances. Years of fiscal indiscipline, driven primarily by low revenue collections, had led to high fiscal deficits and large gross financing needs. Combined with these pre-existing fiscal imbalances, tax cuts in 2019 contributed to a rapid growth in debt to unsustainable levels. Sri Lanka lost access to international financial markets in 2020, after credit rating downgrades.

Without market access, Sri Lanka continued to service its external debt and pay for imports using official reserves and loans from the banking sector. Official reserves dropped from US$7.6 billion in 2019 to less than US$400 million (excluding a currency swap equivalent to US$ 1.5 billion with China) in June 2022. Net foreign assets in the banking system also fell to US$ -5.9 billion in June 2022. This severe forex liquidity constraint has been felt across the economy, particularly from Q2 2022, with shortages of fuel, medicines, cooking gas, and inputs needed for economic activity. Amid depleted reserves, Sri Lanka announced an external debt service suspension in April 2022, and later appointed legal and financial advisors to support debt restructuring.

The incumbent president resigned following protests in July. Although parliament appointed a new president to complete the remaining two and a half-year term, political tensions remain elevated as the economic crisis deepens.

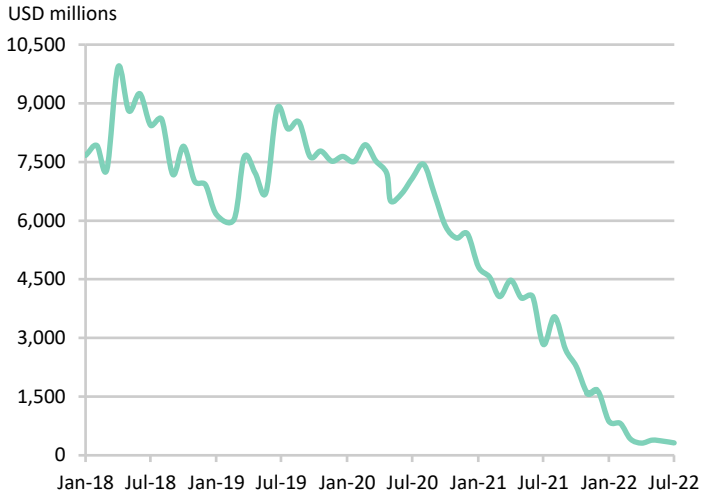
The IMF reached a staff-level agreement with Sri Lanka on a 48-month Extended Fund Facility program of about US$2.9 billion. However, financing assurances to restore debt sustainability from official creditors and making a good faith effort to reach a collaborative agreement with private creditors are crucial before the IMF can provide financial support.

Recent developments

The economy contracted by 4.8 percent (y-o-y) in 1H 2022. Amid shortages of inputs and supply chain disruptions, all key sectors contracted. High frequency indicators such as the purchasing managers' indices indicate continued stress beyond 1H as well.

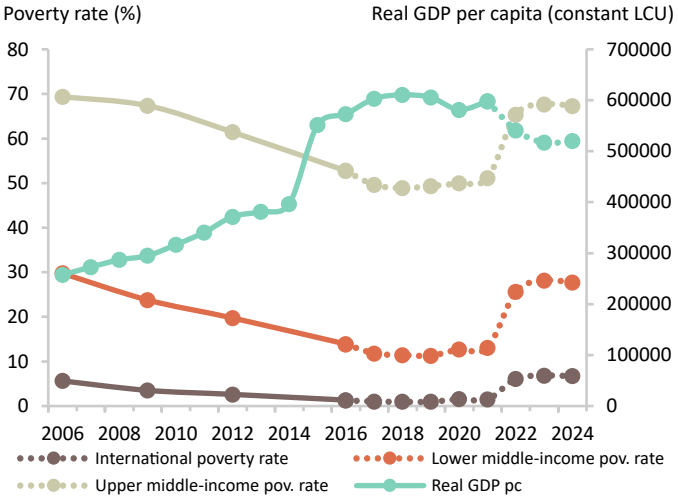
Inflation reached an unprecedented 64.3 percent (y-o-y) in August 2022, due largely to high food inflation of 93.7 percent (y-o-y). This reflects the impact of rising global commodity prices, monetization of the fiscal deficit, and currency depreciation. The ban on chemical fertilizers in 2021 and the negative impact on crop yields have also affected domestic food supplies, agriculture earnings, and food security. Between January and July 2022, the central bank

FIGURE 1 **Sri Lanka** / Gross official reserves



Source: Central Bank of Sri Lanka and World Bank staff calculations.
Note: gross official reserves exclude a currency swap with China equivalent to US$ 1.5 billion.

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



Source: World Bank. Notes: see table 2.

raised policy rates by a cumulative 950 basis points to try to curb inflation.

Poverty is expected to have increased in 2022, given the contraction in the economy. Poorer households have been impacted from multiple fronts (food inflation, job losses, limited fertilizer supply, and drop in remittances). While social assistance provides some relief, it is inadequate in the face of substantial losses in real income.

The goods trade deficit declined by 18.6 percent (y-o-y) in H1 2022 as exports, particularly textiles, grew faster than imports, which were largely financed by Indian financial support of approximately US$3.8 billion. With declining remittances and limited tourism receipts, the current account deficit is expected to have widened in H1 2022. The central bank floated the currency on March 07 and returned to a managed float on May 12 after the LKR depreciated by about 78 percent since the floating. Due to low market confidence, it has been challenging to bring export earnings and remittances to Sri Lanka through formal channels, despite mandatory repatriation and conversion rules.

Although expenditures increased in the first four months of 2022 – due to additional support provided to social protection beneficiaries, public servants, and pensioners – several revenue measures, including a one-off tax imposed on large corporates, helped reduce the primary deficit. The overall deficit remained broadly unchanged, however, due to the rising interest bill, and was financed primarily by the central bank. To raise more revenue, the government increased the VAT rate from 8 to 15 percent and proposed additional tax measures in May and through the 2022 Interim Budget in August.

Outlook

The fluid political situation and heightened fiscal, external and financial sector imbalances pose significant uncertainty for the outlook. The growth outlook is subject to high uncertainty and will depend on the progress in fiscal consolidation, debt restructuring, and growth-enhancing structural reforms. Despite tightened monetary policy, inflation will likely stay elevated. The fiscal deficit is expected to gradually fall over the medium-term due to consolidation efforts. The current account deficit is expected to decline due to import compression. Additional resources will be needed in 2023 and beyond to close the external financing gap. Poverty is projected to remain above 25 percent in the next few years.

Key downside risks include a slow debt restructuring process, limited external financing support, and a prolonged recovery from the scarring effects of the crisis. Fiscal consolidation needs to be accompanied by tighter monetary policy to contain inflationary pressures. Significant debt restructuring is essential to restore a sustainable debt level. The financial sector has to be managed carefully given high exposure to the public sector. The necessary macroeconomic adjustments may initially adversely affect growth and poverty but will correct the macroeconomic imbalances, help regain access to international financial markets, and build the foundation for sustainable growth. Mitigating the impacts on the poor and vulnerable remains critical during the adjustment. Reductions in poverty will require an expansion of employment in industry and services and a recovery in the real value of incomes. On the upside, a credible reform program supported by financing from international partners could enhance confidence and attract fresh capital inflows.

TABLE 2 Sri Lanka / 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	-3.5	3.3	-9.2	-4.2	1.0
Private Consumption	3.8	-5.8	6.2	-9.8	-4.0	1.1
Government Consumption	6.6	3.6	3.1	-9.4	-2.2	-2.9
Gross Fixed Capital Investment	-12.1	-9.1	9.6	-16.0	-6.3	1.5
Exports, Goods and Services	1.7	-29.6	10.3	1.8	1.9	2.0
Imports, Goods and Services	-3.5	-20.1	4.1	-9.9	0.4	0.6
Real GDP growth, at constant factor prices	0.4	-3.0	4.0	-9.2	-4.2	1.0
Agriculture	0.5	-1.4	2.5	-9.0	2.4	1.5
Industry	-4.1	-5.3	5.6	-11.2	-5.7	1.0
Services	2.9	-1.9	3.3	-8.2	-4.2	0.9
Inflation (Consumer Price Index)	4.3	4.6	6.0	45.6	23.8	8.0
Current Account Balance (% of GDP)	-2.1	-1.4	-3.8	-1.4	-0.7	-0.4
Net Foreign Direct Investment Inflow (% of GDP)	0.7	0.5	0.8	0.3	0.3	0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.0	1.5	1.5	6.1	6.8	6.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	11.3	12.7	13.1	25.6	28.2	27.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	49.3	50.0	51.2	65.4	67.6	67.3
GHG emissions growth (mtCO2e)	5.2	0.1	4.4	-9.8	-4.7	2.5
Energy related GHG emissions (% of total)	70.2	71.4	71.9	68.8	67.1	67.7

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 SAR-POV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2024.
b/ Projection based on microsimulations for 2020-2022. Projections for 2023-2024 using neutral distribution (2022) with pass-through = 0.87 based on GDP per capita in constant LCU.

Sub-Saharan Africa

Annual Meetings 2022

Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Central African Republic
Chad
Comoros
Congo, Dem. Republic
Congo, Republic
Côte d'Ivoire
Equatorial Guinea
Eritrea
Eswatini
Ethiopia
Gabon
The Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Namibia
Niger
Nigeria
Rwanda
São Tomé and Príncipe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
South Sudan
Sudan
Tanzania
Togo
Uganda
Zambia
Zimbabwe

ANGOLA

Table 1	2021
Population, million	33.9
GDP, current US$ billion	73.2
GDP per capita, current US$	2158.0
International poverty rate ($2.15)[a]	31.1
Lower middle-income poverty rate ($3.65)[a]	52.9
Upper middle-income poverty rate ($6.85)[a]	78.0
Gini index[a]	51.3
School enrollment, primary (% gross)[b]	113.5
Life expectancy at birth, years[b]	61.5
Total GHG emissions (mtCO2e)	129.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2015); Life expectancy (2020).

After emerging from a five-year recession with slightly positive GDP growth in 2021, Angola has continued on its path of economic recovery into 2022. Thanks to high oil prices and the strengthening of non-oil sectors, the outlook for 2022 and the subsequent years is favorable. General elections on August 24 reconducted the incumbent administration. It faces the challenge of leveraging the currently favorable economic momentum by relieving extreme poverty while investing in a more sustainable, diversified, and inclusive growth path.

Key conditions and challenges

An oil-dependent economy, Angola's economic performance has been significantly influenced by the global oil price. The oil-led growth model has caused macroeconomic instability and resulted in high levels of poverty and inequality. Oil revenues were insufficiently (or ineffectively) reinvested, resulting in underdeveloped infrastructure and low human capital, which limited opportunities for economic diversification. Global decarbonization poses further challenges to Angola's growth model and increases the urgency of economic diversification.

Recent years have seen structural reforms undertaken to move Angola away from its resource dependency. Macroeconomic stability has been improved through a more flexible exchange rate regime, central bank autonomy, sound monetary policy, and fiscal consolidation. Laws to increase the stability of the financial sector, improve fiscal policy effectiveness, and reduce the impact of oil revenue volatility on public finances have also been introduced. In addition, the authorities have taken steps to reduce corruption – considered one of the major constraints for doing business in Angola – and improve the business climate. To combat poverty and boost human capital, investments in education and health have been complemented with the roll-out of a social protection registry and a targeted cash transfer program (Kwenda) in 2020, for which registration reached over 800,000 households by mid-2022.

Adding to Angola's challenges, the impacts of global warming are increasingly felt. Especially in the south of the country, worsening climatic conditions have led to a multi-year severe drought with 1.3 million suffering from food crisis.

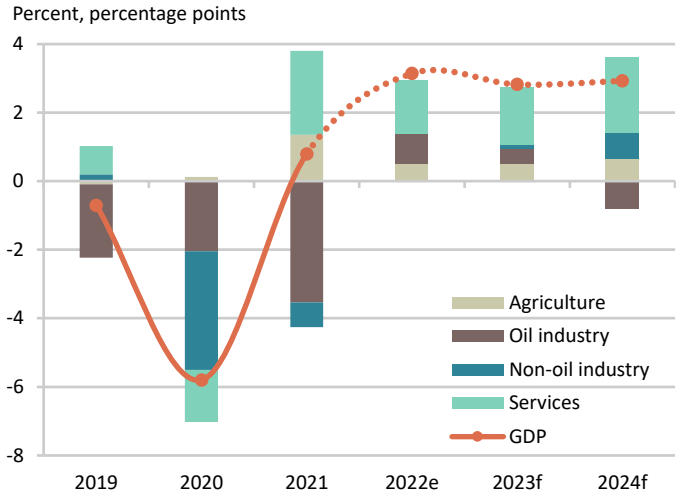
Recent developments

Notwithstanding long-term sustainability concerns, higher oil prices in 2022 are contributing to firmer economic activity. Angola exited a five-year recession in 2021, growing 0.8 percent thanks to strong performance of fisheries, agriculture, and services. In 2022 Q1, GDP growth remained solid, at 2.6 percent. Oil production increased, averaging 1.17 million barrels per day in the first half of 2022, up 7 percent from last year.

With higher production and oil prices averaging over US$100/barrel in 2022, exports and government revenues, of which 95 and 60 percent are oil-related, have been increasing, as have net international reserves. Public debt, meanwhile, declined from over 130 percent of GDP in 2020 to 86 percent in 2021.

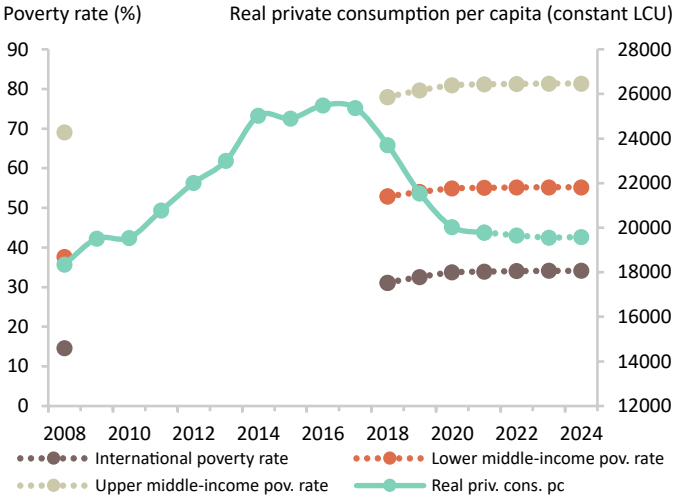
High oil prices caused a 24 percent appreciation of the Kwanza against the USD in July relative to end-2021. Despite currency strength, overall and food inflation remain high, at 23 and 26.2 percent in June, respectively. This led

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



Sources: Angola National Institute of Statistics and World Bank MTI.

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



Source: World Bank. Notes: see Table 2.

to an appreciation of the real effective exchange rate of 92.7 percent in June. With an inflation target of 18 percent for end-2022, the central bank has kept its reference rate at 20 percent but started easing other monetary instruments.

The rising cost of living especially burdens the urban poor, who rely on informality and face high unemployment. However, the urban share of the working-age population employed shows signs of recovery, with 2 percentage points y/y increase to 52 percent 2022 Q2, while the national rate registered a 1-percentage point y/y increase, reaching 63 percent.

Developments beyond oil have also been supportive. In April, Angola successfully tapped global bond markets and saw the start of operations of the mobile network operator Africell. In June, the largest private bank launched the country's first initial public offering, and Angola became a member of the Extractive Industries Transparency Initiative (EITI).

Outlook

High oil prices will strengthen Angola's economy in the near term. Real GDP is projected to grow 3.1 percent in 2022, following a slight expansion of oil production. The non-oil growth is expected to pick up, generating approximately 2.8 percent GDP growth in 2023 and 2024 despite the expected contraction of the oil sector in 2024 as reserves are slowly being exhausted. Economic growth will however continue to trail population growth, and per capita GDP is expected to further decline or, at best, stagnate, further highlighting the need to accelerate economic growth. In 2022, oil revenue windfalls will generate a fiscal surplus of 1.0 percent of GDP, projected to drive down public debt to 62 and 61 percent of GDP in 2022 and 2023. By 2024, the loss of oil revenues will cause a fiscal deficit of 0.2 percent of GDP and a slight uptick in public debt.

With stagnating per capita GDP levels, the poverty rate will remain largely unchanged at around 34 percent of the population living on less than US$ 2.15 per day (2017 PPP) - the updated international poverty line. This highlights the need for the continued expansion of Kwenda and programs to increase productivity and employment opportunities, especially for youth and women. Moreover, if fertilizer prices remain high, agricultural production in the incoming season may significantly fall, increasing food insecurity and food prices.

On August 24, Angola held legislative and presidential elections, which reappointed the incumbent government. Politically complex reforms that require continued political commitment and ownership, such as the phasing-out of fuel subsidies, remain outstanding. Moreover, the new administration will have to manage significant economic challenges in the medium-term, aggravated by tighter financing conditions and global uncertainty caused by rising geopolitical tensions.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-0.7	-5.8	0.8	3.1	2.8	2.9
Private Consumption	-6.2	-4.0	2.0	2.5	2.7	3.3
Government Consumption	-1.6	-7.1	4.0	9.7	3.3	5.2
Gross Fixed Capital Investment	-1.9	-1.6	17.0	5.5	5.1	6.6
Exports, Goods and Services	-5.9	-6.2	-10.7	3.3	2.2	-2.1
Imports, Goods and Services	-11.0	-21.7	7.0	10.0	7.0	6.5
Real GDP growth, at constant factor prices	-1.2	-7.0	-0.5	3.1	2.8	2.9
Agriculture	-1.3	1.8	17.3	5.6	5.4	6.9
Industry	-3.6	-10.4	-8.5	1.9	1.2	-0.1
Services	2.2	-3.9	6.2	3.8	4.0	5.2
Inflation (Consumer Price Index)	17.1	22.3	25.8	22.6	14.1	8.9
Current Account Balance (% of GDP)	6.2	2.4	10.1	15.2	14.0	10.9
Net Foreign Direct Investment Inflow (% of GDP)	-2.1	3.3	4.5	-0.5	-1.3	-1.6
Fiscal Balance (% of GDP)	0.8	-1.9	2.9	1.0	0.2	-0.2
Debt (% of GDP)	119.6	130.7	85.7	61.9	61.3	62.5
Primary Balance (% of GDP)	6.5	4.9	8.2	5.3	4.0	4.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	32.6	33.7	33.9	34.1	34.2	34.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	54.0	54.9	55.1	55.2	55.2	55.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	79.6	80.9	81.2	81.3	81.4	81.4
GHG emissions growth (mtCO2e)	6.8	1.1	0.1	1.9	0.5	1.5
Energy related GHG emissions (% of total)	16.1	16.7	17.1	19.2	20.2	21.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2013-, 2019-, and 2018-IDREA. Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.
b/ Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

BENIN

Table 1	2021
Population, million	12.5
GDP, current US$ billion	17.8
GDP per capita, current US$	1427.3
International poverty rate ($2.15)[a]	19.9
Lower middle-income poverty rate ($3.65)[a]	53.2
Upper middle-income poverty rate ($6.85)[a]	83.4
Gini index[a]	37.8
School enrollment, primary (% gross)[b]	114.2
Life expectancy at birth, years[b]	62.1
Total GHG emissions (mtCO2e)	28.0

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

After a strong rebound in 2021, real growth is expected to moderate to 5.7 percent in 2022, notably driven by subdued private consumption due to rising inflationary pressures that also keep the fiscal deficit elevated, at 5.5 percent of GDP. Public debt has increased as a result. Food and energy price volatility, increased security risks in the north, and extreme weather events cloud the outlook for growth and poverty reduction.

Key conditions and challenges

The COVID-19 crisis significantly reduced Benin's real growth rate even though a swift economic response, combined with the continuation of large public infrastructure projects, supported growth throughout 2020 and paved the way for a strong rebound in 2021 at 7.2 percent. The Government Action Plan (PAG), which initially covered the period 2016-2021, was extended to 2026 following the reelection of President Talon in April 2021, and the PAG2 maintains its focus on macroeconomic stability, strengthening governance, and ambitious infrastructure investments (transport, logistics, agriculture, and tourism).

Strengthening the recovery over time will require continued structural reforms to alleviate key constraints. First, productivity growth in services and industry has been slow due to low quality education and skills mismatches. Second, the COVID-19 crisis highlighted the difficulty of targeting support towards the most vulnerable as social safety net mechanisms are still being built. Finally, even though fiscal consolidation efforts since 2016 enabled countercyclical fiscal policy in response to the 2020-2022 crisis, domestic revenue mobilization remains structurally weak, limiting fiscal space for productive spending.

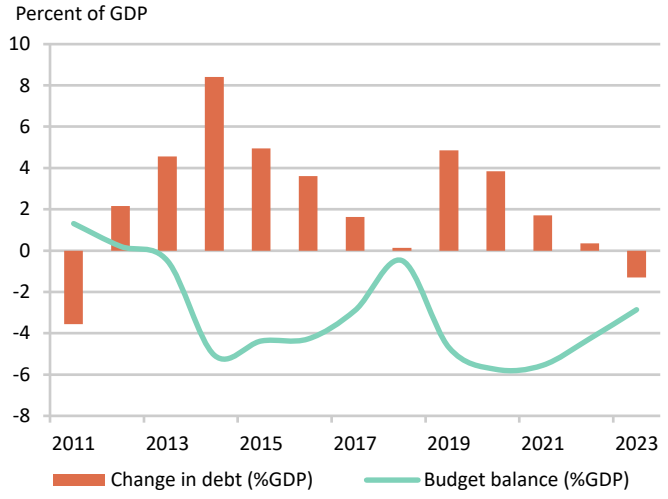
In terms of risks, sustained food and energy price volatility and supply-side disruptions, e.g., fertilizers fueled by the war in Ukraine, would negatively impact poor and vulnerable households, increasing food insecurity and slowing poverty reduction. Extreme climate events could also cause damage and jeopardize agricultural output. An increase in terrorist attacks in the northern regions could also threaten economic development in these rural communities, pushing more households into fragility.

Recent developments

Real GDP growth is expected to decelerate to 5.7 percent in 2022 – 1 ppt below pre-Ukraine war projections, due to negative terms of trade shocks and worsening global economic outlook. On the supply side, all sectors would decelerate due to the spike in commodity and fertilizer prices and supply chain disruptions. On the demand side, private consumption is contracting, while public spending drives up government consumption. Annual inflation eased to 1.7 percent on average in 2021. On a monthly basis, however it peaked at 7.9 percent in January 2022 due to rising global energy and food prices, before government measures to limit staple food prices resulted in annualized inflation declining to 2 percent at end-July.

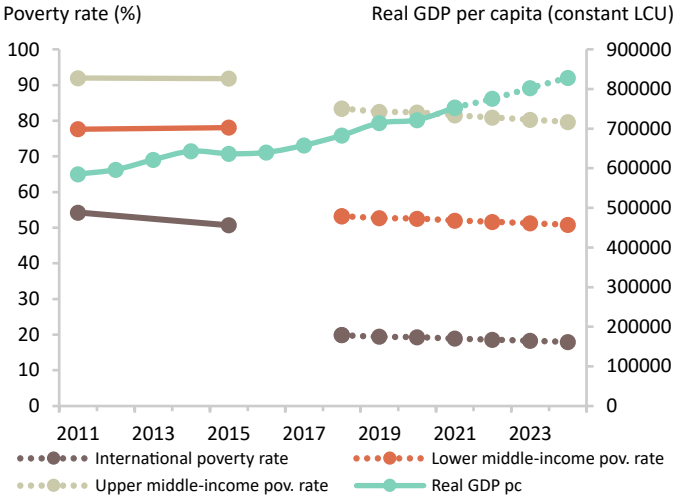
Higher commodity prices coupled with significant construction, energy, and security imports are expected to widen the current account deficit (CAD) (including grants) to 6.2 percent of GDP in 2022, from 4.4 percent in 2021. The CAD will be primarily financed by regional bond emissions and by concessional financing.

FIGURE 1 Benin / Budget balance and change in public and publicly guaranteed debt



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

The fiscal deficit will remain high at 5.5 percent of GDP in 2022, owing to unanticipated spending to cushion the effects of the Ukraine war, security-related spending to contain rising security threats in the North, and lower than expected international trade revenue. Domestic revenues are expected to remain resilient in 2022 reaching 13.4 percent of GDP, compared to 13.2 percent in 2021. Public debt is expected to increase to 51.6 percent of GDP in 2022 (+9.1 ppt compared to 2019), with the share of external debt significantly increasing over the last few years.

Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO). Its reserves declined to 5.2 months of imports in June 2022, from 5.5 months in 2021, due to higher energy prices and food imports caused by the Ukraine crisis. To counter inflation pressures, the BCEAO raised rates for liquidity calls (2 percent to 2.5 percent) and the marginal lending window (4 percent to 4.5 percent) in June and September 2022.

Poverty and vulnerability remain high with substantial spatial disparities. The poverty headcount rate ($2.15 a day, 2017 PPP) is expected to continue its gradual decline, from 18.9 percent in 2021 to 18.6 percent in 2022, as a result of sustained economic growth.

Outlook

In the medium-term, real growth is expected to converge to 6 percent, equivalent to 3.3 percent per capita. Growth will be driven by private consumption, as inflationary pressures abate, and total investment, with a gradual shift from public to private. Inflation is projected to decline gradually from 2023 onwards after peaking at 3.9 percent in 2022, driven by higher global food and energy prices. The CAD should improve progressively, averaging 5.1 percent of GDP, thanks to a normalization of the price of oil products and supported by ongoing reforms to improve competitiveness and export diversification.

The planned revenue-based fiscal consolidation, supported by a newly signed IMF program, along with the removal of exceptional subsidy measures and more efficient spending, should narrow the deficit to 4.3 percent in 2023. The WAEMU target of 3 percent of GDP should be reached in 2024, while risks of delaying it by one more year remain. As a result, public debt is expected to peak at 52 percent at end-2023, before gradually declining.

WAEMU reserves are expected to fall to around 5.3 months in 2023-2024, reflecting faster growth in imports and a reduction in net capital inflows (as a percent of GDP), as the environment for Eurobond issuances remains uncertain.

Poverty reduction is expected to gradually revert to its pre-crisis downward pace as the economy rebounds. With improving employment, and social protection programs, the $2.15/day 2017 PPP poverty headcount rate is expected to decrease to 18 percent by 2024.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	7.5	3.8	7.2	5.7	6.2	6.0
Private Consumption	3.5	3.0	4.2	3.0	4.0	4.0
Government Consumption	5.8	19.6	2.0	13.9	0.7	2.4
Gross Fixed Capital Investment	6.0	-6.2	20.1	13.1	9.7	8.5
Exports, Goods and Services	-18.6	-6.7	19.2	11.6	4.6	5.5
Imports, Goods and Services	-24.2	-11.3	19.6	15.5	0.4	1.3
Real GDP growth, at constant factor prices	8.0	3.8	7.2	5.7	6.2	6.0
Agriculture	7.2	1.8	4.7	4.3	4.5	4.5
Industry	6.2	5.2	10.5	7.8	7.7	7.3
Services	10.1	4.5	6.9	5.2	6.4	6.2
Inflation (Consumer Price Index)	-0.9	3.0	1.7	3.9	3.0	2.5
Current Account Balance (% of GDP)	-4.0	-1.7	-4.4	-6.2	-5.7	-4.6
Net Foreign Direct Investment Inflow (% of GDP)	1.3	0.5	1.3	0.3	-0.7	-1.0
Fiscal Balance (% of GDP)	-0.5	-4.7	-5.7	-5.5	-4.3	-2.9
Debt (% of GDP)	41.2	46.1	49.9	51.6	52.0	50.7
Primary Balance (% of GDP)	1.1	-2.7	-3.5	-3.7	-2.7	-1.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	19.4	19.3	18.9	18.6	18.3	18.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	52.7	52.5	52.0	51.6	51.2	50.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	82.5	82.3	81.5	80.9	80.3	79.7
GHG emissions growth (mtCO2e)	-0.2	1.9	6.6	1.0	2.0	4.2
Energy related GHG emissions (% of total)	30.8	31.6	35.4	35.4	35.8	37.6

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 2009-, 2014-, and 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.

BOTSWANA

Table 1	2021
Population, million	2.4
GDP, current US$ billion	17.5
GDP per capita, current US$	7247.6
International poverty rate ($2.15)[a]	15.4
Lower middle-income poverty rate ($3.65)[a]	38.0
Upper middle-income poverty rate ($6.85)[a]	63.5
Gini index[a]	53.3
School enrollment, primary (% gross)[b]	99.0
Life expectancy at birth, years[b]	69.8
Total GHG emissions (mtCO2e)	59.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

After a strong growth rebound in 2021, Botswana's economy is projected to expand by 4.1 percent in 2022, surpassing expectations despite the headwinds created by COVID-19 and the Ukraine war. In 2022, higher fiscal revenues driven by diamond exports are helping to replenish the Pula Fund. Still, the fiscal deficit is set to increase with higher government spending to cushion households against soaring higher inflation. Structural reforms to boost competitiveness for more and better jobs remain essential to tackling poverty and the unemployment rate of 26 percent.

Key conditions and challenges

Botswana has historically enjoyed robust and stable growth since independence, supported by the discovery of large diamond deposits and prudent use of the proceeds. However, the limitations of the existing diamond sector-led development model have become increasingly pronounced: the pace of growth has weakened since the global financial crisis in a context of higher competition from synthetic diamonds and higher production costs locally, and job creation is low. The unemployment rate climbed to 26 percent in 2021, with youth unemployment posing a critical challenge. Despite historically declining inequality, Botswana remains one of the world's most unequal countries, with the Gini index estimated at 53.3 percent.

Botswana's reliance on a diamond and public sector-driven model makes the economy vulnerable to external shocks, as diamonds contribute over 80 percent of total exports and are a major source of fiscal revenues. This vulnerability was evident during the pandemic when the economy contracted by 8.7 percent in 2020 and fiscal pressures rose.

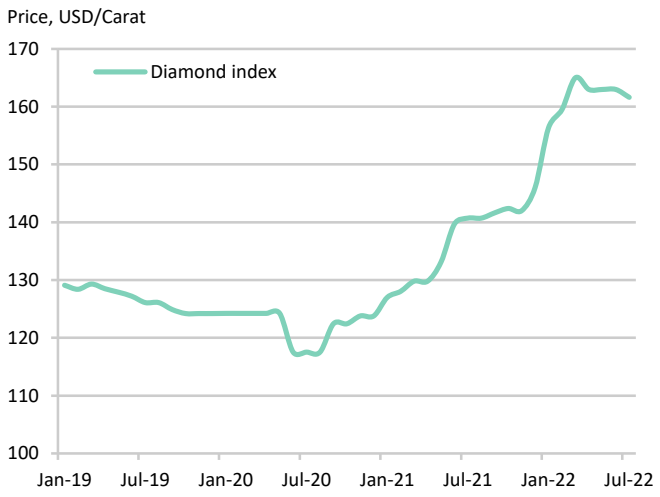
COVID-19 exacerbated existing economic and social challenges, setting back some gains made in alleviating poverty, underscoring the urgent need for a shift towards a more diversified economy, with the private sector playing a leading role. Steadfast implementation of reforms envisaged in the "Reset Agenda" will help diversify the economy towards financial services, manufacturing, and tourism.

Recent developments

Growth has been broad-based in 2022Q1 and 7 percent higher than in 2021Q1, driven by mining, manufacturing, water & electricity, accommodation, and food services. The diamond industry performed well, as sanctions against Russia are benefitting Botswana through higher prices and market share. Economic activity has also been boosted by the lifting of COVID-19 restrictions amid a high vaccination rate of over 95 percent of the eligible population.

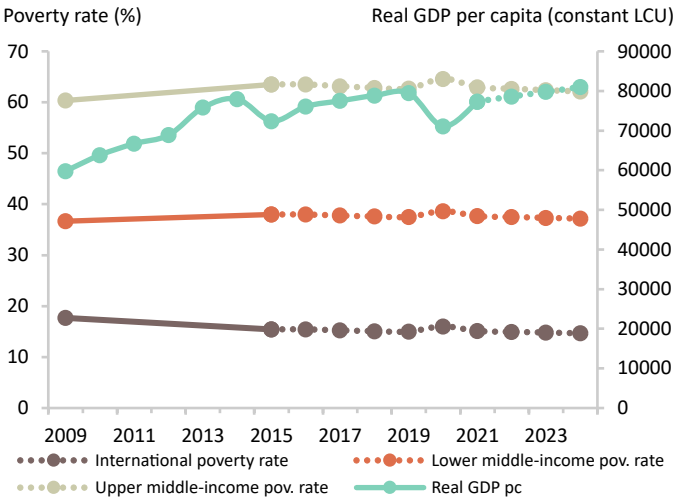
Inflation continued to exceed the central bank's medium-term 3–6 percent objective range during the 2022H1, reflecting high energy prices and other input costs. Annual CPI inflation averaged 11.4 percent during January-July 2022 compared to 6.7 percent in 2021. The impact of the Ukraine war on food and transport prices was high, as they together accounted for 10.9 percentage points of the 14.3 percent inflation in July 2022. As inflationary pressures mount, the Bank of Botswana has tightened monetary policy, raising the newly introduced Monetary Policy Rate by a cumulative 151 basis points between April and August 2022. The poverty rate is projected at 63 percent in 2021, down from 64.6 percent in 2020 (based on the new upper-middle-income poverty line). Unemployment increased to 26 percent in 2021 from 24.5 percent in 2020.

FIGURE 1 **Botswana** / Diamond prices



Source: Bank of Botswana.

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



Source: World Bank. Notes: see Table 2.

In 2022H1, both the current account and fiscal balances improved, driven by the solid performance of the diamond industry, and foreign reserves stabilized. The external position is expected to record a surplus in 2022 due to solid diamond exports and lower net capital outflows. On the fiscal side, the rise in revenues reflected elevated diamond sales and improved revenue collection; yet the fiscal deficit is expected to widen by end-2022 due to higher government spending. On July 27, the Government approved several short-term interventions to cushion households against heightened inflationary pressures. These fiscal interventions will cost an estimated 0.8 percent of GDP and mostly support social programs targeted at households.

Outlook

Following a robust growth rebound in 2021 (11.4 percent), growth is projected at 4.1 percent in 2022 and to average 4 percent during 2023-2024. Growth will be supported by strong demand for diamonds, increased copper production, and an uptick in international tourist arrivals. Though inflation is expected to remain in double figures in 2022, Botswana's relatively strong public sector governance and predictable monetary policy framework will support macroeconomic stability in the medium term. The outlook hinges on the course of the war in Ukraine, diamond prices, the pandemic, and the implementation of fiscal consolidation and economic diversification reforms.

The approved short-term fiscal interventions to cushion households against rising inflation is projected to increase the fiscal deficit in 2022, despite the higher performance of mineral revenues. The measures (VAT rate will decline from 14 to 12 percent with zero rating of VAT for cooking oil and fuel) announced in July will lead to reduced revenues. The projected deficit will be financed through external borrowing, increasing public debt. However, in the medium term, the fiscal balance is projected to turn into a surplus as authorities move ahead with fiscal consolidation focused on the wage bill, subventions, and SOE reforms.

The current account balance is projected to be in surplus in the medium-term, as the rebound in diamond production and favorable terms of trade owing to subdued diamond supply in Russia anchor the projected drop in SACU revenues. Poverty under the new upper-middle-income poverty line is expected to decline slightly to 62.7 percent in 2022. A sustained reduction in poverty and inequality will require further progress on diversification and digitalization reforms to enhance access to good private-sector jobs. There is a need to expedite the implementation of key strategic priorities by developing infrastructure, expanding social programs, and improving public service delivery.

TABLE 2 Botswana / 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	-8.7	11.4	4.1	4.0	4.0
Private Consumption	3.5	3.5	3.3	2.6	4.8	2.8
Government Consumption	9.8	5.3	3.2	-5.7	-1.0	2.3
Gross Fixed Capital Investment	10.2	-10.4	-0.2	4.1	-0.6	2.3
Exports, Goods and Services	-7.1	-18.1	32.8	10.8	8.8	7.3
Imports, Goods and Services	11.9	5.2	2.7	5.0	4.9	4.8
Real GDP growth, at constant factor prices	3.2	-8.7	11.4	4.1	4.0	4.0
Agriculture	3.0	-5.1	-2.9	2.8	2.8	2.6
Industry	-1.5	-20.7	19.4	11.3	4.4	4.4
Services	6.8	-0.2	7.3	-0.4	3.7	3.8
Inflation (Consumer Price Index)	2.8	1.9	6.7	11.0	5.9	4.5
Current Account Balance (% of GDP)	-7.0	-8.7	-0.5	1.7	2.6	4.3
Net Foreign Direct Investment Inflow (% of GDP)	-1.3	0.7	-0.6	-0.8	-1.0	-1.1
Fiscal Balance (% of GDP)[a]	-6.2	-9.6	-2.9	-3.3	0.3	1.6
Debt (% of GDP)[b]	19.4	22.4	25.0	27.4	26.6	24.3
Primary Balance (% of GDP)[a]	-5.5	-8.9	-2.1	-2.5	1.2	2.4
International poverty rate ($2.15 in 2017 PPP)[c,d]	15.0	16.0	15.1	15.0	14.8	14.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	37.5	38.7	37.7	37.5	37.3	37.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	62.7	64.6	63.0	62.7	62.4	62.1
GHG emissions growth (mtCO2e)	0.6	-1.4	3.7	0.4	0.3	0.4
Energy related GHG emissions (% of total)	17.2	15.7	16.8	17.1	17.3	17.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. 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 reported in fiscal years (April 1st -March 31st).
b/ Refers to Public and Publicly Guaranteed debt.
c/ Calculations based on 2009-CWIS and 2015-BMTHS. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
d/ Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.

BURKINA FASO

Table 1	2021
Population, million	21.5
GDP, current US$ billion	20.0
GDP per capita, current US$	931.9
International poverty rate ($2.15)[a]	30.5
Lower middle-income poverty rate ($3.65)[a]	59.8
Upper middle-income poverty rate ($6.85)[a]	81.1
Gini index[a]	47.3
School enrollment, primary (% gross)[b]	92.6
Life expectancy at birth, years[b]	62.0
Total GHG emissions (mtCO2e)	46.9

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

The economy grew by an estimated 6.9 percent in 2021 (4.0 percent in per capita terms), aided by a post-COVID-19 rebound in services. Due to political instability, domestic insecurity, and the impact of the war in Ukraine, growth is projected to slow to 4.3 percent, and inflation to reach double digits. This will exacerbate food insecurity and delay returning to a pre-COVID poverty reduction trajectory. The medium-term outlook is clouded by significant downside risks related to the political transition and insecurity.

Key conditions and challenges

Over the past decade, the primary sector has declined in importance, now contributing less than 20 percent of GDP. Aided by a boom in the gold mining industry, the contribution of the secondary sector rose to nearly 20 percent of GDP and 85 percent of exports. Services account for almost half of GDP, with the public and retail sectors generating most jobs and output. However, almost 1 in 3 people continue to live in extreme poverty, and since 2016 strong growth (6.2 percent on average until COVID-19) has contrasted with increasing insecurity. About a quarter of schools are currently closed in the two most affected regions, and the number of internally displaced persons reached 2 million in mid-2022. Unfinished decentralization reforms and growing political instability, combined with substantial defense spending and a high public wage bill, have constrained the delivery of public services and limited growth-enabling public investments.

Economic prospects are even more uncertain after the January 2022 unconstitutional regime change. The coup triggered a reduction in the international community's financial support while heightening the country's risk profile, negatively affecting private investment and FDI. The primarily rain-fed agriculture and livestock sectors remain highly vulnerable to climate shocks and natural disasters.

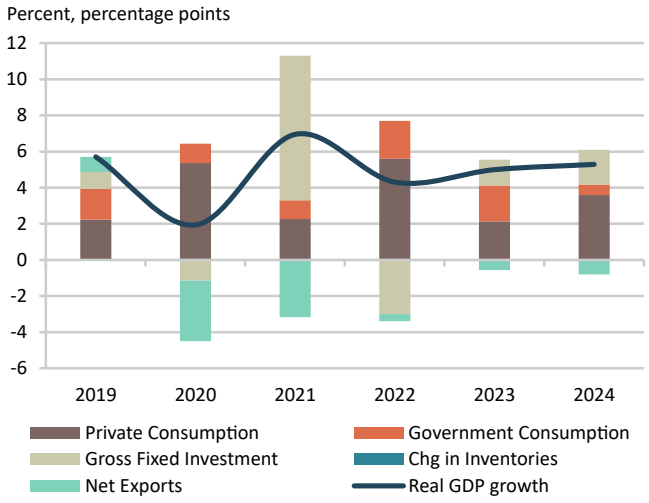
Recent developments

Following a strong 2021 post-COVID-19 economic recovery, supported by a rebound in services and the opening of new gold mines, GDP growth slowed sharply in the first half of 2022 as insecurity spread to some mining and farming areas, combined with the impact of the war in Ukraine on global commodity prices. Higher import prices (especially for foodstuffs, fertilizers, and fuel), global market access challenges, and lower investment (including FDIs) contributed to a fall of quarterly GDP in Q1-2022 of 1.9 percent, with extractives (-10.3 percent) and the construction sector (-18.9 percent) showing the most significant contractions. Over the year, real growth is projected at 4.3 percent (1.5 percent in per capita terms), driven by consumption and exports. With reduced donor grants and FDI inflows following the coup, combined with high oil prices, the CAD could deteriorate to 6 percent by the end of the year.

While the rise in import prices has fed into domestic inflation, the bigger drivers of price increases are supply-side shocks from domestic agriculture production, namely a bad harvest in late 2021 and the security situation driving more farmers off their lands. As of August 2022, year-on-year inflation stood at 18.1 percent, driven by food (+29.8 percent).

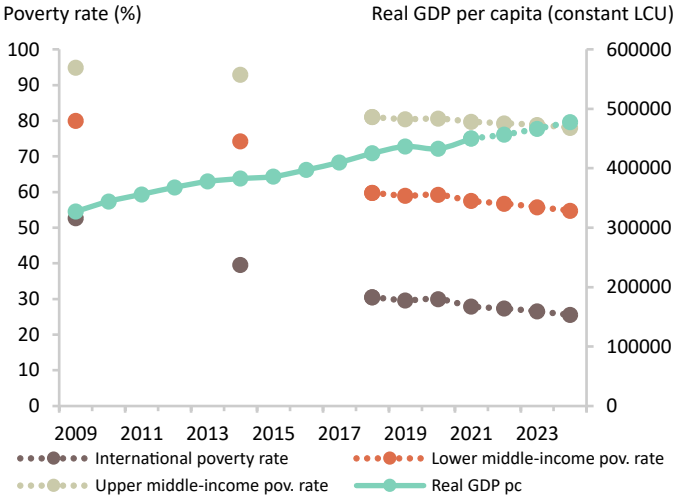
Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO). Its reserves declined to 5.2 months of imports in June

FIGURE 1 Burkina Faso / Real GDP growth and contributions to real GDP growth (demand-side)



Source: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

2022, from 5.5 months in 2021, due to higher energy prices and food imports caused by the Ukraine crisis. To counter inflation pressures, the BCEAO raised rates for liquidity calls (from 2 to 2.5 percent) and the marginal lending window (from 4 to 4.5 percent) in June and September 2022.

With a military-led transition in place since late January, defense spending has grown. Social spending has also grown to respond to the worsening humanitarian crisis and inflationary pressures. As a result, the fiscal deficit is projected at 7.4 percent of GDP in 2022. It will be largely financed through borrowing in the regional market, leading to an increase in overall public debt to about 61 percent of GDP at end-2022.

Extreme poverty incidence is projected to decrease by about half a percentage point to 27.4 percent in 2022, although with population growth, the number of extreme poor is projected to increase by 43,000. Food insecurity continues to be a major challenge, with the entire north-east half of the country classified as food insecure. The rainy season arrived on time, and rainfall has been regular; however, insecurity and a lack of fertilizers are limiting production. Prices of cereals remain 73 to 85 percent higher than the five-year average and more than double in some of the most insecure areas in the north.

Outlook

In the medium-term, growth is projected to average slightly above 5 percent, driven by services and extractives on the supply side and consumption, private investment, and exports on the demand side. Continued improvements in domestic tax collection and lower outlays for the military and social transfers from improved security would help fiscal consolidation. However, the fiscal deficit is not expected to reach the 3 percent of GDP target of the West African Economic and Monetary Union (WAEMU) before 2025. Mainly due to economic growth, public debt is projected to gradually decrease from 2023 onwards.

The extreme poverty rate is projected to fall by about one percentage point a year in 2023 and 2024. The number of poor is also projected to decrease, albeit modestly, due to high population growth, and about 6 million Burkinabe will remain poor over this timeframe. Although the food security situation is expected to improve after the upcoming harvest, the north will remain in an emergency or crisis state.

The outlook has significant downside risks, including persistent political instability, insecurity, climate shocks, food insecurity, and social discontent from high food inflation. Already faced with high inflation, a poor harvest in 2022 (similar to that in 2021) could drastically worsen the outlook for 2023 and beyond. The war in Ukraine and additional monetary tightening in the eurozone represent additional risks through elevated food and energy prices and regional debt refinancing costs.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.7	1.9	6.9	4.3	5.0	5.3
Private Consumption	3.5	8.6	3.4	8.7	3.2	5.4
Government Consumption	12.0	7.1	6.6	13.2	11.6	3.2
Gross Fixed Capital Investment	3.8	-4.6	34.8	-10.4	5.8	7.6
Exports, Goods and Services	-0.1	-7.1	6.5	10.0	4.5	3.4
Imports, Goods and Services	-2.7	5.3	15.5	8.4	5.0	4.8
Real GDP growth, at constant factor prices	5.7	1.9	6.9	4.3	5.0	5.3
Agriculture	1.7	5.2	-4.1	6.3	4.6	6.2
Industry	2.3	12.8	11.0	4.8	5.9	6.9
Services	9.5	-4.9	10.3	3.1	4.6	3.9
Inflation (Consumer Price Index)	-3.2	1.9	3.9	13.6	6.9	4.0
Current Account Balance (% of GDP)	-3.3	-0.1	-3.0	-6.0	-5.7	-4.9
Net Foreign Direct Investment Inflow (% of GDP)	-0.9	-0.6	-0.5	-0.5	-0.6	-0.5
Fiscal Balance (% of GDP)	-3.2	-5.7	-6.0	-7.4	-5.1	-4.2
Debt (% of GDP)	42.0	46.5	55.5	61.2	58.7	56.4
Primary Balance (% of GDP)	-2.0	-4.3	-4.5	-5.3	-2.9	-2.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	29.6	30.0	27.9	27.4	26.6	25.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	59.0	59.2	57.5	56.8	55.8	54.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	80.5	80.6	79.8	79.3	78.8	78.0
GHG emissions growth (mtCO2e)	5.7	1.9	6.9	4.3	5.0	5.3
Energy related GHG emissions (% of total)	10.5	10.4	11.1	11.4	11.9	12.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

BURUNDI

Table 1	2021
Population, million	12.3
GDP, current US$ billion	3.4
GDP per capita, current US$	275.2
International poverty rate ($2.15)[a]	65.1
Lower middle-income poverty rate ($3.65)[a]	86.7
Upper middle-income poverty rate ($6.85)[a]	96.5
Gini index[a]	38.6
School enrollment, primary (% gross)[b]	115.1
Life expectancy at birth, years[b]	61.9
Total GHG emissions (mtCO2e)	8.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2013), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

Economic growth is projected at 2.1 percent in 2022, a slight improvement over 2021, driven by agriculture and services. Industrial growth was subdued due to mining disputes. While recovery is expected to accelerate over the medium term, the country faces downside risks, including from fiscal slippages and inadequate external financing. With rapid population growth, per capita GDP is contracting while poverty is expected to reach 82.6 percent in 2023.

Key conditions and challenges

Structural weaknesses have locked Burundi's economy in a state of chronic underdevelopment characterized by mutually reinforcing fragility and poverty. Burundi has faced a multidimensional fragility trap with recurring political instability, low economic diversification, high population growth, and environmental degradation, leading to low and volatile growth. The cessation of most aid in 2015 constrained the government's ability to build infrastructure. Inconsistent macroeconomic policies including foreign exchange restrictions, exchange rate overvaluation, fiscal dominance of monetary policy, and high public sector indebtedness exacerbated the country's economic challenges. These factors are linked to low capital accumulation, weak productivity growth and limited structural transformation of the economy, and contribute to few job opportunities, high poverty rates and curtailed human capital development. At 0.39, Burundi's Human Capital Index is low, while stunting and learning poverty are high at 52.2 and 93 percent, respectively. Transition to secondary schooling remains low (48 percent), and below LIC and SSA averages, and among adolescent girls as many as 30 percent are out of school. Monetary poverty has been estimated at 81.7 percent (based on international poverty line of $2.15/day) in 2021, up from 65.1 in 2013 (the last year with current data availability to the World Bank).

Gradual reengagement with the international community since 2020 creates an opportunity for reforms and for the scaling up of investments in human capital and infrastructure that could contribute to helping Burundi change its growth trajectory. However, rising oil and food prices resulting from the Ukraine/Russia conflict represent a negative terms of trade shock likely to slow economic growth, accelerate inflation, and increase fiscal and current account deficits.

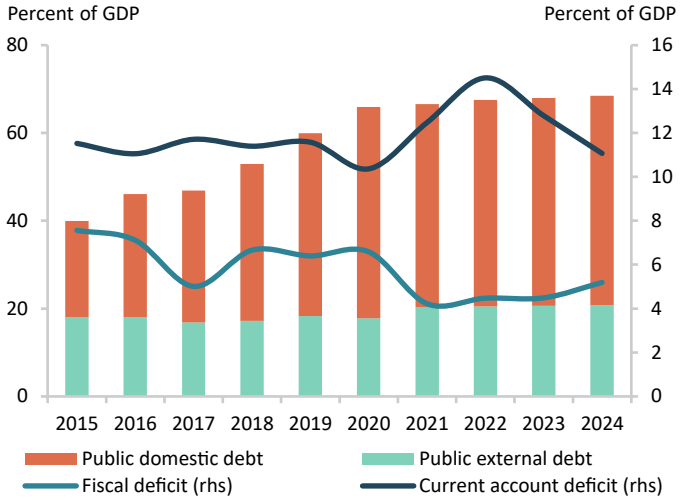
Recent developments

Growth in 2022 is projected at 2.1 percent from 1.8 percent in 2021, driven by agriculture and services. Industrial growth was subdued due to the ongoing suspension of mining activities as contracts were renegotiated. Private consumption and investment supported growth on the demand side.

The fiscal deficit is expected to increase to 4.5 percent of GDP in 2022 from 4.2 percent in 2021, with growth in revenue collection insufficient to offset higher spending on goods and services and taking public debt to 67.6 percent of GDP.

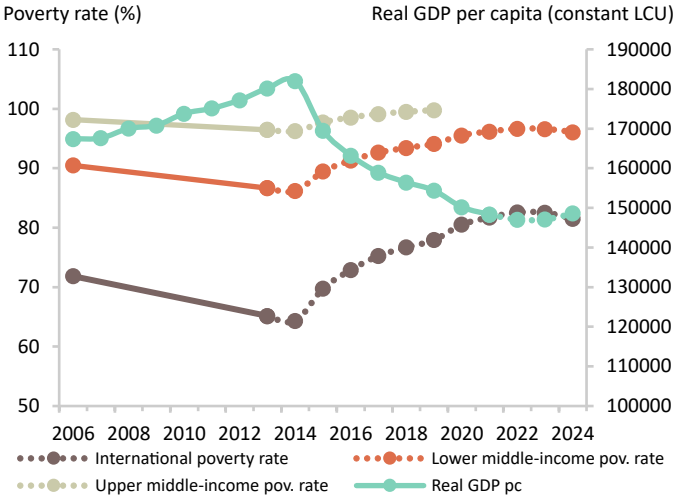
Driven by oil prices, the current account deficit (CAD) would remain high at 14.5 percent of GDP in 2022, as weak demand in key export markets and mining contract negotiations affected export performance while imports of both capital and consumption goods increased. The CAD is

FIGURE 1 Burundi / Public debt, fiscal and current account deficit



Source: Official statistics and World Bank calculations.

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



Source: World Bank. Notes: see Table 2.

primarily financed by trade credits. Although Burundi has used 51 percent of its new SDR allocation of 146.7 million, international reserves have increased, covering 2 months of imports at end-June 2022 from 0.8 month a year before. The foreign exchange parallel market premium averaged 64 percent in June 2022, compared to 70 percent a year before.

The banking sector remains sound. Capital ratios stand around 20 percent, higher than the regulatory requirement, and non-performing loans fell to 2.9 percent in March-2022 from 4.8 percent in March-2021. Driven by higher food and fuel prices due to the effects of the Ukraine/Russia conflict on the global economy, headline inflation is expected at 11.8 percent in 2022.

In the wake of increasing food prices, metrics around human capital are poised to get worse as households are forced to adopt harmful coping strategies, such as reducing food consumption, selling productive assets, or putting children to work resulting in premature school dropout, particularly among girls, with long-lasting effects on Burundi's aggregate human capital accumulation.

Outlook

Growth is projected to increase to 3-4 percent over 2023-24. Services should continue to recover while agriculture will keep its growth pace assuming favorable rainfall. Industry is projected to accelerate due to a moderate loosening of forex constraints, and assuming resolution in mining disputes and increased power generation. Private consumption and public investment are projected to remain high given economic recovery and public infrastructure programs. The fiscal deficit is expected to remain elevated at 4.5 percent of GDP in 2023 and 5.2 percent in 2024 despite stronger revenue mobilization fueled by higher spending on goods and services and transfer spending. As a result, public debt is expected to reach 68.5 percent of GDP by 2024. External pressures will gradually ease as import prices moderate, and exports pick up, but the CAD will remain high at 11 percent of GDP in 2023. The CAD would continue to be financed primarily by trade credits.

Amid high population growth, and a resulting youth bulge, ensuing land fragmentation, and rain-fed dependent agriculture, Burundi's growth path remains vulnerable. At the same time, private sector employment opportunities for Burundi's growing young population remain very limited, with most formal employment concentrated in the public sector. Against this backdrop, poverty is projected at 81.5percent (based on international poverty line of $2.15/day, in 2017 PPP) for 2024. In addition, the economic outlook is further exposed to fiscal risks and further spillover effects of the Ukraine/Russia conflict. Domestic fiscal risks include weaker growth performance and higher domestic debt service costs. External fiscal risks include weaker grants and higher interest rates on external borrowing. On the upside, foreign aid could accelerate reflecting the reengagement with the international community.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.8	0.3	1.8	2.1	3.0	4.0
Private Consumption	3.1	0.3	2.8	3.0	3.2	3.5
Government Consumption	8.3	19.2	5.4	5.6	6.0	6.8
Gross Fixed Capital Investment	32.9	-16.6	17.8	5.6	7.8	9.6
Exports, Goods and Services	-0.5	-14.9	18.2	8.3	11.2	12.6
Imports, Goods and Services	17.1	3.4	13.5	8.0	8.2	8.4
Real GDP growth, at constant factor prices	1.8	0.3	1.8	2.1	3.0	4.0
Agriculture	3.1	2.8	2.9	3.0	3.4	4.1
Industry	2.1	1.8	1.4	1.6	2.5	3.7
Services	0.9	-1.7	1.3	1.7	2.9	3.9
Inflation (Consumer Price Index)	-0.8	7.5	8.3	11.8	9.2	7.4
Current Account Balance (% of GDP)	-11.6	-10.4	-12.5	-14.5	-12.8	-11.1
Net Foreign Direct Investment Inflow (% of GDP)	0.0	0.2	0.3	0.0	0.0	0.0
Fiscal Balance (% of GDP)	-6.4	-6.6	-4.2	-4.5	-4.5	-5.2
Debt (% of GDP)	60.0	66.0	66.6	67.6	68.0	68.5
Primary Balance (% of GDP)	-4.1	-3.6	-1.3	-1.4	-1.5	-2.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	77.9	80.5	81.7	82.6	82.6	81.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	94.1	95.5	96.2	96.6	96.6	96.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	99.8					
GHG emissions growth (mtCO2e)	-3.7	2.6	3.9	4.0	3.9	3.9
Energy related GHG emissions (% of total)	8.6	8.7	8.7	8.6	8.6	8.7

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 2006-QUIBB and 2013-ECVMB. Actual data: 2013. Nowcast: 2014-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2006-2013) with pass-through = 1 based on GDP per capita in constant LCU.

CABO VERDE

Table 1	2021
Population, million	0.6
GDP, current US$ billion	1.8
GDP per capita, current US$	3168.2
International poverty rate ($2.15)[a]	4.6
Lower middle-income poverty rate ($3.65)[a]	19.3
Upper middle-income poverty rate ($6.85)[a]	50.9
Gini index[a]	42.4
School enrollment, primary (% gross)[b]	100.9
Life expectancy at birth, years[b]	73.2
Total GHG emissions (mtCO2e)	0.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

The war in Ukraine and the ongoing drought are exacerbating food and energy-driven inflation in 2022, threatening growth (projected at 4 percent in 2022 versus 7 percent in 2021) and aggravating food insecurity. Growth-friendly fiscal consolidation should see growth converging to 6 percent over the medium term. The outlook is subject to substantial downside risks stemming from new COVID-19 variants, the Ukraine war, and climatic shocks.

Key conditions and challenges

Political stability, democratic institutions, and pro-market reforms have generated significant economic and social progress since independence in 1975. However, Cabo Verde's development model, based on tourism and foreign direct investment (FDI) has shown signs of fatigue since the 2008 global financial crisis. An ineffective counter-cyclical fiscal policy led to growing fiscal financing needs and increased public debt between 2010-2015. To put public debt back on a sustainable path, Government initiated a consolidation program in 2016, including the reform of loss-making state-owned enterprises (SOEs).

The COVID-19 crisis reversed the progress in fiscal consolidation and exacerbated the growth model's vulnerabilities. Global travel restrictions led to a sharp contraction in tourism and related activities. Government responded by expanding public health services and social protection programs, as well as by providing financial support to small businesses. However, the poverty rate increased from 14.5 percent in 2019, to 20.4 percent in 2020 (using the $3.65 per-day-PPP in 2017), driven by substantial temporary job losses, particularly in the tourism sector.

The pace of economic recovery is subject to substantial downside risks associated with rising uncertainty in Europe due to the Ukraine conflict, the emergence of new COVID-19 variants, and climatic shocks. The Ukraine war exacerbated inflationary pressures and reduced growth prospects in 2022, affecting the poorest disproportionally through increasing food insecurity and malnutrition. Food consumption should be insufficient for around a fifth of the population in 2022, according to the UN World Food Program. A prolonged war in Ukraine could reduce investments and tourism flows, trigger fiscal liabilities, and exacerbate food insecurity.

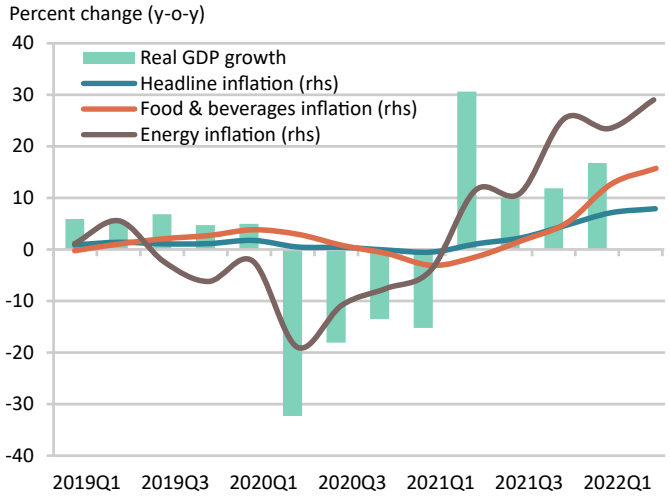
Recent developments

Economic activity expanded 7 percent in 2021, magnified by base effects after a contraction of 14.8 percent in 2020. On the supply side, manufacturing and construction drove growth while private and public consumption did on the demand side. The strong recovery continued in the first quarter of 2022, with a real GDP growth of 16.8 percent.

Inflation started to rise in 2021 (from 0.6 percent in 2020 to 1.9 percent) due to higher international oil and food prices. The impact of war in Ukraine exacerbated inflation pressures in the first half of 2022. Headline inflation in July climbed to 9 percent, with food and energy inflation respectively at 16.7 and 37.3 percent. Higher food prices and low agricultural production, driven by the five-year long drought, intensified food insecurity.

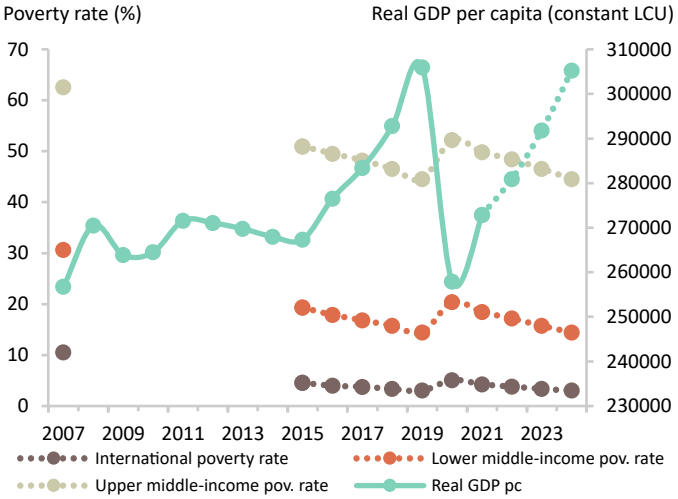
The fiscal deficit remained high at 7.3 percent of GDP in 2021, driven by sustained current expenditures. Public debt increased slightly to 143 percent of GDP,

FIGURE 1 **Cabo Verde** / Real GDP growth and inflation



Source: Government of Cabo Verde.

FIGURE 2 **Cabo Verde** / Actual and projected poverty rates and real GDP per capita.



Source: World Bank. Notes: see Table 2.

driven by increased domestic debt. In the first half of 2022, total revenue increased 34 percent, driven by personal income and VAT taxes, while total expenditure increased 8.4 percent, reflecting higher personnel expenses and interest payments. In April, authorities announced measures, estimated at 4.2 percent of GDP, to protect the most vulnerable from rising food insecurity and to control fuel and energy prices.

The current account deficit (CAD) declined from 15 percent of GDP in 2020 to 11.3 percent in 2021, supported by higher surplus in net-services exports and robust remittances. The CAD was financed by concessional loans and FDI. International reserves reached 7.2 months of imports.

The rebound in economic activity in 2021 resulted in a reduction in the poverty rate to 18.5 percent (using US$3.65 per day PPP in 2017) down from 20.4 percent in 2020, reflecting nearly 10,000 fewer people living in poverty. Social protection programs that were central to mitigate the impacts of the COVID-19 pandemic also helped alleviate poverty.

Outlook

Real GDP growth is projected to reach 4 percent in 2022 (2.9 percent in per capita terms). The Ukraine crisis will weigh on growth, mainly through inflation and its impact on private consumption and economic activity. Over the medium-term, private consumption, investment in tourism and the blue economy should support growth. The outlook is subject to substantial downside risks stemming from climate shocks, new COVID-19 variants, and increased global uncertainty due to the Ukraine war.

Inflationary pressures will peak in 2022, with headline inflation expected to reach 7.5 percent. Inflation should start stabilizing in 2023 as supply disruptions abate, and global commodity prices start normalizing. Over the medium-term, the nominal anchor (peg to Euro) and return to fiscal consolidation should keep inflation contained, converging to 2 percent by end-2024.

The authorities are committed to gradual revenue-driven fiscal consolidation over the medium-term, which includes enhanced management of fiscal risks, revenue mobilization, and the waning of exceptional shock measures. The fiscal deficit is projected to reach 9 percent of GDP in 2022, driven by increased current expenditure due to the response package to mitigate the impact of the Ukraine war, estimated at US$85 million (4.2 percent of GDP). The public debt-to-GDP ratio is expected to improve from 147.7 percent in 2022 to 141.1 percent by 2024.

The CAD is projected to reach 14.1 percent of GDP in 2022, falling to 5.9 percent by 2024, driven by the rebound in services exports and the gradual reduction of import prices. Over the medium-term, higher public debt amortization outflows are expected to increase external financing needs, which will be covered by official borrowing and FDI. International reserves are expected to remain adequate, at 5.5 months of prospective imports.

The poverty rate (based on the lower-middle income poverty line of US$3.65 per-day, 2017 PPP) is projected to decline to 17.2 percent in 2022 and reach 14.5 percent by 2024, supported by growth and inflation stabilization.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.7	-14.8	7.0	4.0	4.8	5.7
Private Consumption	5.9	-11.3	9.4	3.0	4.5	5.1
Government Consumption	4.8	0.8	30.1	5.9	1.2	1.9
Gross Fixed Capital Investment	-6.3	19.7	-9.1	13.5	7.0	6.2
Exports, Goods and Services	8.7	-58.4	5.8	6.5	12.6	10.4
Imports, Goods and Services	0.8	-22.5	4.3	11.2	7.6	5.9
Real GDP growth, at constant factor prices	5.7	-14.8	7.0	4.1	4.8	5.7
Agriculture	-6.8	-6.3	4.8	1.0	1.8	3.8
Industry	7.5	-2.0	9.5	2.3	4.7	6.5
Services	6.3	-19.2	6.3	5.0	5.0	5.6
Inflation (Consumer Price Index)	1.1	0.6	1.9	7.5	3.5	2.0
Current Account Balance (% of GDP)	-0.2	-15.0	-11.3	-14.1	-7.2	-5.9
Net Foreign Direct Investment Inflow (% of GDP)	-4.2	-3.7	-3.5	-3.8	-5.3	-4.0
Fiscal Balance (% of GDP)	-1.7	-9.1	-7.3	-9.0	-7.2	-5.8
Debt (% of GDP)	114.0	142.6	143.0	147.7	143.9	141.1
Primary Balance (% of GDP)	0.6	-6.5	-5.1	-6.3	-4.2	-3.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.0	5.1	4.3	3.8	3.4	3.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	14.5	20.4	18.5	17.2	15.8	14.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	44.5	52.2	49.8	48.4	46.6	44.5
GHG emissions growth (mtCO2e)	2.5	2.2	2.1	2.5	2.4	1.5
Energy related GHG emissions (% of total)	87.5	88.1	88.7	88.9	89.1	90.1

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 2015-IDRF. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

CAMEROON

Table 1	2021
Population, million	27.2
GDP, current US$ billion	42.1
GDP per capita, current US$	1544.7
International poverty rate ($2.15)[a]	25.7
Lower middle-income poverty rate ($3.65)[a]	47.0
Upper middle-income poverty rate ($6.85)[a]	74.8
Gini index[a]	46.6
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	59.6
Total GHG emissions (mtCO2e)	125.0

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

Despite the adverse consequences of the war in Ukraine, Cameroon's real GDP is expected to expand in 2022 and extreme poverty incidence to decline. Driven by higher oil prices, the fiscal deficit is projected to narrow in the medium term while the current account deficit would decline gradually. Inflation is expected to rise above the regional target of 3 percent in 2022. The outlook remains positive, but is subject to several risks, hence the need to accelerate structural reforms.

Key conditions and challenges

Cameroon is the largest economy in the Economic and Monetary Community of Central Africa (CEMAC), accounting for over 40 percent of the region's GDP and over 60 percent of regional foreign exchange reserves. It is exposed to commodity and oil price shocks, with the oil sector accounting for 4 percent of the country's GDP and 14 percent of its fiscal revenues in 2021. Public debt has been rising since 2016, calling for improved debt management.

The current development model is running out of steam, as governance indicators have deteriorated, human capital remains weak, the business environment is unfavorable, and climate change represents a growing threat. High market concentration and state ownership of commercial enterprises also limit domestic competition. The country has become more fragile since conflicts affecting 6 out of 10 of its regions have displaced people, increased violence, and led to a collapse in social services. The country is struggling to meaningfully lower poverty in the face of conflicts and other shocks.

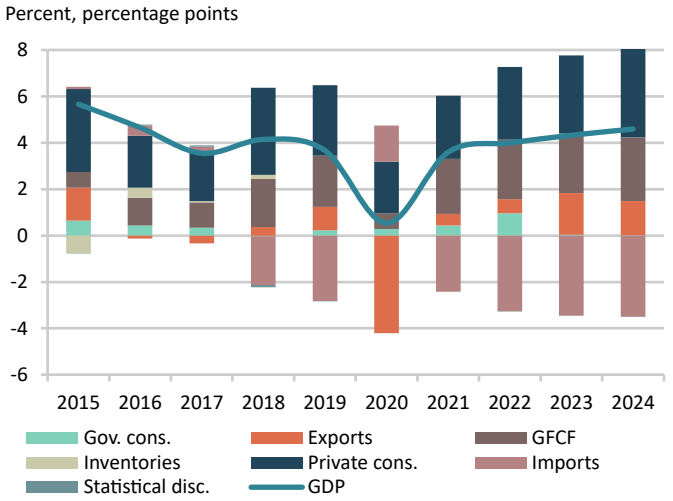
Recent developments

Cameroon had started to recover from the COVID-19 shock with real GDP growth estimated at 3.6 percent in 2021. This economic recovery is, however, threatened by the war in Ukraine, heightened inflation pressures and the mentioned domestic structural vulnerabilities. The war in Ukraine has caused supply chain disruptions, resulting in increased import costs. Staple food prices and administratively controlled prices of selected mass consumption products have increased accordingly. In the primary sector, cotton production dropped by 9 percent y-o-y by end-August 2022. The output of food crops has also dropped because of higher farm input prices. In the secondary sector, oil production declined 2.6 percent y-o-y in end-April 2022, even as LNG production, supported the primary sector activity, went up by 13.5 percent. A higher supply of services, including financial services and communications, has driven the activities in the tertiary sector.

Higher export and oil prices and private transfers from abroad improved Cameroon's current account balance in 2022Q1. Imports increased moderately compared to the same period in 2021, as the government stepped up efforts to improve the competitiveness of locally produced mass consumed items, including rice, wheat, maize, fish, and sugar.

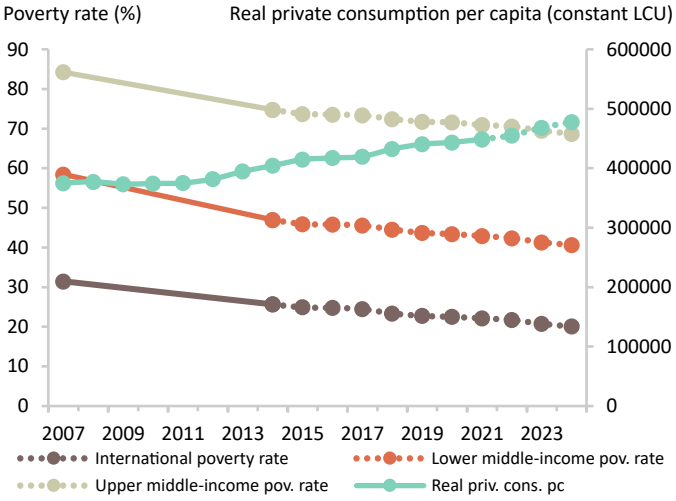
The fiscal balance was in surplus, representing 0.5 percent of GDP at the end-June 2022, owing to improved revenue collection amid high oil and non-oil commodities prices and delays in expenditure commitments. On the expenditure side, higher international prices have led to an increase in fuel subsidies (reaching USD 500 million in 2022H1, compared to

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



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

USD 170 million provisioned in the initial 2022 finance law). Capital spending stood at 1.7 percent of GDP in end-June 2022, same as in the corresponding period in 2021. The public debt stock only slightly reduced to 41.5 percent of GDP at the end-June 2022, compared to 42.8 percent at the end-June 2021.

Monetary conditions have continued to tighten to contain inflationary pressures and support the external viability of the exchange rate arrangement. Following a 25 basis points increase in November 2021, the Bank of Central African States (BEAC) further increased the policy rate by 50 basis points to 4 percent on March 28, 2022. The BEAC also decreased its weekly liquidity injections from CFAF 250 billion to CFAF 160 billion in April 2022.

Simulation results suggest that despite recent or ongoing shocks increasing inflation, poverty incidence will continue to decrease, although at a slower pace than in recent years. Between 2021 and 2022, the poverty headcount at $2.15 PPP a day declined by 0.4 percentage points, from 22.1 to 21.7 percent. The slow pace of poverty reduction resulted in an increase in the number of poor by about 30,000 people due to population growth.

Outlook

Despite the global economic turmoil, economic recovery is expected to gradually gain momentum, with real GDP growth projected to reach 4.0 percent in 2022 and 4.6 percent by 2024. Economic growth would be supported by sustained activity in the secondary and tertiary sectors as the pandemic loses steam. The war in Ukraine has substantial implications for the outlook, including (i) increased food, fertilizers, and energy prices; (ii) supply chain disruptions and speculation in local markets; and (iii) higher costs of borrowing. Inflation is projected to rise to 4.6 percent in 2022 but remain below 3 percent in the medium term, reflecting the results of monetary policy tightening.

The current account balance should improve, owing to robust oil and non-oil commodity exports. The fiscal deficit is projected to narrow as non-oil revenues increase due to simplified administrative measures on property income and a new tax on mobile money transfers. Spending reprioritization, including the gradual reduction of subsidies for fuel and to SOEs, would contain expenditure in the medium term. Cameroon remains at high risk of external and overall debt distress, although debt is assessed as sustainable, according to the July 2022 Debt Sustainability Analysis.

The outlook remains subject to risks associated with: (i) a sharp increase in global risk premia, (ii) a protracted war in Ukraine, and (iii) a persistent security crisis in the North-West, South-West, and the Far North regions. Should such risks materialize, real GDP would grow more modestly, adversely affecting fiscal and external accounts. A sharp rise in global risk premia following a monetary policy tightening in advanced economies would affect the economic outlook and debt sustainability. Higher oil and food prices would add to inflationary and fiscal pressures. Reducing fuel subsidies by gradually increasing retail fuel prices while protecting the most vulnerable would be a critical step.

As the country recovers from the various shocks, the pace of poverty reduction is expected to accelerate in 2023 and 2024. The number of extreme poor people is projected to decline by about 125,000, and 50,000 people respectively in 2023 and 2024. The ongoing security crisis will, however, hamper efforts to reduce poverty in parts of the country.

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

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.7	0.5	3.6	4.0	4.3	4.6
Private Consumption	4.5	3.3	3.9	4.5	4.8	5.5
Government Consumption	1.8	2.3	3.4	7.6	0.2	0.1
Gross Fixed Capital Investment	8.1	2.4	8.2	8.5	8.1	8.4
Exports, Goods and Services	5.1	-21.0	3.2	3.9	11.5	8.8
Imports, Goods and Services	10.5	-5.4	9.0	11.5	11.4	10.8
Real GDP growth, at constant factor prices	3.6	0.5	3.6	4.0	4.3	4.6
Agriculture	2.8	0.1	4.1	4.3	5.6	5.6
Industry	3.6	1.3	4.1	4.4	4.5	4.5
Services	3.9	0.3	3.2	3.7	3.9	4.4
Inflation (Consumer Price Index)	2.5	2.5	2.5	4.6	3.0	2.5
Current Account Balance (% of GDP)	-4.4	-3.7	-4.0	-3.9	-3.7	-3.4
Fiscal Balance (% of GDP)	-3.3	-3.2	-3.2	-3.0	-3.0	-2.8
Debt (% of GDP)	43.0	45.8	47.1	43.9	40.8	37.9
Primary Balance (% of GDP)	-2.4	-2.3	-2.1	-2.0	-2.1	-2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	22.7	22.5	22.1	21.7	20.7	20.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	43.7	43.4	42.9	42.4	41.3	40.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	71.7	71.6	70.9	70.5	69.5	68.7
GHG emissions growth (mtCO2e)	0.5	0.0	0.2	0.6	0.8	0.9
Energy related GHG emissions (% of total)	7.0	6.7	6.7	6.9	7.0	7.1

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 2014-ECAM-IV. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

CENTRAL AFRICAN REP.

Table 1	2021
Population, million	4.9
GDP, current US$ billion	2.6
GDP per capita, current US$	525.0
International poverty rate ($2.15)[a]	61.9
Lower middle-income poverty rate ($3.65)[a]	80.8
Upper middle-income poverty rate ($6.85)[a]	92.8
Gini index[a]	56.2
School enrollment, primary (% gross)[b]	102.0
Life expectancy at birth, years[b]	53.7
Total GHG emissions (mtCO2e)	78.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2008), 2017 PPPs.
b/ WDI for School enrollment (2016); Life expectancy (2020).

Economic activity stagnated in 2021 due to renewed insecurity amid election disputes. The overall fiscal deficit widened in 2021, mainly driven by a decline in government revenues. With growth averaging 2.7 percent over the medium-term, per capita income is projected to return to its pre-covid-19 pandemic level by 2024. The absence of donor budget support, compounded by persistent fuel shortages and the reversal in security gains are the main risks to the outlook.

Key conditions and challenges

Notwithstanding its natural resource endowment, the Central African Republic (CAR) remains one of the most fragile and poorest countries in the world. Economic activity is skewed towards the production of goods with limited value added. The agricultural sector remains one of the key drivers of economic growth and accounts for more than 75 percent of total employment.

Beyond considerable human losses, repeated periods of civil conflicts have fueled a poverty trap by shrinking the potential for diversification towards more productive activities (e.g., manufacturing sector). Poverty remains elevated with more than 7 out of 10 people living below the international poverty line (i.e US$ 2.15 per day, 2017 PPP).

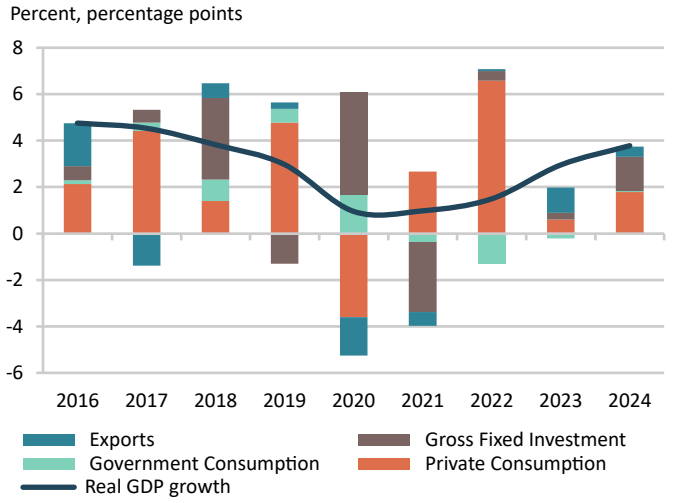
Limited revenue mobilization, a weak social protection system, and poor access to education and health are the major structural challenges. The private sector remains constrained by limited access to financing, although the financial sector is well capitalized. The humanitarian situation remains concerning, as the country has one of the highest proportions (45 percent of the population) of critically food-insecure people in the world. The total number of internally displaced people is estimated at 610,265 individuals, with another 737,000 people counted as refugees in neighboring countries.

Recent developments

CAR's economic activity stagnated in 2021, mainly due to the protracted effects of COVID-19 and renewed violence and insecurity amid election disputes. Trade and agricultural production suffered from the forced displacement of labor to safety zones, particularly in the first quarter of 2021, when conflict broke out between the government and armed groups. As trade resumed on the country's main road, Douala-Bangui, due to improved security throughout the country, economic activity performed better in the 2021H2. Timber and mining production (mainly gold) also accelerated in H2 primarily owing to improved security around production and mining sites. Private consumption grew by 2.9 percent in 2021 as the gradual return of the population to certain localities led to an increase in domestic demand. However, public investment fell from 11.3 percent of GDP in 2020 to 7.4 percent of GDP in 2021, as uncertainties about donor budget support prompted the government to freeze non-priority spending and unwind its COVID-19 fiscal stimulus package. Despite a rebound in 2022H1 driven by extractive activities, persistent fuel shortages slowed economic activity in early 2022H2 and contributed to price pressures.

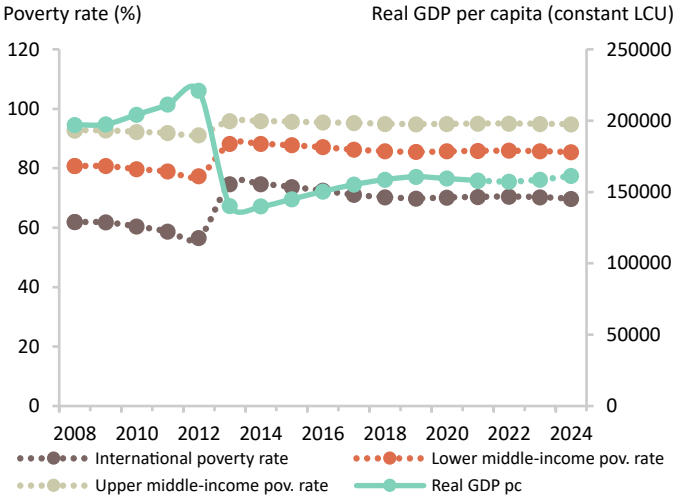
Rising inflation is expected to erode households' purchasing power and worsen their living conditions. As a result, poverty is projected to remain high, with 70.5 percent of the population living in extreme poverty in 2022 (i.e US$ 2.15 per day, 2017 PPP).

FIGURE 1 Central African Republic / Real GDP growth and contributions to real GDP growth



Source: Word Bank.

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



Source: World Bank. Notes: see Table 2.

CAR's monetary policy is managed by the Bank of Central African States (BEAC). Monetary conditions have continued to be tightened to contain inflationary pressures and support the external viability of the exchange rate arrangement. Following a 25 basis points increase in November 2021, the BEAC further increased the policy rate by 50 basis points to 4 percent on March 28, 2022. The BEAC also decreased its weekly liquidity injections from CFAF 250 billion to CFAF 160 billion in April 2022 and has also committed to continue working towards the effective implementation of the new foreign exchange regulation.

The overall fiscal deficit widened in 2021, as donor appetite for budget support waned due to geopolitical tensions and the lack of transparency of the country's security expenditures, while domestic revenues declined from 7.5 percent of GDP in 2020 to 7.1 percent of GDP in 2021. Despite cuts in non-priority spending, pressures from the expenditures side were high throughout 2021, forcing the government to rely on bridge financing on the domestic market. In 2022, cash flow pressures have remained high notwithstanding fiscal consolidations efforts, as uncertainty about budget support disbursement remains elevated. To finance the deficit in 2022, the government has relied on the use of its second and last SDRs tranches (CFAF 50.5 billion, an equivalent US$ 76.8 million and 3.2 percent of GDP) but is also considering borrowing on the domestic market.

Despite a marginal improvement in the trade balance, delays in the disbursement of official transfers contributed to a widening of the current account deficit in 2021. In 2022, the non-disbursement of budget support has continued to weigh on the current account deficit, which is projected to widen further.

Outlook

Per capita income is projected to return to its pre-covid-19 pandemic level by 2024, provided that security gains continue to boost private sector incentives for long-term investment and the protracted effects of the war in Ukraine are contained. Under this assumption, real GDP growth is projected to reach 3.4 percent on average over the period 2023-24, supported by strong exports and gross fixed investment (public and private) from the demand side, and better dynamics of the agricultural and service sectors from the supply side.

Inflation is projected to remain above the regional convergence criteria of 3 percent and worsen living conditions. With limited fiscal space to support safety net programs, extreme poverty is projected to remain high at around 70 percent in 2023 and 2024.

Uncertainties about budget support will continue to weigh on the overall fiscal balance, but the implementation of fiscal reforms, including the digitization and migration towards the use of SIMBA and Automated System for Customs Data (ASYCDUCA) word will help streamline public expenditures and leverage domestic resources. Public debt is expected to remain sustainable as the country continues to implement reforms under the Sustainable Development Finance Policy (SDFP). The current account balance is projected to improve but remain in deficit, thanks to rising exports and a marginal increase in net transfers.

Risks to the outlook remain elevated and skewed to the downside. The absence of donor budget support, persistent fuel shortages and the reversal in security gains are the main risks. Shortfalls in budget support could lead to a "fiscal cliff" with an accumulation of external arrears and the possible non-payment of public wages. Persistent fuel shortages, compounded by the reversal in security gains could undermine trade and economic activity with adverse effects on public finance and prices. Domestic price pressures may cause thousands of vulnerable households to slip into extreme poverty and worsen an already alarming food security situation.

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

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.0	1.0	1.0	1.5	3.0	3.8
Private Consumption	5.1	-3.8	2.9	7.1	0.6	1.9
Government Consumption	7.9	20.6	-3.8	-14.2	-2.8	0.5
Gross Fixed Capital Investment	-8.0	30.0	-15.9	2.6	1.8	9.4
Exports, Goods and Services	1.7	-10.5	-4.3	0.7	8.3	3.2
Imports, Goods and Services	4.1	-0.5	-6.8	14.0	-3.6	-0.1
Real GDP growth, at constant factor prices	3.0	1.0	1.0	1.5	3.0	3.8
Agriculture	3.0	4.6	3.2	2.4	2.9	3.1
Industry	2.0	0.1	-0.2	-0.4	0.2	0.7
Services	3.4	-0.8	0.0	1.7	4.2	5.4
Inflation (Consumer Price Index)	2.8	0.9	4.3	6.5	6.3	2.7
Current Account Balance (% of GDP)	-4.9	-8.5	-10.6	-13.8	-7.8	-7.3
Fiscal Balance (% of GDP)	1.4	-3.4	-6.0	-4.4	-0.2	-0.9
Debt (% of GDP)	47.2	43.4	47.6	47.9	44.7	42.6
Primary Balance (% of GDP)	1.8	-3.1	-5.7	-4.0	0.3	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	69.8	70.2	70.4	70.5	70.3	69.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	85.5	85.7	85.9	85.9	85.8	85.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	94.8	94.9	95.0	95.0	95.0	94.8
GHG emissions growth (mtCO2e)	-2.2	2.2	1.2	1.3	1.4	1.3
Energy related GHG emissions (% of total)	39.3	39.7	39.9	40.0	40.1	40.2

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 2008-ECASEB. Actual data: 2008. Nowcast: 2009-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2008) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

CHAD

Table 1	2021
Population, million	16.9
GDP, current US$ billion	11.8
GDP per capita, current US$	696.8
International poverty rate ($2.15)[a]	30.9
Lower middle-income poverty rate ($3.65)[a]	64.6
Upper middle-income poverty rate ($6.85)[a]	89.4
Gini index[a]	37.5
School enrollment, primary (% gross)[b]	89.2
Life expectancy at birth, years[b]	54.5
Total GHG emissions (mtCO2e)	111.8

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

Chad's economy is projected to recover in 2022, with GDP growth reaching 3.1 percent driven by high oil prices. However, with virtually no growth in per capita GDP, 6 million people will be living in extreme poverty in 2022. Growth is expected to remain subdued with escalating food and general insecurity, climatic shocks, a sensitive political transition and dependency on volatile oil revenues presenting risks to sustained recovery.

Key conditions and challenges

Chad's economy has been on a weak growth path following the 2014-15 oil price shock. Notwithstanding the 2018-19 recovery, annual GDP growth contracted by 1.1 percent on average over the past six years, which, given high population growth (3 percent on average), translated into an average annual decrease in per capita income of 4.1 percent. Growing political and security expenses and poor oil revenue management have constrained improvements in basic services and infrastructure delivery. Moreover, Chad's high dependency on a highly volatile oil market has threatened fiscal consolidation and debt sustainability.

Chad ranked 187th out of 189 countries on the Human Development Index in 2020. Living conditions and access to essential services remain poor due to cyclical insecurity, severe weather conditions, political unrest, institutional instability, weak governance – including oil revenues management –, poor trade networks, low human capital investment, and a lack of infrastructure.

Recent developments

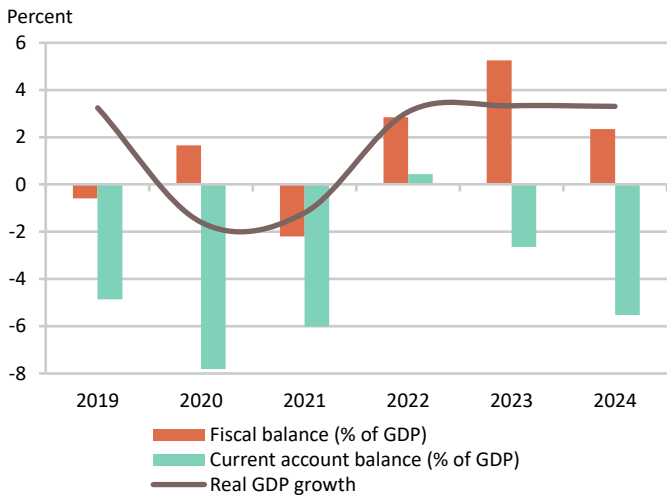
Chad's economy is expected to recover in 2022, with GDP growing by 3.1 percent (0.1 percent in per capita terms), following a 1.2 percent (4.1 percent in per capita terms) contraction in 2021. This recovery is driven by high oil prices (averaging $100/bbl in 2022), as a result of the war in Ukraine. Despite weak cereal production after inadequate rainfall distribution and floods, agriculture (including livestock) will remain the main non-oil growth driver, contributing 1.3 percentage points (pp). Industry and services contribution to growth will turn positive by 1 pp and 0.7 pp respectively, thanks to the resumption of economic activities following a period of political instability. Exports value is projected to increase by 45.3 percent due to the increase in oil prices (by 44.8 percent), leading to a current account surplus of 0.4 percent of GDP in 2022, from a 6 percent deficit in 2021.

Inflation is projected to increase from 1.0 percent in 2021 to 5.3 percent in 2022, driven by high global prices in food and energy. Food inflation is projected to rise to 13 percent in 2022 due to the combined effects of high global food prices and weak domestic agricultural production.

Chad's monetary and exchange rate policies are managed by the regional Central Bank (BEAC), which is tightening monetary conditions to contain inflation and support the exchange rate. BEAC raised its policy rate from 3.5 to 4.0 percent and its marginal lending facility rate from 5.25 to 5.75 percent in March 2022. BEAC also decreased its weekly liquidity injections from CFAF 250 billion to CFAF 160 billion in April 2022.

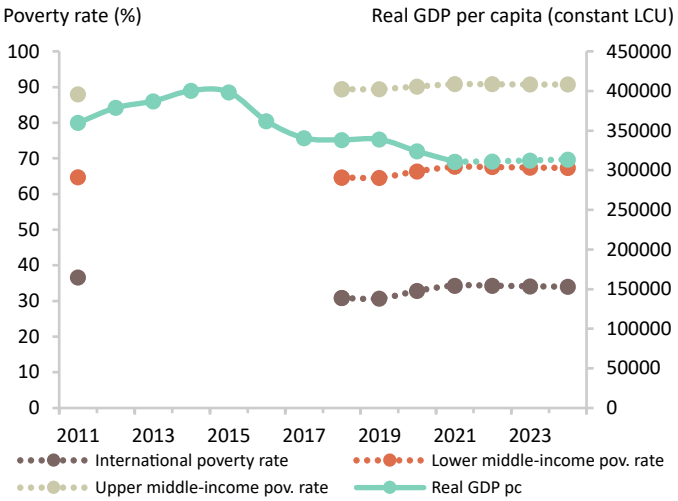
With the 2021 increase in oil prices, the fiscal balance, including grants, is projected to reach a moderate surplus of 2.8 percent

FIGURE 1 Chad / GDP growth, current account and fiscal balances



Source: World Bank.
Note: The windfall from high oil prices will be mostly used to service private sector debt, to Glencore.

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



Source: World Bank. Notes: see Table 2.

of GDP in 2022, due to the one-year lag in the main component of oil-revenue tax collection. Total public debt will accordingly drop to 44.9 percent of GDP, while the debt service to revenue ratio will remain above the high-risk threshold. The Government requested a debt restructuring under the G20 Common Framework in 2021 to help restore debt sustainability.

The extreme poverty rate (US$2.15/ day per capita, 2017 PPP) is estimated to remain unchanged between 2021 and 2022, at 34.3 percent. However, the number of extreme poor is projected to increase from 5.8 to 6 million. The rising number of poor households plus high food inflation will exacerbate food insecurity. Chad declared a national food emergency in June 2022 as 2.1 million people are projected to be severely food insecure during the lean season, from June to September. The situation is worsened by unprecedented floods during this lean season, which has affected over 340,000 people and destroyed 2,700 hectares of crops and farming land.

Outlook

Under a projected average oil price of $86/ bbl in 2023-24, and assuming ongoing global recovery in international trade and increased government investment, the economy is expected to grow by an average 3.3 percent in 2023-24 (0.4 percent in per capita terms). Inflation will moderate slightly to 4.8 percent and 3.8 respectively in 2023 and 2024.

The current account is projected to turn negative in 2023-24 (4.1 percent of GDP on average), driven by lower oil prices and increased imports to support activities in the service sectors. The fiscal balance (including grants) is expected to increase to 5.3 percent of GDP in 2023, due to significantly higher oil revenues in 2023, based on the 2022 oil prices, and more controlled security spending, and then drop to 2.3 percent of GDP in 2024. Total public debt is projected to drop to 34 percent of GDP by end-2024, although the debt service to revenue ratio will remain high.

The extreme poverty rate is expected to decline only slightly, by 0.1 ppt between 2023 and 2024, due to the positive GDP per capita growth, particularly in the agriculture sector where the majority of households earn their livelihoods. However, with rapid population growth, an additional 150,000 individuals will fall into poverty, and the number of poor is expected to reach 6.3 million. High food inflation exacerbated by the increase in transportation costs in remote areas, security restrictions negatively impacting household incomes, and low coverage of social protection programs will limit the pace of poverty reduction.

This outlook is subject to high uncertainty and multiple downside risks, including: dampening oil prices; increased political instability as the political transition enters its final phase with the preparation and the organization of elections; intensified security risks; further climate-related shocks; continuing food security challenges and related social discontent.

TABLE 2 Chad / 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	-1.6	-1.2	3.1	3.3	3.3
Private Consumption	1.4	0.5	1.6	1.7	2.0	2.5
Government Consumption	1.7	11.1	3.7	-0.1	-1.2	-3.5
Gross Fixed Capital Investment	6.6	-14.7	-4.5	6.5	7.8	8.1
Exports, Goods and Services	6.0	1.1	-0.4	4.9	5.2	3.9
Imports, Goods and Services	4.0	1.8	5.1	3.3	4.2	3.5
Real GDP growth, at constant factor prices	3.3	-1.6	-1.2	3.1	3.3	3.3
Agriculture	0.1	3.9	6.2	4.0	3.2	3.0
Industry	7.3	-0.1	-4.6	3.2	3.3	1.2
Services	2.5	-7.0	-4.4	2.1	3.5	5.4
Inflation (Consumer Price Index)	-1.0	3.5	1.0	5.3	4.8	3.8
Current Account Balance (% of GDP)	-4.9	-7.8	-6.0	0.4	-2.6	-5.5
Fiscal Balance (% of GDP)	-0.6	1.7	-2.2	2.8	5.3	2.3
Debt (% of GDP)	51.1	49.9	52.1	44.9	38.7	34.0
Primary Balance (% of GDP)	1.0	3.4	-0.6	4.3	6.5	3.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	30.7	32.8	34.3	34.3	34.1	34.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	64.6	66.4	67.6	67.6	67.4	67.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	89.4	90.2	90.8	90.8	90.8	90.7
GHG emissions growth (mtCO2e)	2.4	2.8	2.9	3.2	3.3	3.4
Energy related GHG emissions (% of total)	2.2	2.2	2.1	2.1	2.0	2.0

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

COMOROS

Table 1	2021
Population, million	0.9
GDP, current US$ billion	1.3
GDP per capita, current US$	1444.7
International poverty rate ($2.15)[a]	18.6
Lower middle-income poverty rate ($3.65)[a]	39.5
Upper middle-income poverty rate ($6.85)[a]	68.6
Gini index[a]	45.3
School enrollment, primary (% gross)[b]	99.5
Life expectancy at birth, years[b]	64.5
Total GHG emissions (mtCO2e)	0.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2020).

The economy of Comoros has been hard hit by multiple shocks in recent years, including Cyclone Kenneth, the COVID-19 pandemic, and spillovers from the Ukraine war. With increasing inflationary pressures, sluggish growth is projected in 2022, and Comoros' low-income households will be significantly affected despite subsidies to contain prices. Fiscal consolidation over the medium-term is required to ensure macroeconomic stability as twin fiscal and external deficits are projected to increase.

Key conditions and challenges

A small, remote and fragile island, Comoros' growth remains hindered by significant structural challenges. Feeble GDP growth, averaging 2.7 percent between 2001 and 2020, has been mainly driven by private consumption, fueled by remittances from the sizeable Comorian diaspora. Exports are low and concentrated in a few agricultural commodities, while imports are the source of 70 percent of the food consumed domestically. Weak government institutions, poor infrastructure, and low human capital are among the factors impeding growth. Comoros' economic model presents vulnerabilities because the current account deficit is mainly financed by remittances that support private consumption, and twin fiscal and external deficits have been growing.

Public finances are unbalanced and dependent on external grants, especially for public investments. Tax revenues are low at around 8 percent of GDP and cannot support the public expenditures of around 20 percent of GDP. Moreover, the composition of spending is concentrated on the wage bill, which absorbs 53 percent of the domestic revenues, providing limited space for social spending. With a deteriorating profile, debt nearly doubled from 2014 to 2020, to 22 percent of GDP. A recent large non-concessional loan with a short maturity has raised the risk of debt distress in Comoros to high levels.

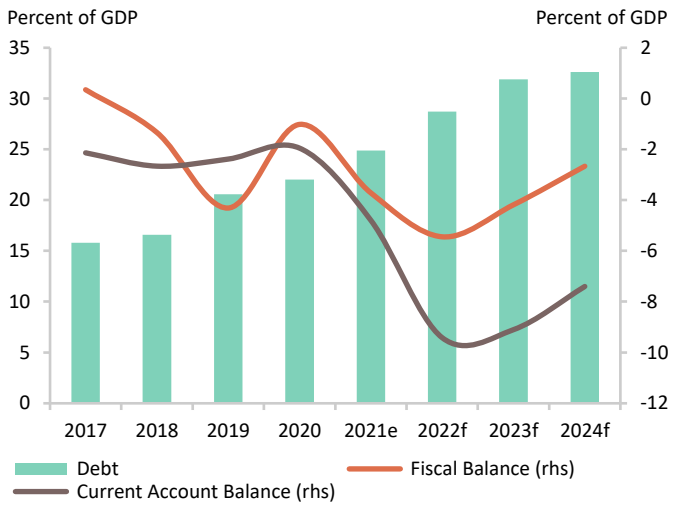
Against this backdrop, the risks on the outlook for Comoros are tilted to the downside, despite much-awaited recovery from Cyclone Kenneth in 2019. Moreover, Comoros faces headwinds related to the global rise of food and energy prices and the normalization of monetary policy worldwide. Domestically, there is a need to increase the implementation of structural reforms that would unleash productivity and investment-driven growth. Besides natural disasters that could affect Comoros, the high risk of debt distress limits fiscal space and requires prudent debt management that could be challenging because of increased spending pressures.

Recent developments

The Comorian economy is estimated to have grown by 2.2 percent in 2021, on the back of weaker-than-expected private consumption growth. As a result, the poverty rate in 2021 remained stagnant at 39.7 percent when measured against the new poverty line for lower-middle-income countries of USD 3.65 a day per capita in PPP terms. The war in Ukraine's effect on the ongoing rise in agricultural and energy prices and the pandemic-driven supply chain disruptions have negatively affected private consumption.

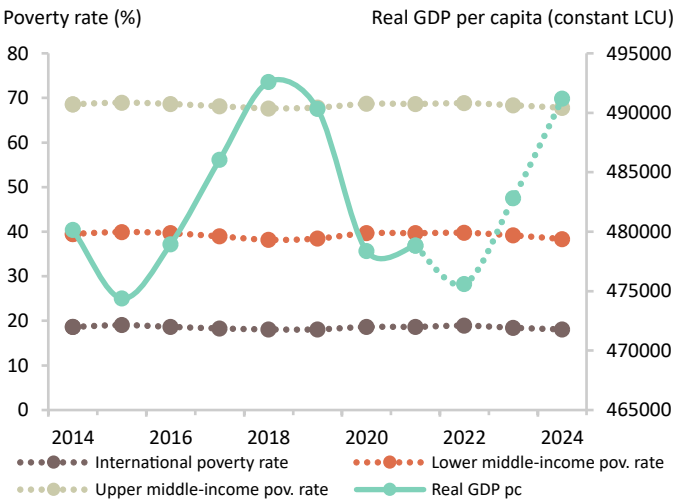
Inflation, typically low given the currency peg to the Euro, has surged since 2021, reaching at least 7.3 percent in 2022H1, because of the war in Ukraine. The policy response has been mixed. On the one hand, the government has passed on the higher

FIGURE 1 Comoros / Selected macroeconomic balances



Source: National authorities and World Bank staff estimates and forecasts.

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



Source: World Bank. Notes: see Table 2.

import costs to domestic fuel and electricity prices, which increased by 44 percent in June 2022. But on the other handit increased subsidies to the monopolist rice importer ONICOR (Office National d'Importation de Commercialisation du Riz) and launched a subsidy for bakeries to avoid hikes in the prices of rice and flour-based products. A recent moderation of price pressures on selected commodities is expected to have partly counterbalanced the effects of a stronger dollar on the import bill.

The twin deficits have widened since 2021. A higher import bill coupled with lower remittances and exports brought the current account deficit to 4.8 percent of GDP in 2021. Similarly, the fiscal deficit increased to 3.7 percent in 2021 due to higher spending, lower tax revenues, and SOE dividends. These forces have carried over to the first half of the 2022, despite higher seasonal remittances from the diaspora. Credit to the economy increased by 13.1 percent in 2022H1, while non-performing loans decreased to 16.7 percent.

Outlook

The Comorian economy is projected to grow slightly by 1.4 percent in 2022 and gather pace in 2023 and 2024, expanding by 3.3 and 3.8 percent, respectively. Higher prices caused by the war in Ukraine and a decrease in remittances are expected to continue weighing on private consumption, which is projected to grow by only 0.5 percentage points in 2022. Government consumption is expected to increase to 6.1 percent in 2022, from 2.3 percent in 2021, while public investments are sustained at 9 percent of GDP, given investment needs and political cycles. Higher imports will increase the current account deficit to 9.4 percent of GDP in 2022; a slight decrease in the current account is foreseen in 2023-2024.

Strong inflationary pressures are expected to trigger increased government subsidies to State owned enterprises, and widen the fiscal deficit to 5.4 percent in 2022, from 3.7 percent in 2021.

The government is not likely to meet its revenue targets in 2022 as tax revenues are expected to increase at a slower pace due to lower consumption growth and SOE dividends and failure to implement planned tax reforms. Thus, the fiscal gap is projected to reach 1.9 percent of GDP in 2022, against a projection of 0.9 percent in March 2022. By 2024, the fiscal deficit is projected to decline to 2.7 percent of GDP, public debt to increase to 32.6 percent of GDP and the risk of debt distress could remain high.

Finally, the poverty rate is expected to stagnate around 39.8 percent in 2022 and continue along its timid downward trend to recover its pre-pandemic level of 38.4 percent in 2024. Poverty developments will depend on the evolution of inflation. If non-food prices grow twice as fast as food, poverty is expected to return to pre-war levels in 2024. In addition, food insecurity and substitution towards cheaper alternatives will deepen food intake imbalances, especially among poor urban households.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.8	-0.3	2.2	1.4	3.3	3.8
Private Consumption	3.8	3.8	3.1	0.5	2.3	2.9
Government Consumption	3.5	4.1	2.3	6.1	-6.2	-7.4
Gross Fixed Capital Investment	-8.4	-14.4	2.5	15.5	1.8	-0.3
Exports, Goods and Services	6.8	-46.3	30.7	7.1	19.4	14.7
Imports, Goods and Services	5.7	-9.3	7.6	9.4	1.7	-0.3
Real GDP growth, at constant factor prices	1.9	-0.8	2.2	1.4	3.4	3.8
Agriculture	0.9	4.3	1.6	0.9	1.8	2.6
Industry	4.0	-5.6	2.1	0.9	1.3	1.1
Services	1.9	-2.2	2.6	1.7	4.5	4.9
Inflation (Consumer Price Index)	3.7	0.8	0.0	13.0	8.7	5.6
Current Account Balance (% of GDP)	-2.4	-2.0	-4.8	-9.4	-9.1	-7.4
Fiscal Balance (% of GDP)	-4.3	-1.0	-3.7	-5.4	-4.2	-2.7
Debt (% of GDP)	20.6	22.0	24.9	28.7	31.9	32.6
Primary Balance (% of GDP)	-4.1	-0.8	-3.4	-5.0	-3.6	-1.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	18.1	18.7	18.7	18.9	18.5	18.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	38.5	39.7	39.7	39.8	39.2	38.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	67.9	68.7	68.7	68.9	68.4	67.8
GHG emissions growth (mtCO2e)	3.7	1.6	2.1	0.5	1.6	2.8
Energy related GHG emissions (% of total)	45.6	45.2	44.7	43.6	43.7	44.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2014-EESIC. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

DEMOCRATIC REP. OF CONGO

Table 1	2021
Population, million	92.4
GDP, current US$ billion	58.3
GDP per capita, current US$	631.4
International poverty rate ($2.15)[a]	69.7
Lower middle-income poverty rate ($3.65)[a]	87.7
Upper middle-income poverty rate ($6.85)[a]	97.4
Gini index[a]	42.1
School enrollment, primary (% gross)[b]	118.5
Life expectancy at birth, years[b]	61.0
Total GHG emissions (mtCO2e)	680.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2020).

DRC's economy is expected to grow by 6.1 percent in 2022. Higher metal prices are likely to offset higher food and oil prices and lead to improved terms of trade and a balanced current account. However, the fiscal deficit is expected to widen due to increased social and infrastructure spending. Growth prospects, albeit favorable, remain vulnerable to commodity price shocks and supply chain disruptions, which might hamper poverty reduction.

Key conditions and challenges

The Democratic Republic of the Congo (DRC), home to the second largest rainforest in the world and vast metal deposits, has yet to leverage its natural wealth into economic development. The economy is highly concentrated in the extraction of copper and cobalt, which constitute over 80 percent of exports (largely headed to China). With its huge agricultural potential untapped, DRC is a net food importer, increasing vulnerabilities to external and climatic shocks. Political instability, weak institutional capacity, poor governance, and recurring episodes of violence have prevented DRC from building the foundations of a diversified and resilient economy capable of generating economic opportunities for a rapidly growing population, leading to persistent high levels of poverty. Persistent structural constraints result in an underdeveloped private sector and large informal economy.

The fragile political context is fueled by the complex dynamics of political coalitions. Reaching political consensus – mainly ahead of the 2023 presidential elections - and increasing the presence and credibility of the state, including through improved governance, are key to maintaining stability and advancing structural reforms that will attract investments and create jobs. The need for the state to deliver more and better services to citizens implies that expenditure-led adjustments to revenue shortfalls or external shocks could jeopardize long-term growth prospects as well as political stability. Thus, improving domestic revenue mobilization to widen fiscal space is crucial.

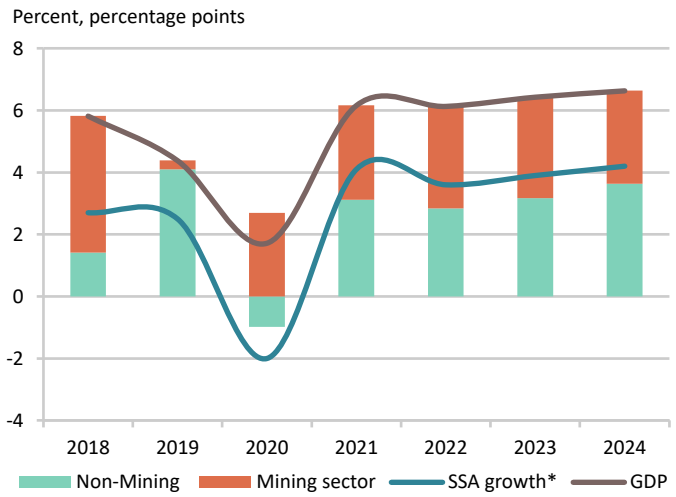
Poverty remains widespread in the country, with the bulk of the poor living in extreme poverty. While there are significant geographical disparities between provinces, with most poor living along two densely populated corridors running from West (Kongo Central) to East (Haut Katanga), and North (Ituri) to South (Tanganyika), poverty exceeds 50 percent even in the wealthier provinces. DRC remains second in Sub-Saharan Africa after Nigeria in terms of the number of extreme poor despite some improvements in the past decades.

Recent developments

DRC has maintained a strong growth momentum and is estimated to grow by 6.1 percent in 2022 (2021: 6.2 percent). Mining sector investments and exports remain the key drivers of growth, supported by improved mineral prices and higher public investment. Over the first half of 2022, the volume of copper and cobalt production increased by 34.2 and 38.3 percent respectively, y-o-y, boosted by the Kamoa-Kakula copper mine. Growth in non-mining sectors (particularly services) is expected to slightly slow down to 4.1 percent in 2022 (from 2021: 4.5).

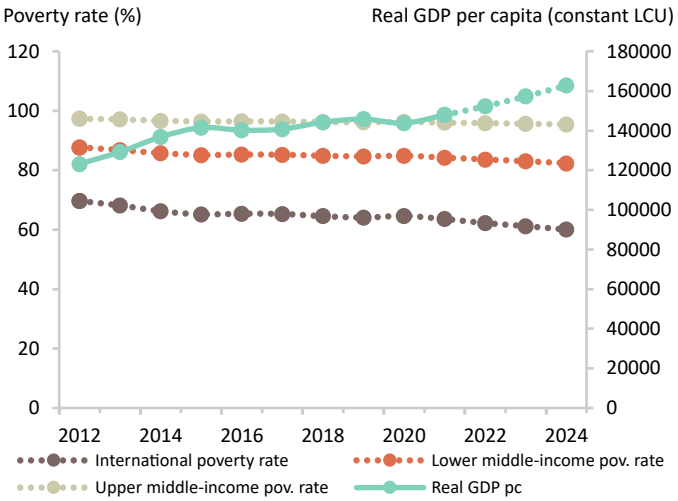
The current account is expected to be balanced in 2022 (2021: -1.0 percent), as rising

FIGURE 1 Democratic Republic of Congo / Real GDP growth and contributions to real GDP growth



Sources: Democratic Republic of Congo Statistical Authorities and World Bank.
Note: *Sub-Saharan Africa region.

FIGURE 2 Democratic Republic of Congo / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

food and fuel import bills are offset by strong export earnings supported by higher commodity prices and volumes. Foreign reserves are estimated to reach 8.3 weeks of imports in 2022 from 6.3 weeks a year earlier. Inflation is expected to increase to 9.5 percent in 2022 exacerbated by the rising global energy and food prices.

The fiscal deficit is projected to deteriorate to 3.0 percent in 2022 (2021: 1 percent) as improved revenue mobilization cannot fully offset higher capital and current transfer spending. Revenues are estimated at 14.4 percent of GDP in 2022, owing to favorable commodity prices and digitalization of the revenue collection process, while expenditures (18.7 percent of GDP) are expected to increase due to wage adjustments and fuel subsidies. The deficit will be financed through domestic market issuance, external concessional borrowing, and IMF ECF disbursements, pushing the estimated public debt to 24.7 percent of GDP at end-2022 (2021: 23.7 percent).

The latest World Bank projections put extreme poverty at 62.3 percent in 2022, a 1.3 percentage points decrease compared to 2021. This decrease is due to favorable economic performance, despite the negative effects of the COVID-19 pandemic and the war in Ukraine.

Outlook

GDP growth is projected to increase to 6.6 percent in 2024. The mining sector is expected to decelerate to 9.0 percent in 2024 from 10.1 percent in 2023 with the end of the Kamoa Kakula expansion, while growth in non-mining sectors gradually picks up, reaching 5.4 percent in 2024.

The fiscal deficit may narrow to an estimated 1.7 percent of GDP in 2024, after widening to 3.1 percent in 2023 owing to presidential elections. The external sector is expected to deteriorate slightly, reflecting higher growth in imports of capital goods (given plans for further mine expansions) and deteriorating terms of trade despite falling global oil prices and growth in mineral exports.

Extreme poverty is projected to decrease by 2.2 percentage points by 2024 given favorable economic prospects, despite lasting negative effects of the pandemic, high population growth, and war in Ukraine.

DRC's economy remains vulnerable to commodity price swings and growth performance of major trading partners which might be disturbed by geopolitical conflicts and a pandemic resurgence. The economic consequences of the war in Ukraine, through rising global food costs and higher oil prices, could exert stronger pressure on fiscal deficit, on inflation and on households' consumption thus exacerbating poverty and inequality.

With the agriculture sector employing over 60 percent of the working age population, vulnerability to climate change related risks (floods, droughts) is substantial. Finally, continued political uncertainty ahead of planned 2023 presidential elections, might delay reform efforts, worsen fiscal imbalances and generate arrears. Given persistent conflicts in the East, DRC's immediate challenge is to strengthen security and maintain political and macroeconomic stability while stepping up ongoing reforms to ensure sustainable growth.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.4	1.7	6.2	6.1	6.4	6.6
Private Consumption	17.3	-8.0	1.6	1.5	2.0	2.2
Government Consumption	6.6	9.5	11.8	21.3	5.8	3.4
Gross Fixed Capital Investment	6.3	37.8	-29.6	16.0	17.2	14.6
Exports, Goods and Services	1.4	4.0	24.9	13.7	7.9	7.5
Imports, Goods and Services	25.2	15.1	-19.9	14.8	9.6	7.7
Real GDP growth, at constant factor prices	4.6	2.3	6.2	6.1	6.4	6.6
Agriculture	3.1	2.5	2.4	2.8	2.9	3.0
Industry	4.1	4.2	7.9	7.8	7.6	7.7
Services	5.7	0.1	5.6	5.3	6.1	6.6
Inflation (Consumer Price Index)	4.7	11.4	9.1	9.5	8.0	7.0
Current Account Balance (% of GDP)	-3.4	-2.3	-1.0	0.0	-0.4	-0.1
Fiscal Balance (% of GDP)	-2.0	-1.2	-1.0	-3.0	-3.1	-1.7
Debt (% of GDP)	19.5	22.9	23.1	20.2	19.4	19.0
Primary Balance (% of GDP)	-1.8	-1.0	-0.9	-2.5	-2.6	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	64.1	64.7	63.6	62.3	61.2	60.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	84.7	84.9	84.3	83.6	83.1	82.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	96.2	96.3	96.1	95.9	95.7	95.4
GHG emissions growth (mtCO2e)	0.4	0.0	0.1	0.2	0.2	0.3
Energy related GHG emissions (% of total)	1.2	1.2	1.2	1.3	1.3	1.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2012-E123. Actual data: 2012. Nowcast: 2013-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2012) with pass-through = 0.7 based on GDP per capita in constant LCU.

REPUBLIC OF CONGO

Table 1	2021
Population, million	5.7
GDP, current US$ billion	13.3
GDP per capita, current US$	2357.1
International poverty rate ($2.15)[a]	35.4
Lower middle-income poverty rate ($3.65)[a]	59.1
Upper middle-income poverty rate ($6.85)[a]	83.5
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	93.7
Life expectancy at birth, years[b]	64.8
Total GHG emissions (mtCO2e)	31.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2011), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2020).

After contracting by an estimated 2.2 percent in 2021, economic activity in the Republic of Congo (ROC) is gradually picking up. Higher commodity prices stemming from the war in Ukraine are improving ROC's fiscal and external positions, but households and businesses are facing rising inflation and fuel shortages. Growth is expected to strengthen in 2023-2024. Uncertainties related to oil prices and production, and spillovers from the war in Ukraine are key risks to the outlook.

Key conditions and challenges

The Congolese economy has been contracting since 2015, triggered by the 2014-16 collapse in oil prices that led to a massive cut in public spending and investment and the accumulation of domestic arrears to private sector firms, impacting private investment. The multi-year economic recession led to a cumulative decline of real GDP by 27 percent and of GDP per capita by 37 percent during 2014-2020.

The country's reliance on volatile oil revenue and weak governance, reflected in high levels of non-concessional borrowing, led Congo's debt to be classified as "in distress" and unsustainable in 2017, as the country became unable to meet its contractual obligations. Higher oil prices, improved debt management, and debt restructuring agreements helped restore debt sustainability in the second half of 2021, but ROC remains in debt distress.

The prolonged economic recession has reversed previous progress in poverty reduction, with the proportion of the population living below the international extreme poverty line of US$2.15 PPP per day increasing from 34.9 percent in 2015 to 50.2 percent in 2020. Furthermore, human capital development lags that of peer countries.

The impact of the war in Ukraine is exacerbating socio-economic challenges, including food insecurity because of ROC's high dependence on food imports. Despite being the third largest oil producer in Sub-Saharan Africa, fuel shortages have become more frequent since the start of the war in Ukraine as the country heavily relies on imported refined oil. The pandemic continues to be a risk to ROC's economic outlook, particularly since only about 12 percent of the population was fully vaccinated as of August 2022.

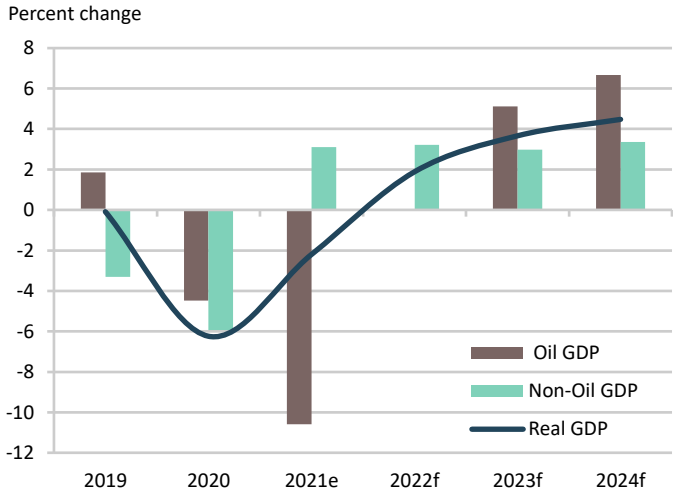
Reviving economic growth and diversifying the economy away from oil remain key challenges. The new National Development Plan for 2022-2024 offers a good opportunity to transform ROC's economy and boost inclusive and sustainable development to reduce the country's vulnerability to volatile oil prices and unsteady production.

Recent developments

After contracting by 2.2 percent in 2021 owing to the underperformance of the oil sector, economic activity is gradually picking up in 2022, driven by the non-oil sector. Non-oil sector growth in 2022H1 was spurred by the removal of COVID-19 restrictions, and clearance of government domestic arrears which provided liquidity to domestic banks and firms. Despite higher oil prices and global demand, oil production further declined in 2022H1 (by 4.2 percent y-o-y) due to postponed investments, maturing oil fields, and technical challenges.

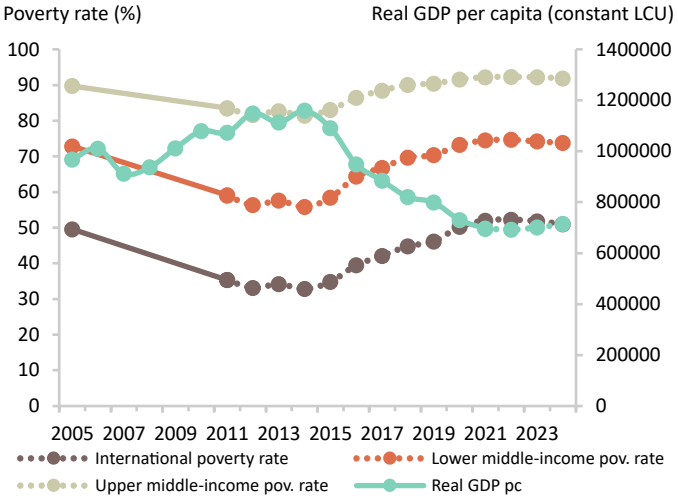
Both the fiscal and external positions improved thanks to higher oil prices, and the

FIGURE 1 Republic of Congo / Real GDP growth



Source: World Bank.
Note: The growth rate of oil GDP in 2022 is projected to be zero.

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



Source: World Bank. Notes: see Table 2.

budget registered a surplus in 2022H1 (expected to reach 4.8 percent of GDP by end-2022). In August, ROC revised its 2022 Budget Law to finance the government's plan for the food crisis and the higher oil and gas subsidy bill, which increased from CFAF 80 billion in the initial law to CFAF 251 billion (2.7 percent of GDP). Higher export receipts are projected to strengthen the current account surplus to 18.1 percent of GDP in 2022.

Improvements in banking system solvency and liquidity are strengthening financial sector stability. Bank deposits and credit to the private sector were up in 2022H1 and non-performing loans have continued to decline. Monetary conditions have continued to be tightened to contain inflationary pressures and support the external viability of the exchange rate arrangement. Following a 25-basis point increase in November 2021, the Bank of Central African States (BEAC) further increased the policy rate by 50 basis points to 4.0 percent in March 2022. The BEAC also decreased its weekly liquidity injections from CFAF 250 billion to CFAF 160 billion in April 2022.

Socio-economic challenges are worsening, with the poverty rate estimated to have increased from 50.2 percent in 2020 to 52.0 percent in 2021. Existing supply chain disruptions and the effects of the war in Ukraine are pushing up food prices in ROC, with food inflation averaging 6.3 percent (y-o-y) in 2022H1, which is likely to affect the poorer segments of the population more as they typically spend a higher share of their household budget on food.

Outlook

ROC's GDP is expected to grow at 1.9 percent in 2022, driven by the non-oil sector as oil production is projected to remain unchanged. The economy is expected to then rebound, with GDP growth projected to average 4.1 percent in 2023-24. Oil sector growth (expected to average 5.9 percent in 2023-24) would be driven primarily by the resumption of investments by oil companies which will increase oil production. Non-oil sector growth is expected to average 3.2 percent in 2023-24 owing to growth in agriculture and services and the implementation of structural reforms on the supply side, and continued clearance of domestic arrears and increased social and public investment spending on the demand side.

Inflation is projected to remain above BEAC's 3.0 percent target over the medium term. Food inflation is expected to remain elevated, worsening food insecurity. The poverty rate is expected to reach 52.2 percent in 2022 and decline slightly to an average of 51.4 percent in 2023–24, consistent with projected growth in GDP per capita.

The fiscal balance is expected to remain positive at 3.4 percent, on average, in 2023–24, fueled by higher oil receipts and improved non-oil revenue mobilization resulting from tax administration reforms such as e-filing and e-payments and the launch of taxpayer service centers. Although debt vulnerabilities remain elevated (with a high level of non-concessional debt stock and domestic arrears), ROC's debt-to-GDP ratio will decline to 76.3 percent by 2024 (from 102.2 percent at end-2021) due to improved debt management, fiscal discipline, and significant oil revenues. The current account surplus will decline in 2023-24 as investments in new oil fields will lead to an increase in equipment imports.

Downside risks include uncertainties related to the pandemic, oil prices and production, a protracted war in Ukraine and related spillovers (including food price increases and refined oil shortages in ROC), tighter conditions in regional financial markets, and adverse weather conditions.

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

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-0.1	-6.2	-2.2	1.9	3.7	4.5
Private Consumption	1.6	-6.9	8.5	8.8	6.7	5.8
Government Consumption	-18.7	-33.1	16.9	10.1	4.9	5.7
Gross Fixed Capital Investment	-2.3	-45.0	9.5	8.9	9.7	9.3
Exports, Goods and Services	7.4	-11.1	-12.2	0.1	5.0	6.1
Imports, Goods and Services	3.2	-36.3	2.5	10.1	11.0	10.3
Real GDP growth, at constant factor prices	-0.6	-5.1	-2.2	1.9	3.7	4.5
Agriculture	0.2	4.5	1.5	3.0	3.1	3.5
Industry	0.2	-3.7	-7.9	0.6	4.6	5.9
Services	-1.8	-9.2	3.9	3.4	3.0	3.4
Inflation (Consumer Price Index)	2.2	1.4	2.0	3.8	3.7	3.4
Current Account Balance (% of GDP)	-0.8	0.9	10.9	18.1	11.8	7.7
Net Foreign Direct Investment Inflow (% of GDP)	3.4	2.4	3.8	3.8	4.7	5.4
Fiscal Balance (% of GDP)	3.4	-2.4	1.4	4.8	4.3	2.6
Debt (% of GDP)	81.9	113.2	102.2	84.0	80.6	76.3
Primary Balance (% of GDP)	8.0	-0.6	3.4	7.1	6.5	4.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	46.1	50.2	52.0	52.2	51.8	51.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	70.4	73.3	74.5	74.7	74.2	73.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	90.4	91.6	92.2	92.3	92.2	91.9
GHG emissions growth (mtCO2e)	3.9	2.4	2.5	3.2	3.6	3.9
Energy related GHG emissions (% of total)	13.7	14.0	14.1	14.4	14.7	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/ Calculations based on 2011-ECOM. Actual data: 2011. Nowcast: 2012-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2011) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

CÔTE D'IVOIRE

Table 1	2021
Population, million	27.1
GDP, current US$ billion	70.0
GDP per capita, current US$	2589.0
International poverty rate ($2.15)[a]	11.4
Lower middle-income poverty rate ($3.65)[a]	39.6
Upper middle-income poverty rate ($6.85)[a]	75.4
Gini index[a]	37.2
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	58.1
Total GHG emissions (mtCO2e)	52.5

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

The consequences of the war in Ukraine are expected to slow the recovery in 2022, to 5.7 percent growth (3.1 percent per capita), while increasing external and fiscal financing needs. Inflation should reach 5.5 percent in 2022 from 4.2 percent in 2021, threatening gains in poverty reduction. The government responded with price caps and a wage bill increase that increased fiscal spending and highlighted the need for domestic revenue mobilization.

Key conditions and challenges

Côte d'Ivoire has been one of the fastest-growing economies in SSA for almost a decade - with real GDP growth averaging 8.2 percent over 2012–19 (5.7 percent in per capita terms). Political stability, sound macroeconomic policies and new sources of growth (in services and industry) have sustained high growth rates. Over 2011-19, the poverty rate declined from 55 to 39.5 percent, along with inequality, as measured by the Gini coefficient, from 0.38 to 0.35. Sound fiscal policy up to 2019 also enabled counter-cyclical measures to contain the recent external shocks, achieving 2 and 7 percent real GDP growth in 2020 and 2021.

Renewing its objective of doubling GDP per capita by 2030 in the National Development Plan (NDP) 2021-2025 requires addressing bottlenecks to enable structural transformation and sustain inclusive growth. Productivity growth has remained flat since 2017, and the pandemic also slowed progress toward poverty reduction. Leveraging private investment, greater capital deepening, reducing allocative inefficiencies, improving human capital and governance, increasing resilience to climate risks are important.

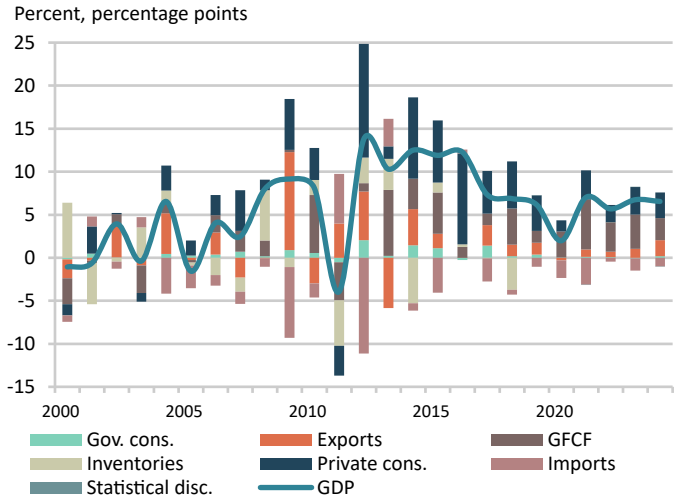
Downside risks predominate in the short term. The war in Ukraine increases commodity price volatility, which can depress external balances and energy and food inflation. Tightening global financial markets as advanced countries raise interest rates could increase debt vulnerabilities. Heightened regional insecurity and climate-related factors could also dampen the outlook. In the medium term, the rollout of the NDP will depend on adequate financing, premised on greater domestic revenue mobilization and private investments.

Recent developments

In 2021, the economy recovered strongly aided by fiscal and monetary policy and less disruptive containment measures. Real GDP growth is estimated at 7 percent in 2021 (4 percent in per capita terms), driven by domestic demand, despite inflation reaching a 10-year high of 4.2 percent at year-end driven by higher food prices because of adverse weather and COVID-19 supply disruptions. The fiscal deficit declined by 0.5 ppt to 5.1 percent of GDP mostly owing to strong revenue collection (+0.7 percent of GDP) as authorities have maintained high levels of public investment. PPG debt reached 52.1 percent of GDP.

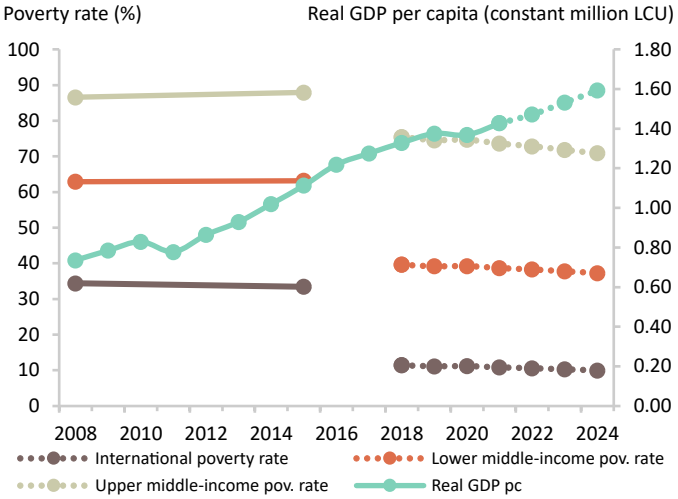
Against that backdrop, the negative terms of trade shock and deceleration in global demand from the war in Ukraine will impact economic recovery and increase fiscal pressures in 2022. Quarterly GDP growth reached 6.2 percent (y/y) in Q1. Over the first half, industrial output grew by 12.4 percent (y/y) led by mining, manufacturing, and energy sectors; but the retail and telecom business indices already suffered from a deceleration in consumption. Inflation continued to increase

FIGURE 1 Côte d'Ivoire / Real GDP growth and contributions to real GDP growth



Source: World Bank.

FIGURE 2 Côte d'Ivoire / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

despite measures to contain it, reaching 5.4 percent in July (y/y), with core inflation at 4.4 percent. Higher import prices also widened the CAD, exerting external financing pressures. The fiscal stance should deteriorate, with the deficit expected at 5.7 percent of GDP, due to greater infrastructure spending and interest payments, and a slowdown in revenue as the government uses the proceeds of the excises on fuel to offset price increases via subsidies. The overall fiscal package to contain prices amounted to 0.9 percent of GDP at end-July. A five-year civil servant wage reform – to mitigate the erosion of purchasing power - concluded in August 2022 should increase the wage bill by 0.2 percent of GDP in 2022.

Monetary and exchange rate policies are managed by the BCEAO. Its reserves declined to 5.2 months of imports in June 2022, from 5.5 months in 2021, due to higher energy prices and food imports caused by the war in Ukraine. To counter inflation pressures, the BCEAO raised rates for liquidity calls (2 to 2.5 percent) and the marginal lending window (4 to 4.5 percent) in June and September 2022.

Extreme poverty incidence measured against the US$2.15 a day per capita (2017 PPP) international poverty line should decline from 10.8 percent in 2021 to 10.6 percent in 2022, and below its pre-COVID level of 11.2 percent. The expansion of services and industry, which respectively employ 42.7 and 13 percent of the labor force, contributed to poverty reduction.

Outlook

Despite the headwinds, the economy should be resilient in the short-term and continue expanding at a steady pace over the medium term with growth averaging 6.4 percent over 2022-2024, driven by domestic demand, continued high public investment and increasingly greater private investments in the context of the NDP and reforms to improve the business environment. Trade flows with Ukraine and Russia are small and a progressive easing of global commodity prices should support the deceleration of inflation starting 2023. The CAD should narrow but remain higher than pre-COVID levels due to expected increase in import volumes and prices.

The authorities remain committed to sound macroeconomic management and the fiscal deficit should gradually converge towards the regional target of 3 percent by 2025 – despite an expected permanent wage bill increase of 0.4 percent of GDP until 2027 -, supporting a gradual decline in the debt-to-GDP-ratio.

However, financing conditions will remain tight. Tighter monetary policy in advanced economies will trigger higher financing costs of external and domestic debt, increasing debt vulnerabilities due to rollover risks in the short-term. Sustained domestic revenue mobilization, efficient public spending, prudent borrowing, and active debt management remain crucial to ensure macroeconomic stability.

Poverty reduction should continue despite negative headwinds thanks to mitigation policies that have kept fuel and food prices lower than in other countries in the region and expected wage bill increase. In medium term, poverty alleviation should continue, with extreme poverty (US$2.15 2017PPP) expected to fall to 9.99 percent by 2024, benefiting from the recovery and the rollout of the new social development plan.

TABLE 2 Côte d'Ivoire / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.2	2.0	7.0	5.7	6.8	6.6
Private Consumption	6.0	1.9	5.0	3.0	4.9	4.7
Government Consumption	4.1	0.3	1.3	0.8	-0.8	2.6
Gross Fixed Capital Investment	5.5	12.2	21.3	11.1	12.3	7.6
Exports, Goods and Services	5.7	-1.3	3.7	2.9	4.7	8.6
Imports, Goods and Services	4.4	8.8	12.7	1.7	5.7	4.1
Real GDP growth, at constant factor prices	6.3	2.0	7.0	5.7	6.8	6.6
Agriculture	5.3	2.7	1.9	0.7	2.8	3.0
Industry	11.5	1.6	6.2	6.7	10.0	10.8
Services	4.7	1.9	8.7	6.7	6.6	5.8
Inflation (Consumer Price Index)	0.8	2.4	4.2	5.5	3.5	3.0
Current Account Balance (% of GDP)	-2.3	-3.2	-3.8	-5.6	-4.8	-4.1
Net Foreign Direct Investment Inflow (% of GDP)	1.3	1.1	1.4	1.3	1.3	1.5
Fiscal Balance (% of GDP)	-2.3	-5.6	-5.1	-5.7	-4.8	-3.9
Debt (% of GDP)	38.8	47.6	52.1	53.2	52.7	51.3
Primary Balance (% of GDP)	-0.8	-3.7	-3.0	-3.4	-2.3	-1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	11.2	11.2	10.8	10.6	10.3	10.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	39.2	39.3	38.7	38.3	37.8	37.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	74.5	74.7	73.6	72.8	71.8	70.9
GHG emissions growth (mtCO2e)	1.5	0.6	1.5	1.1	1.1	0.9
Energy related GHG emissions (% of total)	23.9	23.8	24.3	24.6	24.8	24.7

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 2015-ENV and 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 1 based on GDP per capita in constant LCU.

EQUATORIAL GUINEA

Table 1	2021
Population, million	1.4
GDP, current US$ billion	10.7
GDP per capita, current US$	7408.7
School enrollment, primary (% gross)[a]	61.8
Life expectancy at birth, years[a]	59.1
Total GHG emissions (mtCO2e)	14.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2015); Life expectancy (2020).

Equatorial Guinea's real GDP is projected to grow by 3.2 percent in 2022, mainly owing to a pick-up in hydrocarbon output. Barring new substantial hydrocarbon discoveries and progress in structural reforms, the economy is projected to enter recession in 2023-24 as oil production in several fields declines. Further increases in international food prices and social tensions, further tightening of global financial conditions, reduced oil prices, and a potential fiscal cliff due to declining oil production represent downside risks to the outlook.

Key conditions and challenges

While Equatorial Guinea is classified as an upper-middle-income country, seven consecutive years of negative growth combined with the COVID-19 pandemic has curtailed progress in shared prosperity and poverty reduction, with GDP per capita growth averaging -9.4 percent in 2015-2021. Progress in improving human capital has been slow because of insufficient social spending and poor public service delivery. Public health spending represents only 0.7 percent of GDP, significantly lower than the average of 3.2 percent of GDP for upper-middle-income countries, and life expectancy at birth is low at 59 years. The poor business environment and weak governance also weigh on private sector development. Moreover, given the country's heavy dependence on oil, the expected decline in oil production combined with the social and economic toll of COVID-19 adds urgency to the government's objective to diversify away from the hydrocarbon industry and change the current growth model.

Recent developments

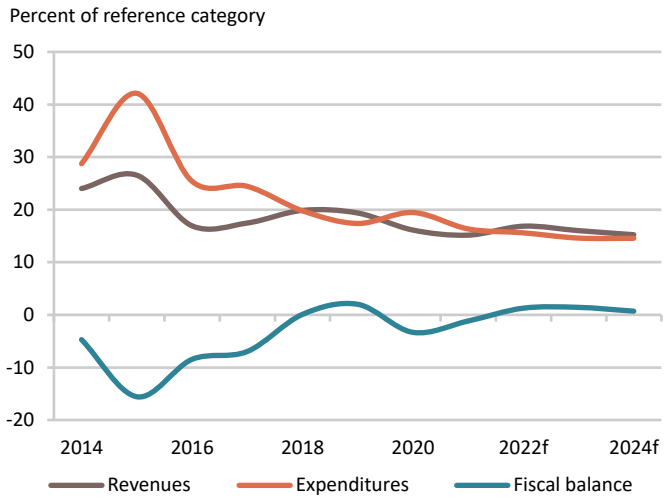
The economy is estimated to have contracted by 1.6 percent in 2021, due to lower-than-expected hydrocarbon production. The Bata explosions in March 2021 (with direct losses and damages estimated at 2.5 percent of 2020 GDP as per International Monetary Fund (IMF) estimates) and a slowdown in construction due to modest public investment also weighed on growth. The revival of the services sector partly cushioned the slowdown in 2021.

Economic activity rebounded in 2022H1, underpinned by a pick-up in hydrocarbon production (15 percent increase from 2021H2 to 2022H1), higher capital spending, and an upturn of the services sector following the phasing out of pandemic-related restrictive measures.

Stronger hydrocarbon revenues from higher production and prices improved the fiscal position in 2022H1. Fiscal revenues exceeded the budgeted levels by 13 percent in 2022H1 while the expenditure execution rate stood at 78 percent as of end-June 2022. The fuel subsidy reform implemented by the authorities in March 2022 is expected to protect the poor by keeping kerosene prices constant while adjusting gasoline prices and generate savings of about 0.1 percent of GDP in 2022 (IMF estimates). Higher hydrocarbon export earnings, with a 22.6 percent increase in export volumes from 2021H2 to 2022H1, also helped improve the trade balance and the external position in 2022H1.

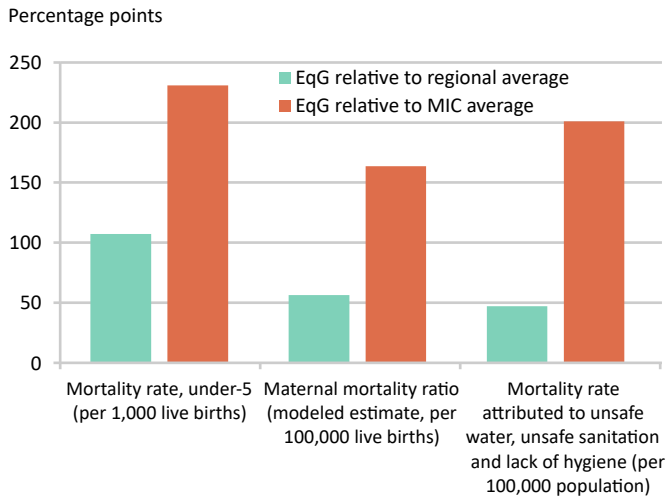
Inflation surged to 3.3 percent in July 2022 (from 1.8 percent in 2021), reflecting higher food and energy prices, which have been exacerbated by the war in Ukraine. Monetary conditions have continued to be tightened to contain inflationary pressures and support the external viability of the exchange rate arrangement. The Bank of Central African States (BEAC) further

FIGURE 1 Equatorial Guinea / Public finances



Source: World Bank.

FIGURE 2 Equatorial Guinea / Non-income poverty indicators



Source: World Bank.

increased the policy rate by 50 basis points to 4 percent on March 28, 2022. The BEAC also decreased its weekly liquidity injections from CFAF 250 billion to CFAF 160 billion in April 2022. The regional central bank has started to implement the new foreign exchange (FX) regulation, including strengthening FX repatriations, for the extractive sector in January 2022. Moreover, the COBAC (the regional supervisor) ended temporary forbearance measures in June 2022, which could lead to a deterioration of asset quality (increases in overdue loans and NPL ratios).

Phone surveys conducted in 2020 and 2021 showed that almost half of the working age population stopped working for up to 6 months during the COVID crisis, and only 14 percent of students continued their education at home. A sharp rise in food prices, due to the war in Ukraine, has likely added to an already challenging social situation due to the pandemic. As data to track poverty remain scarce, the Living Standard Measurement Survey (expected in 2023) will be key to benchmarking poverty incidence.

Outlook

After seven years of negative growth, real GDP is projected to grow by 3.2 percent in 2022, mainly driven by higher hydrocarbon production and revenues. With an expected gradual decline in hydrocarbon production and slow progress in structural reforms, Equatorial Guinea is projected to re-enter recession in 2023-24. Barring new substantial discoveries, hydrocarbon production will gradually decline as some of the country's largest oil fields are reaching maturity. Moreover, without significant progress in strengthening governance, the banking sector, and business confidence, growth in the service sector will deteriorate. Consequently, GDP growth is projected to contract by an average of 3 percent in 2023-24.

The fiscal position is projected to turn into a surplus of 1.3 percent of GDP in 2022 (from a deficit of 1.2 percent of GDP in 2021) as recent increases in hydrocarbon revenues are expected to more than offset the increase in fiscal expenditures including from the Bata reconstruction. The planned clearance of domestic arrears, using most of the IMF 2021 Special Drawing Rights allocation, is expected to reduce debt to GDP ratio to 34.5 percent in 2022, and support private sector confidence and investment. Higher hydrocarbon export earnings are expected to narrow the current account deficit to 0.8 percent of GDP (from a deficit of 2.4 percent of GDP in 2021), before deteriorating over the medium term.

The outlook is subject to major downside risks. Failure to settle outstanding arrears as planned could intensify financial sector risks; a protracted war in Ukraine could further increase international food prices which would increase domestic inflation and risks of food insecurity, possibly escalating social tensions; further tightening of global financial conditions could impact investment flows; reduced oil prices could undermine fiscal and external stability; and a potential fiscal cliff due to declining hydrocarbon production could further undermine medium-term growth.

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

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth, at constant market prices	-6.0	-4.9	-1.6	3.2	-2.6	-3.4
Private Consumption	3.4	3.4	1.0	4.2	0.5	0.2
Government Consumption	-4.5	-5.3	2.3	1.8	-6.7	-9.3
Gross Fixed Capital Investment	-55.8	-42.1	-18.0	19.0	0.8	0.6
Exports, Goods and Services	-6.2	-9.0	-1.7	4.3	-1.4	-1.9
Imports, Goods and Services	-9.0	-7.8	2.0	6.5	1.0	0.5
Real GDP growth, at constant factor prices	-6.0	-5.0	-1.6	3.2	-2.6	-3.4
Agriculture	-5.8	0.4	2.8	1.2	1.4	1.4
Industry	-8.7	-6.8	-0.6	4.1	-2.4	-3.4
Services	-1.2	-2.1	-3.5	1.8	-3.2	-3.8
Inflation (Consumer Price Index)	1.2	5.8	1.8	3.8	3.6	3.0
Current Account Balance (% of GDP)	-1.6	-10.9	-2.4	-0.8	-1.5	-2.3
Net Foreign Direct Investment Inflow (% of GDP)	5.3	3.9	5.9	4.4	4.2	4.3
Fiscal Balance (% of GDP)	2.0	-3.3	-1.2	1.3	1.4	0.7
Debt (% of GDP)	45.9	52.3	47.4	34.5	36.7	35.7
Primary Balance (% of GDP)	2.7	-2.0	0.4	2.6	2.6	2.0
GHG emissions growth (mtCO2e)	-9.3	-12.4	6.2	-0.7	-7.1	-4.3
Energy related GHG emissions (% of total)	31.7	26.7	29.2	29.5	26.9	25.2

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

ERITREA

Table 1	2021
Population, million	3.6
GDP, current US$ billion	2.2
GDP per capita, current US$	613.8
School enrollment, primary (% gross)[a]	68.4
Life expectancy at birth, years[a]	66.7
Total GHG emissions (mtCO2e)	7.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2018); Life expectancy (2020).

Real GDP growth is expected to moderate to 2.5 percent in 2022, impacted by lower global growth, and to hover around 2.8 percent over the medium term, consistent with pre-pandemic growth rates. Eritrea has begun to reengage with development partners but remains mostly isolated and vulnerable to various risks, including food inflation, highly concentrated exports, COVID-19, geopolitical tensions, and climate shocks. Poverty data has not been produced in the last decade, and national accounts are limited.

Key conditions and challenges

The lifting of UN sanctions in November 2018 marked Eritrea's emergence from a decade of international isolation. Prolonged conflict has deprived Eritrea, a fragile state, of vital aid and investment resources. The government responded by pursuing a self-sufficiency policy where large SOEs dominate the economy and outside the mining industry there is a virtually non-existent private sector. The financial sector is small and underdeveloped, and a few minerals (mainly zinc, gold, and copper) account for over 90 percent of exports, leaving Eritrea highly exposed to exogenous shocks. Monetary policy is characterized by administrative measures, fiscal dominance, and a fixed exchange rate regime pegged to the US dollar, enabled by severe import restrictions in a context of low foreign exchange reserves. Productivity in agriculture is low, and the country is among the most vulnerable and least adapted to climate change in Sub-Saharan Africa, with frequent natural hazards posing a heavy burden for the economy and rural livelihoods.

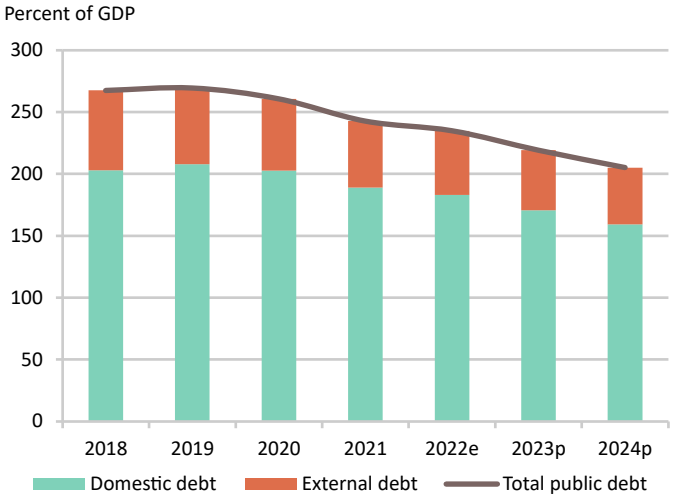
The COVID-19 crisis hit Eritrea amid a hiatus in its re-engagement with development partners, leaving it without external funding. In addition, informal cross-border trade was affected by the conflict in northern Ethiopia. However, Eritrea's isolation moderated the magnitude of the initial external shock.

Eritrea has severe data production capacity constraints resulting from the emergency conditions that prevailed in the country over the past decades. National accounts data are limited to unofficial GDP estimates produced by the Ministry of Finance and not endorsed by the government, while inflation estimates cover only the capital, Asmara, and full balance of payments accounts are missing. The last population census in Eritrea occurred over 25 years ago, and little is known about poverty.Data from 1996/97, covering only urban areas, suggests that widespread poverty reached around 70 percent of the population.

Recent developments

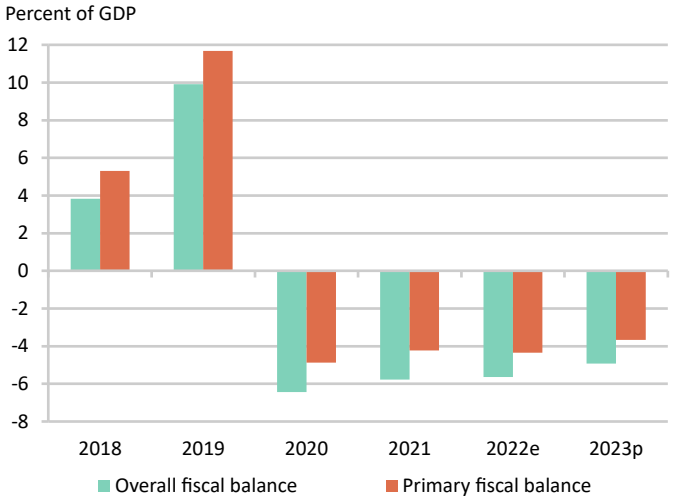
Real GDP growth rebounded by 2.9 percent in 2021 after contracting by 0.5 percent in 2020 amid the COVID-19 crisis. The recovery was led by improving external demand and the resumption of domestic economic activity following the phasing out of restrictions imposed at the onset of the pandemic. Headline inflation averaged 6.6 percent in 2021, fueled by rising international commodity prices and the continued closure of the Ethiopian border since April 2019. Rising prices of wheat, corn, fertilizers, and oil resulting from the war in Ukraine added to economic hardship for the poor. Eritrea has also been severely

FIGURE 1 **Eritrea** / Evolution of total public debt



Sources: Ministry of Finance, Planning and Economic Development; IMF and World Bank staff estimates.

FIGURE 2 **Eritrea** / Primary and overall fiscal balances



Sources: Ministry of Finance, Planning and Economic Development; IMF and World Bank staff estimates.

hit by the recent drought in the Horn of Africa, experiencing the fourth consecutive below-average rainfall season since late 2020, adding to food insecurity.

Strengthening economic activity and relatively high global metals prices (especially for zinc and gold) supported fiscal revenues in 2021 and a narrowing of the fiscal deficit to 5.8 percent of GDP from 6.4 in 2020. The polymetallic Asmara mine was officially inaugurated in June 2022 and is expected to contribute to exports and revenues in the future. Public debt is estimated at around 242.7 percent of GDP, of which nearly 80 percent is owed to domestic banks, and the country remains in debt distress.

Eritrea's engagement with the UN has intensified in recent months. On July 12, Eritrea presented its first Voluntary National Review report on its progress toward the SDGs focused on SDG3 on Health and Well-being and SDG13 on Climate Action, while briefly touching upon the status of implementation of the other SDGs.

Outlook

Real GDP is expected to grow at 2.5 percent in 2022, a slight deceleration from 2021, mainly supported by mineral exports. Over the medium term, growth is projected to average 2.8 percent, consistent with pre-pandemic growth rates. Higher prices of fuel and wheat, the country's top import products, will likely keep inflation elevated at over 7 percent in 2022, exacerbating poverty and food insecurity. The current account is expected to remain in surplus, as currently elevated prices of gold and zinc offset the higher fuel and food import bill, but should narrow modestly over the medium term as the peak in global commodity prices fades. Steady remittances are expected to provide income support to households over the medium term. Fiscal consolidation, underpinned by slower growth in government current expenditures and continued growth in revenues in line with economic activity, should help to narrow the fiscal deficit. Strong growth in nominal GDP should keep public debt-to-GDP ratios on a declining trend. However, fiscal and domestic debt outcomes and the outlook for public finances remain uncertain given frequent data revisions due to reporting lags driven by widespread manual processes.

Downside risks are significant. These include continued spillovers to the global economy and commodity prices from the Ukraine war and heightened regional geopolitical tensions. Eritrea's continued involvement in the northern Ethiopia conflict could attract renewed international sanctions. Further global food price shocks would negatively impact household consumption, given Eritrea's dependence on wheat imports. Additionally, Eritrea is currently one of only two countries in the world that have not yet started vaccinating their citizens against COVID-19, heightening health risks and economic growth risks. Finally, severe climate vulnerabilities continue to burden Eritrea and could worsen in the coming years.

TABLE 2 Eritrea / 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	-0.5	2.9	2.5	2.7	2.9
Private Consumption	5.5	-1.9	3.0	3.5	4.1	4.5
Government Consumption	39.3	16.4	14.0	5.7	3.4	3.5
Gross Fixed Capital Investment	67.5	195.8	17.7	13.0	8.7	16.2
Exports, Goods and Services	-5.0	-5.4	49.7	8.9	4.8	3.1
Imports, Goods and Services	1.4	-3.5	42.6	12.0	8.1	7.1
Real GDP growth, at constant factor prices	3.7	-0.6	2.9	2.5	2.7	2.9
Agriculture	27.0	-0.5	4.5	1.6	2.5	2.4
Industry	13.0	-0.7	1.4	3.7	3.6	3.7
Services	-26.0	-0.6	2.0	2.4	1.8	2.9
Inflation (Consumer Price Index)	1.3	5.6	6.6	7.4	6.4	4.1
Current Account Balance (% of GDP)	13.1	14.6	13.5	12.3	10.8	10.2
Net Foreign Direct Investment Inflow (% of GDP)	3.1	1.4	1.4	1.3	1.2	1.1
Fiscal Balance (% of GDP)	9.9	-6.4	-5.8	-5.6	-4.9	-4.1
Debt (% of GDP)	269.5	260.7	242.7	234.9	219.1	205.1
Primary Balance (% of GDP)	11.7	-4.9	-4.2	-4.3	-3.7	-2.9
GHG emissions growth (mtCO2e)	0.8	4.5	6.0	7.8	10.3	13.3
Energy related GHG emissions (% of total)	13.4	16.2	20.0	24.8	30.9	38.2

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

ESWATINI

Table 1	2021
Population, million	1.2
GDP, current US$ billion	4.7
GDP per capita, current US$	4049.6
International poverty rate ($2.15)[a]	36.1
Lower middle-income poverty rate ($3.65)[a]	58.0
Upper middle-income poverty rate ($6.85)[a]	78.1
Gini index[a]	54.6
School enrollment, primary (% gross)[b]	114.5
Life expectancy at birth, years[b]	60.7
Total GHG emissions (mtCO2e)	2.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Real GDP growth is projected to slow to 1.1 percent in 2022 from 7.9 percent in 2021, reflecting statistical base effects, the implementation of government's three-year fiscal adjustment program, and the inflationary impacts of the Ukraine war. Declining SACU revenues and higher food and fuel import costs are expected to push the current account into a deficit. These trends will slow per capita GDP growth and constrain poverty reduction, which is projected to hover around 54 to 55 percent in the medium term.

Key conditions and challenges

Since the relocation of firms back to South Africa at the end of apartheid in 1994, private investment has remained low, constrained by heavy state involvement in the economy and a generally weak business environment. The government is taking steps to reduce its footprint in the economy to promote market competition and encourage private investment. The challenges from relying on state-led development include high fiscal deficits, accumulation of expenditure arrears, and the crowding out of private investment.

Eswatini remains highly dependent on South Africa, through various channels- including trade, remittances, and Southern African Customs Union (SACU) revenues. Overreliance on SACU revenues has led to substantial fluctuations in public spending and continues to pose a challenge to managing fiscal resources and the growth potential. Volatile SACU receipts coupled with rigid government expenditure have led to persistent fiscal deficits in the recent past.

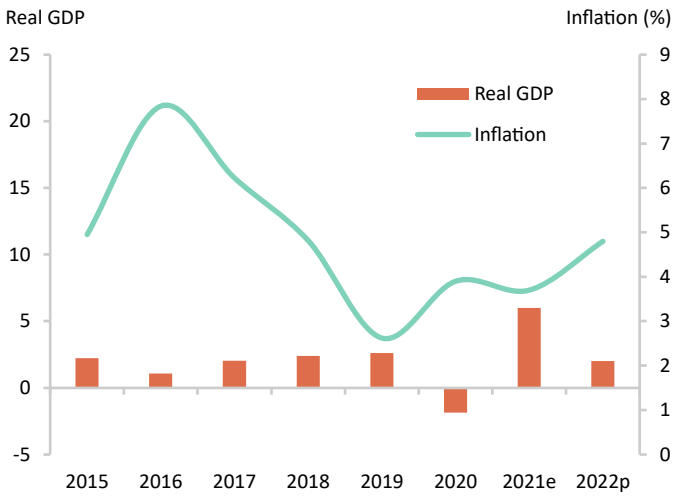
Poverty reduction in Eswatini is constrained by limited job opportunities in the private sector and relatively low salaries amid weak labor productivity. Lack of formal job creation results in high unemployment and informality. About 32 percent of the population is estimated to live below the US$2.15/day (2017 PPP) international poverty line, while 55.4 percent of the population is under the lower-middle-income country poverty line ($3.65/day, 2017 PPP). Inequality remains high, with a risk of fueling social tension.

Recent developments

Economic activity picked up in 2022Q1, with real GDP growing by 4.5 percent from 1.9 percent in 2021Q4. Growth was underpinned by a strong performance of the primary (mainly animal production and forestry) and secondary sectors (manufacturer of beverages, processing of preserved meat, and preserved fruits). Agriculture benefited from good rains, while manufacturing benefited from increased foreign demand. On the other hand, services contracted, reflecting subdued demand due to low domestic disposable incomes and weakening growth of the ICT sector as COVID-19 restrictions, were lifted (leading to reduced use of ICT). Moreover, the impact of Ukraine war and its related inflationary impacts is expected to result in a moderation of growth.

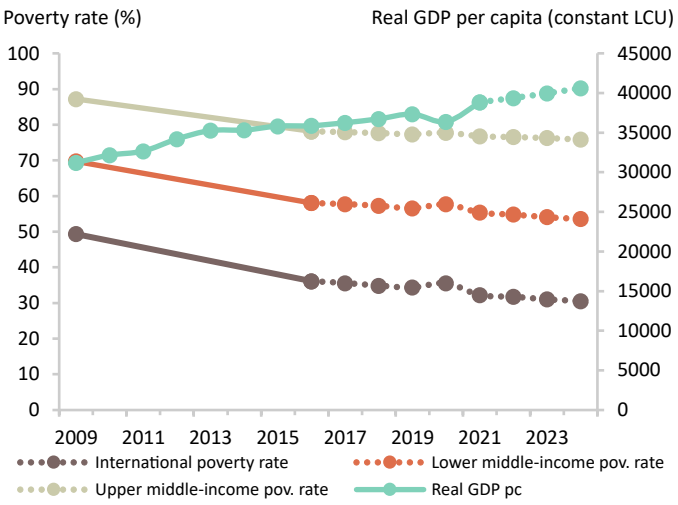
Inflationary pressures picked up during 2022Q2, mainly driven by food and transport costs, and a depreciating local currency. Annual inflation averaged 4.2 percent in 2022Q2, higher than 3.2 in 2022Q1 and 3.7 in 2021Q2; and increased further in July 2022 to 5.4 percent from 4.6 percent in June 2022. Transport and food contributed over half of the annual inflation—the exchange rate depreciated by 5.9 percent during 2022H1. In response to the high

FIGURE 1 **Eswatini** / Inflation and real GDP



Sources: Ministry of Finance and WB staff estimates.

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



Source: World Bank. Notes: see Table 2.

inflationary pressures, the Central Bank tightened the money supply, increasing the discount/repo rate by a cumulative 100 basis points to 5 percent. Transport and food inflation disproportionately affect the poor, who spend a higher share of their resources on these items than higher-income households.

The authorities remained committed to fiscal adjustment plans during FY2022/23Q1 despite political pressure to increase wages. The fiscal deficit was contained within the budget limits, as the government implemented expenditure cuts, including public investment, in line with its three-year fiscal adjustment plan. The reduction in the fiscal deficit took place in the context of lower overall revenues amid lower SACU revenues. However, public debt increased as the government accessed loans from the World Bank and African Development Bank to finance the budget deficit.

Inflows from newly contracted external loans kept official gross reserves above 3 months of import cover during 2022H1. This level of reserves was achieved despite a higher trade deficit during 2022H1 compared to the same period last year, as costs of imports increased due to the Ukraine war. The current account worsened as a result.

Outlook

Real GDP growth is projected to slow to 1.1 percent in 2022 and average 2.7 percent for 2023-2024, reflecting the implementation of the government's three-year fiscal adjustment program and inflationary pressures from the Ukraine war. The fiscal adjustment will dampen growth in sectors linked to government operations such as construction, public administration, wholesale, and trade, while inflationary pressures dampen domestic demand. Annual average inflation is projected to increase to 4.8 in 2022 from 3.7 percent in 2021. Further, the tight monetary policy will discourage borrowing and constrain economic activity. The risk of further social unrest creates uncertainty for medium-term private sector investment and growth.

Poverty is projected to remain relatively stagnant and hover around 54 to 55 percent, based on the lower-middle-income country poverty line, due to the slow economic recovery in the medium term. The unemployment rate that rose by 10 percentage points to 33.3 between 2016 and 2021, will marginally decline in the medium term.

The fiscal deficit is projected to decline in the medium term as authorities implement the fiscal adjustment plan. Though SACU revenues are projected to fall in 2022 due to the second-round effects of the pandemic, domestic revenues are projected to recover as authorities implement various revenue measures (fees, VAT, company tax increase) proposed in the adjustment plan. Expenditure adjustment includes public wage containment and lower transfers to state-owned enterprises. The deficit will marginally increase in 2022 as expenditure pressures increase to cushion households from rising inflation. In the medium term adherence to the adjustment program is critical to contain fiscal deficit within set limit. Inflation will decline in the medium term as fiscal consolidation proceeds. Public debt is projected to peak in 2022 and decline from 2023, in line with the fiscal adjustment plan.

The current account balance is projected to turn into a deficit of 1.7 percent of GDP in 2022—the first time since the 2010/11 fiscal crisis. This trend partly reflects declining SACU revenues and rising imports due to higher fuel/food costs arising from the Ukraine war. A current account surplus is projected from 2023 as SACU revenue recover and the effects of the COVID-19 crisis dissipate.

TABLE 2 Eswatini / 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	-1.6	7.9	1.1	2.6	2.7
Private Consumption	-1.5	0.5	3.3	2.0	4.5	3.2
Government Consumption	-2.0	6.8	-8.7	-3.7	-6.4	-1.1
Gross Fixed Capital Investment	1.0	-8.2	11.4	9.6	2.9	2.7
Exports, Goods and Services	16.3	-2.4	9.9	6.0	3.1	2.5
Imports, Goods and Services	1.5	-1.3	14.4	1.6	2.5	2.0
Real GDP growth, at constant factor prices	2.8	-1.4	7.9	1.1	2.6	2.7
Agriculture	0.9	-7.5	2.5	1.4	1.6	3.5
Industry	5.7	-9.7	15.4	3.8	3.9	2.1
Services	1.2	5.4	4.1	-0.8	1.8	2.9
Inflation (Consumer Price Index)	2.6	3.9	3.7	4.8	4.4	4.3
Current Account Balance (% of GDP)	4.7	6.5	1.3	-1.7	0.4	0.8
Net Foreign Direct Investment Inflow (% of GDP)	-2.4	-0.1	-0.7	-0.8	-0.8	-0.7
Fiscal Balance (% of GDP)	-6.5	-4.6	-4.6	-4.9	-1.4	0.0
Debt (% of GDP)	40.0	41.6	42.4	45.1	43.1	39.9
Primary Balance (% of GDP)	-5.3	-2.4	-2.9	-2.0	1.4	2.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	34.3	35.5	32.2	31.7	31.0	30.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	56.6	57.7	55.4	54.8	54.1	53.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	77.3	77.8	76.8	76.5	76.3	75.8
GHG emissions growth (mtCO2e)	5.2	1.6	1.4	1.1	1.1	1.2
Energy related GHG emissions (% of total)	35.9	36.1	37.2	38.1	38.9	39.7

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 2016-HIES. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

ETHIOPIA

Table 1	2021
Population, million	117.9
GDP, current US$ billion	114.6
GDP per capita, current US$	972.5
International poverty rate ($2.15)[a]	27.0
Lower middle-income poverty rate ($3.65)[a]	65.0
Upper middle-income poverty rate ($6.85)[a]	90.9
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	119.4
Life expectancy at birth, years[b]	67.0
Total GHG emissions (mtCO2e)	191.3

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

Though considerably lower than pre-conflict levels, and despite ongoing conflict, GDP growth in FY22 was revised modestly upwards to 3.5 percent from a more resilient agricultural harvest and higher export growth. Nevertheless, the economy is confronting multiple shocks while eroded buffers are threatening macroeconomic stability. Poverty and inequality remain elevated, and Ethiopia remains highly vulnerable to disruptions in global food supplies. The abatement of conflict and a resumption in market reforms are critical to reviving growth and accelerating poverty reduction.

Key conditions and challenges

Between 2004-20, Ethiopia's economy was one of the world's fastest-growing, with GDP growth averaging 10 percent. State-led public investments in infrastructure supported high growth and poverty reduction (the poverty rate fell by about 10 percentage points between 2004-16). However, unevenly shared growth that favored urban and wealthier areas resulted in increasing inequality in recent years. The poverty rate remains high at about 24 percent.

More recently, the limitations of the state-led growth model—a stalled structural transformation, a financing overhang from large capital investments, a narrow export base, and a private sector constrained by burdensome regulations and heavy foreign exchange market distortions—have slowed growth and left Ethiopia at high risk of debt distress.

Overlapping shocks from drought, conflict, and the COVID-19 pandemic have severely impacted lives and livelihoods. Some 20 million people require humanitarian assistance due to prolonged drought in lowland areas and conflict in the Northern parts of the country. An already acute food insecurity has worsened further because of global food and energy price shocks and disruptions to grain supply due to the Russia-Ukraine war.

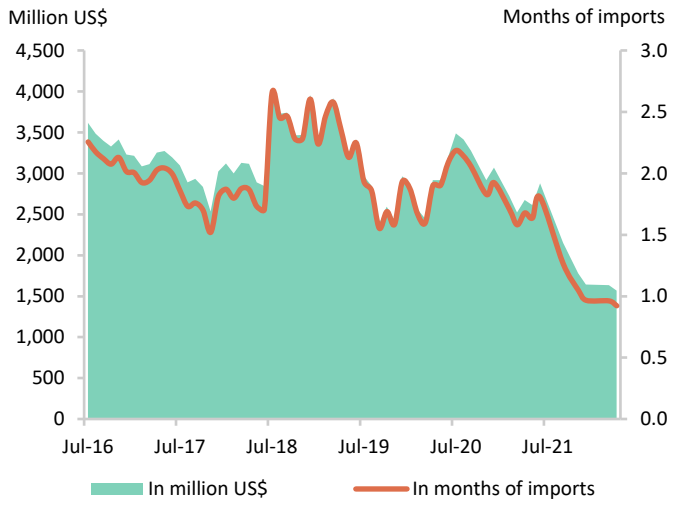
In response to a weakening economy, the government launched a Homegrown Economic Reform Program in 2019 to boost growth in key sectors (energy, logistics, and telecoms), increase competition, improve the export climate, and reduce macroeconomic imbalances. A critical policy priority was a move to a competitive foreign exchange market—a much-needed reform to boost competitiveness and reduce distortions and input shortages in the economy. Despite greater uncertainty, these reforms are necessary to reignite growth and accelerate poverty reduction. Downside risks include renewed conflict, delays in debt relief amid tightening global financial conditions, and the continuance of drought in the Horn of Africa that impacts agricultural production—especially livestock. Depleted FX reserves and fiscal space limit the country's capacity to absorb additional shocks.

Recent developments

GDP growth for FY22 was revised slightly upwards to 3.5 percent, despite a fifth year of drought, ongoing conflict and displacement, and external shocks. Agricultural output was relatively resilient to the Tigray conflict, falling by a lower-than-expected 1.5 percent during the main meher season. Export growth also remained strong at 14 percent in FY22, as higher coffee prices helped offset Ethiopia's removal from the African Growth and Opportunity Act in January 2022 and the introduction of more restrictive regulatory measures on exporters.

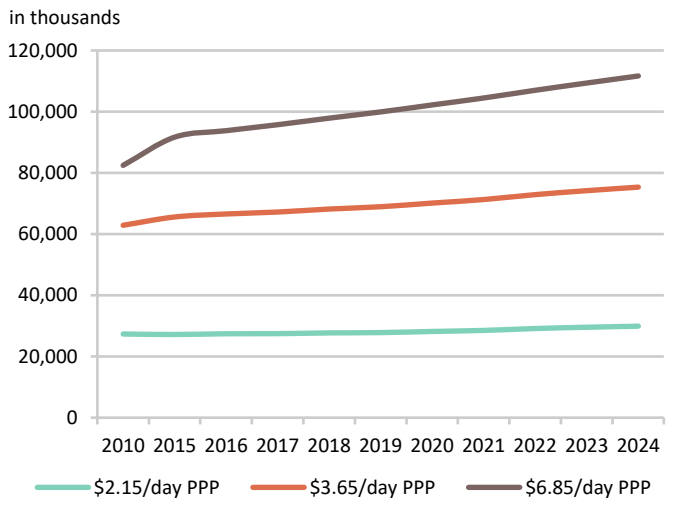
In July, inflation remained elevated at 33.5 percent due to higher food prices

FIGURE 1 **Ethiopia** / Gross foreign exchange reserves



Source: National Bank of Ethiopia.

FIGURE 2 **Ethiopia** / Number of poor



Sources: Global Poverty Working Group (GPWG) and Macro Poverty Outlook.

and petroleum subsidy reforms. High inflation and a slower depreciation of the official exchange rate since late February are contributing to currency overvaluation and a widening premium (of about 50 percent) in parallel currency markets.

External vulnerabilities have increased. Higher fuel, fertilizer, and food import bills offset strong export growth and lower capital imports, contributing to a wider trade deficit. Coupled with lower official aid inflows (that offset continued growth in remittances and FDI inflows), FX reserves have eroded (estimated at less than 1 month of import cover at end-FY22). As a result, external debt servicing risks have heightened and Ethiopia has requested debt relief under the G-20 Common Framework.

The fiscal deficit increased to 3.7 percent of GDP in FY22 (vs. 2.8 percent in FY21). Increased recurrent spending—largely defense, security, rehabilitation, and relief—offset reductions in capital spending. Amidst sharply lower external financing, the fiscal deficit was mainly financed by domestic borrowing. The government began implementing a phased removal of fuel subsidies in December 2021, which should yield savings of about 1 percent of GDP by 2023.

While some net producers benefited from rising food prices, the poor, who are net consumers with limited options for substitution between food items, are negatively affected. For example, the increase in maize and sorghum prices is expected to reduce welfare by as much as 10 percent among rural households. The ongoing armed conflict, drought, and inflation have severely impacted food security.

Outlook

Growth is expected to be more robust in FY23 (5.3 percent), supported by reconstruction efforts and the resumption of agricultural activity in some of the conflict affected areas. Inflation is expected to remain high in the short-term due to looser monetary policy, but then subside as global energy/food prices ease. Continued export growth (mainly services) and slower import growth from lower conflict-related spending are expected to narrow the current account deficit. Given depleted foreign exchange reserve levels and lower official inflows, CAD in FY23 is expected to be financed largely through relatively robust FDI inflows and borrowing by Ethiopian Airlines. New tax policy measures to boost value-added, excise, and property taxes should support revenues and help narrow the fiscal deficit in FY23. Even with an improving domestic and global outlook, a reversion to former high growth levels will require greater private sector investment and job creation. This will depend critically on bold policies to remove all foreign exchange market distortions, accelerate fiscal consolidation through revenue and SOE reforms, and create a level playing field for competition and private sector-led growth.

The poverty trajectory shows stalling in poverty reduction. The poverty headcount rate is expected to decline slightly (just a 0.08 percentage points decrease) between 2020 and 2021, and the number of poor people is expected to have increased in 2022 by more than half a million. The lack of significant gains in poverty reduction than expected is due to armed conflict, persistent droughts in lowland regions, the Ukraine war, and higher inflation. The multiple shocks the country is facing could push millions of people into poverty, increase spatial inequalities and threaten the progress in poverty reduction.

TABLE 2 Ethiopia / 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	9.0	6.1	6.3	3.5	5.3	6.1
Private Consumption	5.1	5.0	3.0	2.1	3.5	3.6
Government Consumption	7.2	0.6	12.2	15.8	3.4	7.6
Gross Fixed Capital Investment	15.1	5.6	7.6	2.1	7.1	8.1
Exports, Goods and Services	3.0	3.4	5.5	6.4	7.4	7.5
Imports, Goods and Services	5.4	-1.9	2.0	5.1	3.6	4.8
Real GDP growth, at constant factor prices	9.0	6.1	6.3	3.5	5.3	6.1
Agriculture	3.8	4.3	5.5	1.8	3.5	4.0
Industry	11.5	9.6	7.3	5.5	6.5	8.0
Services	12.0	5.2	6.3	3.4	5.9	6.3
Inflation (Consumer Price Index)	12.5	19.9	20.2	33.7	25.6	16.9
Current Account Balance (% of GDP)	-5.1	-4.1	-2.7	-4.1	-3.5	-2.6
Fiscal Balance (% of GDP)	-2.5	-2.8	-2.8	-3.7	-3.1	-2.8
Debt (% of GDP)	57.3	56.5	56.6	55.6	55.4	53.0
Primary Balance (% of GDP)	-2.0	-2.4	-2.2	-3.1	-2.4	-2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	24.9	24.6	24.2	24.2	23.9	23.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	61.5	61.0	60.5	60.3	60.0	59.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	89.2	88.9	88.6	88.6	88.4	88.1
GHG emissions growth (mtCO2e)	1.3	1.6	2.7	2.3	2.3	2.5
Energy related GHG emissions (% of total)	15.3	14.8	14.7	14.0	13.5	13.2

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 2010-HICES and 2015-HICES. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.87 based on GDP per capita in constant LCU.
Note: Growth projections reflect limited available information, and are subject to revision as better data becomes available.

GABON

Table 1	2021
Population, million	2.3
GDP, current US$ billion	19.5
GDP per capita, current US$	8558.8
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	8.1
Upper middle-income poverty rate ($6.85)[a]	31.2
Gini index[a]	38.0
School enrollment, primary (% gross)[b]	139.9
Life expectancy at birth, years[b]	66.7
Total GHG emissions (mtCO2e)	20.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ WDI for School enrollment (2011); Life expectancy (2020).

Gabon's economy is gradually recovering despite being impacted by the war in Ukraine. Food and fuel prices have been partially contained by subsidies but inflation is increasingly impacting households. Supported by high oil prices, the fiscal balance is expected to turn to a surplus in 2022. Increased subsidies, however, would limit the opportunities created by higher commodity prices for rebuilding external and fiscal buffers. While poverty would slightly decrease over the medium term, rising living costs may increase household vulnerability.

Key conditions and challenges

Thanks to efforts to reduce emissions and preserve its vast rainforest, Gabon is a net carbon absorber and a leader in net zero emission initiatives. It has a rich ecosystem with extensive endowments of fertile land, coastal riches and fisheries. However, despite its economic potential, the country is struggling to translate resource wealth into sustainable and inclusive growth.

Structural reforms are needed to reduce long-term vulnerability to external price shocks and raise living conditions. Key areas for reform include removing barriers for entrepreneurs, diversifying exports, strengthening social safety protection, and improving human capital outcomes. Despite significant investments in the construction of roads and other infrastructure, Gabon still faces a critical infrastructure gap, representing a key barrier to private sector-led growth. With a small but young and fast-growing population, Gabon faces the challenge of investing in human development to meet labor market needs and move from a resource-based growth model to one centered on human capital.

Efforts to improve governance and fiscal policy, especially those leading to increased public financial management efficiency, higher transparency in natural resource management, and rationalized tax expenditures, would create the fiscal space needed to invest in sustainable development and poverty reduction.

Recent developments

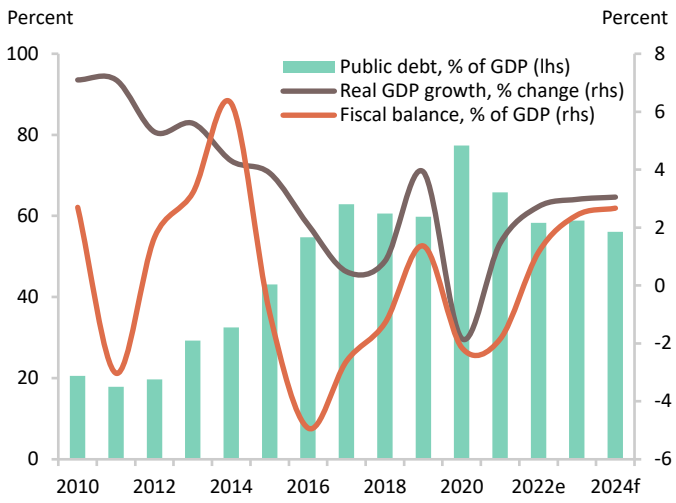
Gabon's GDP grew by 1.5 percent in 2021, thanks to booming services, manganese, and forestry sectors. The recovery picked up in 2022Q1, driven by a rebound in oil production following the lifting of OPEC+ quotas. On the demand side, growth has been driven by exports and private investment.

Higher commodity prices lowered the fiscal deficit to 1.8 percent of GDP in 2021. A revised 2022 budget law was adopted by Parliament, reflecting higher oil price and public spending. Preliminary data for 2022Q1 indicate an increase in revenues and current spending, compared to the same period in 2021. The additional revenue is being used to pay for subsidies and rebuild deposits at the Bank of Central African States (BEAC). A decrease in the debt-to-GDP ratio was recorded in 2021. Gabon's debt continues to accumulate outstanding arrears but remains sustainable.

Thanks to higher commodity prices, the current account deficit narrowed to 5.2 percent of GDP in 2021 with sharply higher exports in 2022Q1 (y-o-y). Imports also increased but to a lesser extent, improving the external balance in 2022Q1.

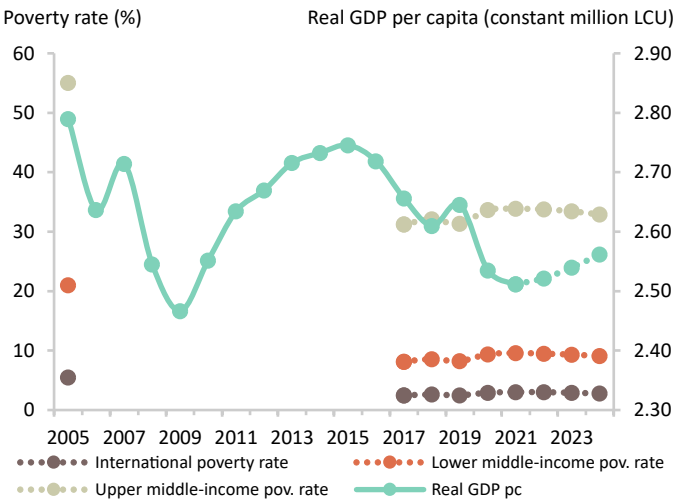
Higher global prices bumped up headline inflation to 4.3 percent y-o-y at end-June 2022. Monetary policy has been tightened to contain inflationary pressures and support the exchange rate peg. Following a 25 basis points increase in November 2021, the BEAC further increased the policy rate by 50 basis points to 4 percent on March 28, 2022. It also decreased its weekly liquidity

FIGURE 1 Gabon / Real GDP growth, fiscal balance, and public debt



Sources: Official government data and World Bank calculations. Notes: e = estimate, f = forecast.

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



Source: World Bank. Notes: see Table 2.

injections from CFAF 250 billion to CFAF 160 billion in April 2022. The asset quality of the banking system is reportedly stable, reflecting the impact of temporary forbearance measures implemented by COBAC (the regional supervisor) up to June 2022.

Despite the ongoing recovery, the COVID-19 crisis is being deeply felt. It has plunged thousands into poverty and food insecurity, with the poverty rate standing at 33.9 percent in 2021. The war in Ukraine is further pushing the population into distress, most notably through higher prices. While food and energy subsidies are still in place, continuous price increases are increasingly impacting vulnerable households but also the middle class. For the more than 85 percent of households that consume bread, rice, and vegetable oil as the main staple foods, for which the global supply chain has been disrupted, price increases could severely impact poverty.

Outlook

Growth is projected to reach 2.7 percent in 2022 and 2.9 percent on average in 2023-2024, driven by good performances in the oil, mining and wood sectors. However, growth could be compromised if the authorities' commitment to fiscal consolidation, structural reforms, and economic diversification fails to materialize. Also, delays in negotiations with an operator have led to a temporary stoppage of an oil field and could result in a lower oil production in 2022. The share of households living on less than US$6.85 per day is expected to slightly decline to 32.9 percent in 2024, still above the pre-pandemic poverty rate.

While decreasing, commodity prices would remain high and are expected to continue improving the fiscal balance, turning it into a surplus of 1.2 percent of GDP in 2022. Despite the authorities' commitment to fiscal consolidation and rationalize non-priority expenditure, increased subsidies would contribute to higher spending. Containing subsidies may prove challenging in a context of growing household vulnerability due to high global food and energy prices. Yet, the fiscal balance is expected to increase gradually over the medium term, and public debt is projected to decline as a share of GDP.

The current account deficit is projected to widen gradually in the medium term mainly due to lower oil and manganese exports in the context of a slowdown in global recovery. Meanwhile, imports are expected to increase in view of government spending ahead of the upcoming electoral period. Albeit gradually reducing, FDI inflows are expected to remain high.

Policy hesitancy in the lead up to the 2023 presidential elections could delay diversification efforts, jeopardizing growth. Weaker Chinese demand and re-introduction of OPEC+ quotas represent risks to Gabon's outlook. Tightening global financing conditions could also add to fiscal pressures. A protracted war in Ukraine could further disrupt international trade and sustain high food prices. Outbreaks of new COVID-19 variants could compromise economic recovery, given the slow vaccination progress. Upside risks include improved fiscal and external balances resulting from higher-than-expected international oil prices.

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

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.9	-1.8	1.5	2.7	3.0	2.9
Private Consumption	0.9	-2.0	-1.4	-0.1	0.9	1.2
Government Consumption	6.1	5.5	3.2	1.0	2.2	2.4
Gross Fixed Capital Investment	21.5	-16.7	9.2	9.2	2.2	3.6
Exports, Goods and Services	14.0	10.1	-1.0	6.0	6.3	5.5
Imports, Goods and Services	21.5	-16.7	31.9	8.3	3.3	4.3
Real GDP growth, at constant factor prices	4.2	-1.9	2.9	2.7	3.0	2.9
Agriculture	7.9	5.9	10.2	4.8	3.9	4.0
Industry	6.8	-2.2	3.1	3.0	3.1	3.3
Services	2.3	-2.8	1.6	2.2	2.7	2.5
Inflation (Consumer Price Index)	1.0	1.6	1.1	3.5	3.2	2.5
Current Account Balance (% of GDP)	-0.9	-6.0	-5.2	0.9	-1.8	-2.9
Net Foreign Direct Investment Inflow (% of GDP)	9.0	8.4	7.5	6.0	5.0	3.8
Fiscal Balance (% of GDP)	1.4	-2.1	-1.8	1.2	2.5	2.7
Debt (% of GDP)	59.8	77.4	65.8	58.3	58.8	56.0
Primary Balance (% of GDP)	3.6	1.2	0.9	3.8	5.3	5.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.5	2.9	3.0	3.0	2.9	2.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	8.2	9.4	9.6	9.5	9.3	9.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	31.3	33.6	33.9	33.8	33.4	32.9
GHG emissions growth (mtCO2e)	4.1	1.3	2.2	-0.2	-0.3	-0.5
Energy related GHG emissions (% of total)	15.6	14.3	13.9	13.5	13.0	12.2

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 2017-EGEP. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 1 (High (1)) based on GDP per capita in constant LCU.

THE GAMBIA

Table 1	2021
Population, million	2.5
GDP, current US$ billion	2.0
GDP per capita, current US$	805.7
International poverty rate ($2.15)[a]	13.4
Lower middle-income poverty rate ($3.65)[a]	44.6
Upper middle-income poverty rate ($6.85)[a]	81.2
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	103.5
Life expectancy at birth, years[b]	62.4
Total GHG emissions (mtCO2e)	3.2

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

Real GDP is estimated to decelerate to 3.5 percent in 2022, from 4.3 percent in 2021, owing to the spillover effects of the war in Ukraine. Downside risks stem from a protracted war, including recession in advanced economies, disruption in the supply chains, fiscal slippages and fall in remittances inflows The pace of poverty reduction is expected to remain slow, reflecting weak per capita GDP growth and higher food prices.

Key conditions and challenges

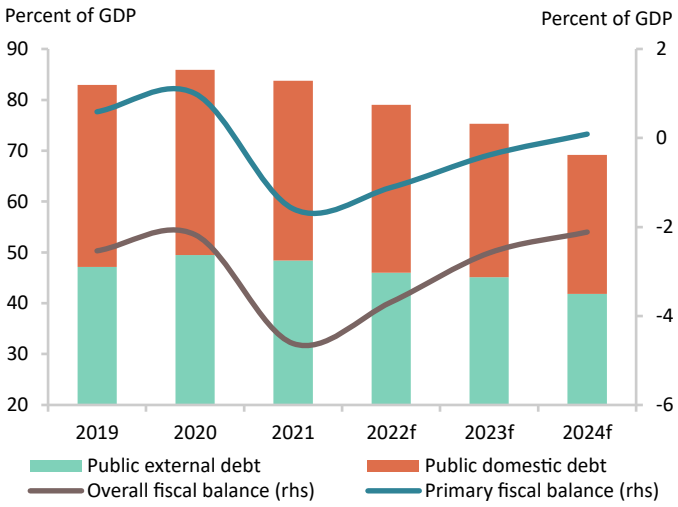
The Gambia faces a multidimensional fragility trap, as low economic diversification, over-reliance on low-productivity agriculture and tourism – which reflects a limited job-creating private sector – compound limited economic opportunities for women, environmental degradation, and vulnerability to climate change. Private sector development remains hindered by an unconducive business climate, persistent governance weaknesses, dominance of SOEs, and low and volatile public and private investments. These factors lead to low capital accumulation, weak productivity, and limited structural transformation of the economy and contribute to higher poverty rates and curtail human capital development. High population growth, low access to services, and food insecurity compound human development challenges. The country has made progress in macroeconomic stabilization, but more progress is needed to achieve deeper reforms. A 2019 debt restructuring helped exit debt distress in early 2020, but The Gambia remains at high risk of debt distress and the expiration of the debt deferral will increase debt service costs from 2025.

These weaknesses have been exacerbated by the COVID-19 outbreak and war in Ukraine, which have increased economic vulnerabilities, mainly via higher food and energy commodity prices, with lower economic growth and larger fiscal and external deficits. Inflation reached double-digits in 2022 for the first time in two decades, driven by food and energy prices, while The Gambia has limited fiscal and monetary policy buffers to mitigate the impact on the poor. Data from the 2020 household survey showed that poor households spent 65 percent of their income on food – over 10 percentage points higher than non-poor households – and the food price spike in April 2022, reaching 15.5 percent, thus exposing the poor to the risk of sliding deeper into poverty.

Recent developments

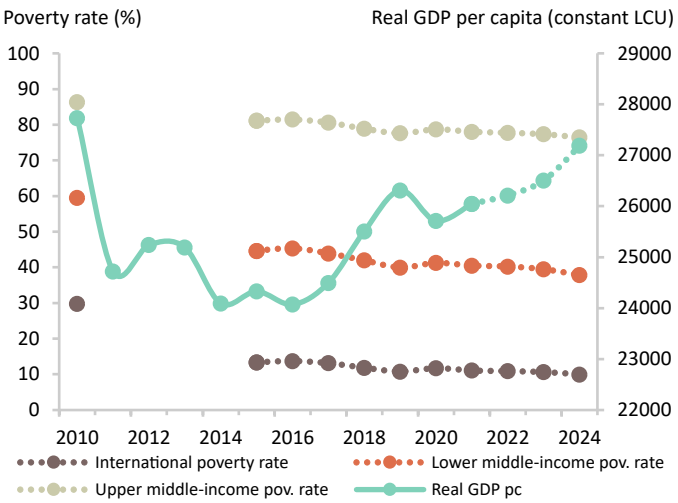
Growth is projected at 3.5 percent (0.6 percent per capita) in 2022, from 4.3 percent (1.3 percent per capita) in 2021, as higher commodity prices and supply disruptions weigh on the economy. The deceleration is driven by agriculture and industry, due to high commodity and fertilizer prices, supply disruptions, flooding, and weak remittances. Services are expected to accelerate, driven by banking, albeit with a slow recovery in tourism due to the rising cost of living in partner countries. Driven by food and transportation, inflation accelerated to 12.3 percent in July 2022. Higher import prices were met with increased subsidies for fuel, fertilizer, and grains, resulting in larger fiscal and external deficits. Without subsidies, prices would have been at least two times higher for oil and fertilizers.

FIGURE 1 The Gambia / Fiscal balance and public debt



Sources: The Gambian authorities and World Bank estimates.

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



Source: World Bank. Notes: see Table 2.

Revenues were lower than expected due to lower tax on international trade and grants, leading to a downward revision of public expenditures. With increased grants, the fiscal deficit is projected to decline, although remaining high at 3.7 percent of GDP in 2022 (from 4.6 percent in 2021.) Public debt (both domestic and external) is expected to decline to 79 percent of GDP in 2022 from 83.8 percent in 2021. Nevertheless, the Gambia remains at high risk of debt distress.

With rising import prices and falling transfers, the current account deficit is expected to widen to 11.8 percent of GDP in 2022, from 8.8 percent in 2021. Monetary policy was tightened by raising the policy rate by 1 percentage point in May and September 2022 respectively, to 12 percent, to curb inflation.

Using the international poverty line of $2.15 (in 2017 PPPs), poverty is expected to marginally decline from 11.07 percent in 2021 to 10.90 percent in 2022. The slower pace of poverty reduction is partly due to the fallout from the war in Ukraine.

Outlook

As the effects of the conflict in Ukraine fade away, growth is projected to average 4.7 percent (1.8 percent per capita) in 2023-24, supported by increased activity in all sectors. Services and agriculture are expected to continue to grow, assuming respectively higher tourist inflows, as advanced economies recover, and favorable rainfalls. Public infrastructure programs and stronger remittances to support private investment in construction will sustain growth in industry. Inflation is projected to gradually slowdown and average 7.8 percent in 2023-24, as global food prices start to ease. Private and public consumption, and investment are projected to remain high in the medium term, given economic recovery and public infrastructure programs. The fiscal deficit is projected to narrow and average 2.4 percent of GDP in 2023-24, supported by decreasing current spending and subsidies, improved expenditure monitoring and revenue administration, as part of planned fiscal consolidation efforts. Public debt is projected to remain on a downward trend at around 72 percent of GDP in the medium term, supported by fiscal consolidation. The CAD is projected to decline while remaining high, averaging 10 percent of GDP in 2023-24, as the expected recovery in exports will be outpaced by import growth, driven by economic recovery and strong domestic demand.

Rising food prices will limit the ability of vulnerable households to increase their already weak incomes. Ongoing reforms such as the expansion of cash transfer programs are expected to cushion the negative distributional effects of inflation, although these effects are intensified by low per capita growth. Extreme poverty incidence is expected to continue declining, falling to 10 percent by 2024, as the effect of external shocks fades. However, the recent floods of July and August 2022 are likely to undermine the pace of poverty reduction – and highlight the vulnerability of the poor to such climatic shocks.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.2	0.6	4.3	3.5	4.0	5.5
Private Consumption	4.0	-1.2	3.5	3.3	4.0	4.1
Government Consumption	14.6	31.3	-7.9	2.8	3.9	3.7
Gross Fixed Capital Investment	13.0	61.0	27.1	22.8	26.3	11.9
Exports, Goods and Services	-6.3	-49.9	4.4	10.0	12.7	12.0
Imports, Goods and Services	-0.2	12.2	19.7	22.0	26.1	10.8
Real GDP growth, at constant factor prices	6.2	0.6	4.3	3.5	4.0	5.5
Agriculture	-0.5	11.0	4.7	2.0	2.8	3.2
Industry	14.8	8.2	10.4	7.0	6.8	7.0
Services	6.2	-5.0	2.0	2.9	3.3	5.8
Inflation (Consumer Price Index)	7.1	5.9	7.4	11.6	9.0	6.5
Current Account Balance (% of GDP)	-6.1	-3.8	-8.8	-11.8	-10.3	-9.8
Fiscal Balance (% of GDP)	-2.5	-2.2	-4.6	-3.7	-2.6	-2.1
Debt (% of GDP)	83.0	85.9	83.8	79.4	75.8	70.2
Primary Balance (% of GDP)	0.6	1.0	-1.6	-1.1	-0.4	0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	10.8	11.7	11.1	10.9	10.6	10.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	40.0	41.2	40.5	40.2	39.5	37.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	77.6	78.7	78.1	77.8	77.4	76.5
GHG emissions growth (mtCO2e)	7.7	6.0	4.0	3.2	3.1	3.0
Energy related GHG emissions (% of total)	20.2	20.1	20.4	21.0	21.7	22.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2015-IHS. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

GHANA

Table 1	2021
Population, million	31.7
GDP, current US$ billion	76.5
GDP per capita, current US$	2411.5
International poverty rate ($2.15)[a]	25.3
Lower middle-income poverty rate ($3.65)[a]	48.9
Upper middle-income poverty rate ($6.85)[a]	78.5
Gini index[a]	43.5
School enrollment, primary (% gross)[b]	103.4
Life expectancy at birth, years[b]	64.3
Total GHG emissions (mtCO2e)	15.2

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

Following a rebound in 2021, growth has moderated in 2022 and macro fundamentals have deteriorated, with inflation reaching its highest level in 18 years, forex reserves and the value of the cedi falling sharply, and Ghana losing access to the Eurobond market. As a result, the growth momentum has slowed further, debt sustainability metrics have worsened considerably, and inflation has pushed many Ghanaians into poverty.

Key conditions and challenges

Over 2010-19, GDP growth fluctuated between 2.7 and 6.5 percent, reflecting the economy's dependence on natural resources and exposure to external shocks. Macroeconomic management was likewise uneven, triggering regular fiscal crises. The economy is not sufficiently diversified: gold, cocoa, and oil exports accounted for more than 82 percent of all goods exports over 2019–2021, with a limited contribution of manufacturing. Meanwhile, Ghana's growth has not created sufficient job opportunities for the growing and increasingly young population, and labor has continued to move out of agriculture but mostly toward low value-added services, and some manufacturing.

The COVID-19 pandemic interrupted Ghana's strong growth trend and amplified the preexisting fiscal risks. While Ghana weathered the COVID-19 shock relatively well – growth slowed in 2020 but remained positive – significant macroeconomic imbalances resulted from highly accommodating fiscal policy.

Ghana's mounting debt stock and related financing needs are cause for concern with public debt-to-GDP consistently in excess of 70 percent since 2020. Fiscal consolidation has been slower than expected and the country has lost market access, with rating agencies repeatedly downgrading its sovereign debt. To meet its financing needs the Government has turned to expensive domestic borrowing which has increased debt vulnerability as well as the banking sector's exposure to sovereign risk, put pressure on domestic interest rates, and crowded-out private sector borrowers.

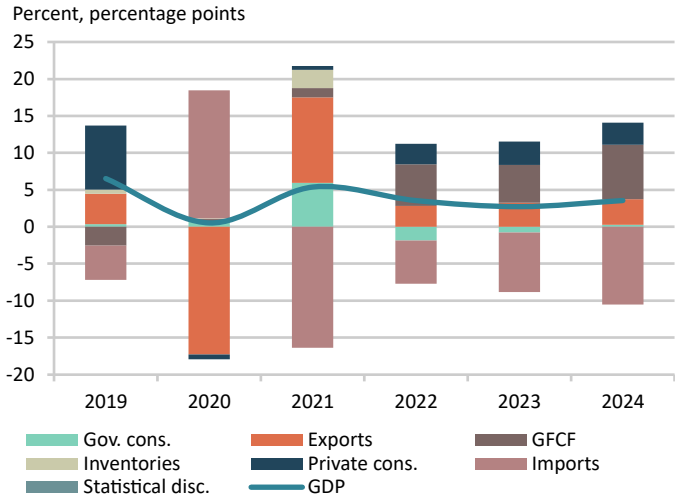
Recent developments

In the first quarter of 2022, GDP grew by 3.3 percent, year-on-year, down from 3.6 percent growth over the same period in 2021. Non-oil growth slowed down significantly (from 5.3 to 3.7 percent), with agriculture and services underperforming. On the demand side, growth was dragged down by high inflation, high interest rates and strict public expenditure controls, as revenues underperformed.

Fiscal pressures have remained high. Over the first half of 2022, the fiscal deficit reached 5.6 percent of GDP, well above the Government's 3.9 percent target. Revenues underperformed, as the flagship e-levy faced delays and major implementation challenges. As of end-June 2022, public debt reached 66.5 percent of GDP (which is projected to reach over 80 percent at the end of 2022) and interest payments amounted to 54.4 percent of revenues over the first half of the year. The authorities have begun discussions with the IMF on a possible program.

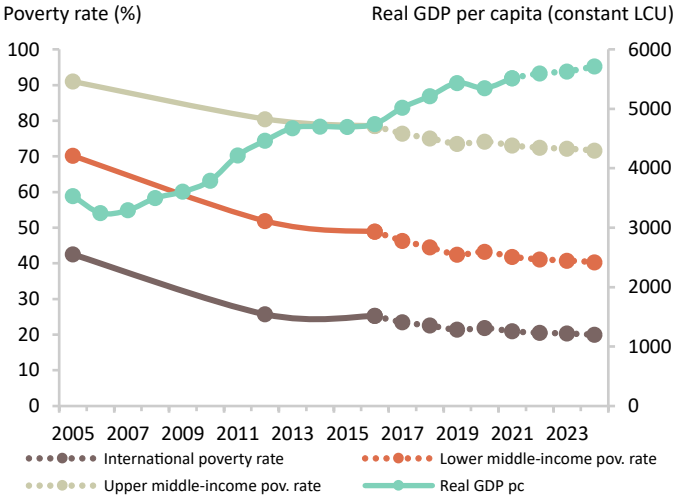
Inflation rose to 31.7 percent y-o-y (an 18-year high) in July 2022. The impact of soaring global commodity prices (Ghana imports 40 percent of its fertilizers from Russia) has been compounded by the depreciation of the cedi which has lost more

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



Sources: Statistical Service and World Bank.

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



Source: World Bank. Notes: see Table 2.

than 35 percent against the US dollar year-to-date in 2022. The Government and the Bank of Ghana (BoG) have sought to dampen inflationary expectations by cutting discretionary expenditures and raising the monetary policy rate (MPR) to 22 percent and banks' primary reserve requirements from 12 to 15 percent.

The performance of the banking sector has been mixed. While the banks are well capitalized, non-performing loans remained high at 14.1 percent in June 2022, compared to 17 percent in June 2021. Also, in the first half of 2022 credit to the private sector grew very slowly (at 3 percent).

Although the trade balance was in surplus as of end-June 2022, thanks to high oil and gold receipts, the overall current account recorded a deficit (1.5 percent of GDP) due to investment income outflows and net services account payments. With FDI inflows also taking a dip, the stock of gross international reserves declined by US$2 billion in the first half of 2022, to 3.4 months of imports.

Currency depreciation and high inflation have driven up the cost of living, putting considerable strain on household budgets and particularly for the poor who devote more than half of their budget to food. Farmers have been affected by increases in the prices of fertilizer and other inputs. Poverty reduction is expected to have slowed and the "international poverty" rate is estimated at 20.5 percent in 2022 which is 0.5 percentage points lower than in 2021.

Outlook

Growth is expected to slow to 3.5 percent in 2022; and to decelerate further in 2023 as macroeconomic instability and corrective policy measures dampen aggregate demand. High inflation and elevated interest rates will keep private consumption and investment growth below pre-pandemic levels. With exports held back below pre-pandemic levels by supply constraints, growth is expected to slow further to 2.7 percent in 2023 and remain muted in 2024, before recovering to potential over the medium term. On the supply side, agriculture growth will remain modest because of high input prices and a disease affecting cocoa trees, industrial output growth should slow as oil and gas production continues to face technical difficulties, and services growth will be impacted by the erosion in the purchasing power of consumers.

Reflecting low revenue and mounting interest payments, the fiscal deficit will remain high in 2022 (7.9 percent of GDP) and beyond. Indeed, improvements are projected to take place gradually with contributions from revenues and expenditures, notably on focused on tackling tax exemptions and containing energy sector implicit subsidies. Public debt should stabilize around 100 percent of GDP in the medium-term, before starting to come down.

The main risks to the outlook include delays in the conclusion of an agreement with the IMF and an intensification of macroeconomic vulnerabilities (such as additional contingent liabilities in the energy and financial sectors, and un-anchoring of inflationary expectations). Debt sustainability could be threatened by insufficient access to financing, insufficient fiscal adjustment, large interest rate increases, and further currency depreciation. Sizable domestic debt rollover needs will put pressure on the already elevated domestic interest rates.

International poverty incidence is projected to decrease only marginally, from 20.5 to 20 percent by 2024, consistent with the muted growth outlook. In the shorter term, poverty is expected to increase slightly, notably because of the recent increase in electricity and water tariffs. This increase, while necessary, comes on the heels of rising food prices and does not address the regressive nature of the subsidies.

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

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth, at constant market prices	6.5	0.5	5.4	3.5	2.7	3.5
Private Consumption	13.8	-1.0	0.8	4.4	5.0	4.6
Government Consumption	5.4	10.1	82.1	-14.8	-7.5	2.9
Gross Fixed Capital Investment	-10.0	1.8	5.8	26.1	19.2	24.0
Exports, Goods and Services	12.7	-50.7	69.1	10.4	11.4	11.1
Imports, Goods and Services	15.9	-54.5	113.8	20.0	23.8	25.8
Real GDP growth, at constant factor prices	6.5	0.8	5.3	3.4	2.7	3.6
Agriculture	4.7	7.3	8.4	2.2	2.2	3.2
Industry	6.4	-2.5	-0.8	3.8	2.4	3.7
Services	7.6	0.7	9.4	3.8	3.2	3.6
Inflation (Consumer Price Index)	7.9	10.4	10.0	28.6	22.5	14.4
Current Account Balance (% of GDP)	-2.7	-3.2	-3.7	-5.8	-4.5	-5.2
Net Foreign Direct Investment Inflow (% of GDP)	0.7	1.6	2.0	0.4	2.0	2.3
Fiscal Balance (% of GDP)	-7.2	-14.7	-11.4	-7.9	-9.2	-9.0
Debt (% of GDP)	61.2	74.4	76.6	104.6	99.7	101.8
Primary Balance (% of GDP)	-1.6	-8.4	-4.1	-0.6	-0.9	-0.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	21.4	21.9	21.0	20.5	20.4	20.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	42.4	43.2	41.8	41.1	40.8	40.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	73.5	74.2	73.0	72.4	72.1	71.7
GHG emissions growth (mtCO2e)	16.5	23.6	-3.8	0.9	2.3	1.4
Energy related GHG emissions (% of total)	150.7	139.7	141.9	134.9	127.9	120.2

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 2016-GLSS-VII. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

GUINEA

Table 1	2021
Population, million	13.5
GDP, current US$ billion	16.2
GDP per capita, current US$	1198.6
International poverty rate ($2.15)[a]	13.8
Lower middle-income poverty rate ($3.65)[a]	46.6
Upper middle-income poverty rate ($6.85)[a]	86.8
Gini index[a]	29.6
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	62.0
Total GHG emissions (mtCO2e)	43.4

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

Mining and the continued post-pandemic recovery are expected to boost growth to 4.6 percent in 2022, with limited impacts from Ukraine conflict. The fiscal deficit is expected to widen to around 2.5 percent of GDP, reflecting higher capital spending while public debt would decline to 37.1 percent of GDP. Mining-related FDI is expected to sustain growth. Downside risks include a prolonged political transition and delayed structural reforms.

Key conditions and challenges

Growth averaged 6.2 percent during 2017-21 (3.3 percent per capita), buoyed by the mining sector (bauxite, gold) and low fiscal deficits (2.5 percent). Weak mining-sector linkages to the rest of the economy, including through employment, mean economic growth has limited impacts on poverty reduction and shared prosperity. The national poverty rate declined from 48.5 percent in 2014 to 43.7 percent in 2018/19, equivalent to a growth elasticity of poverty of 0.47. However, the annualized consumption growth of the bottom 40 percent of the population was negative, suggesting that economic growth during that period was not pro-poor; and about 32 percent of the population suffered deprivations in education, health, and access to basic infrastructure in 2018. Based on COVID-19 surveys, about 35 percent of the population experienced severe food insecurity in 2021.

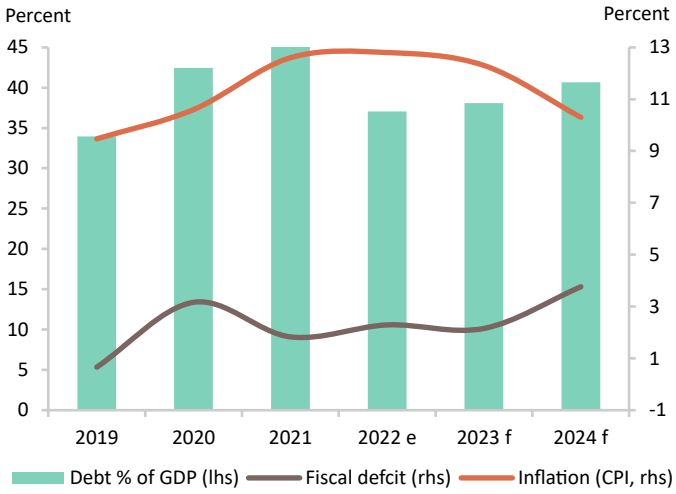
Guinea has exports dominated by few products (e.g., bauxite and gold) and concentrated in few markets, hence is exposed to commodity price volatility. The mining boom and high inflation affect competitiveness of other sectors through an appreciating local currency, hampering economic diversification. Guinea has low levels of human capital, weak institutional capacity, and widespread gender gaps in education, earnings, agricultural productivity, and political representation. Governance challenges are substantial. Other constraints include weak tax revenues, an underdeveloped financial sector, and large infrastructure gaps.

Recent progress with digitalizing economic and government transactions expanded mobile financial accounts and helped sustain economic activity during the pandemic; yet further digital expansion is needed in addition to structural reforms to boost diversification and inclusive growth. Guinea is at moderate risk of external debt distress with limited space to absorb shocks, with the government committed to maintain prudent borrowing that maximizes concessional financing.

Recent developments

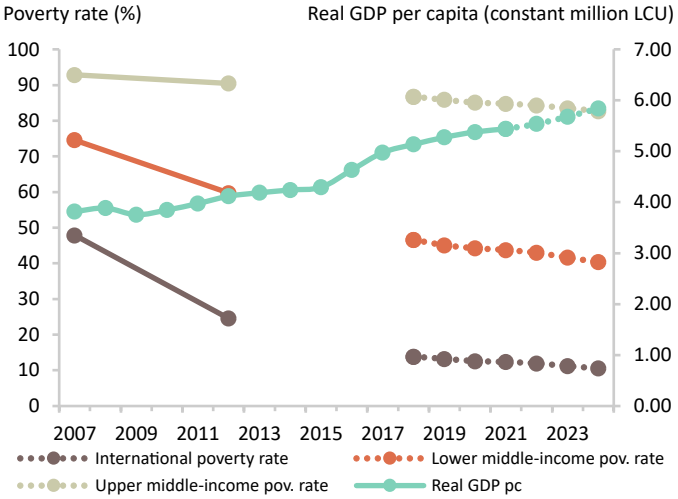
Growth accelerates to 4.6 percent in 2022 (1.9 percent per capita) due to higher mining growth (bauxite, gold) and continued recovery of the non-mining sector. Operations of Rusal, a Russian conglomerate that accounts for 7 percent of Guinea's bauxite exports, have not been significantly disrupted by global sanctions. Inflation is projected to accelerate slightly, from 12.6 percent in 2021 to 12.8 percent in 2022, due to higher food prices and supply disruptions (both domestic and external), disproportionally affecting the poorest and threatening food security. The external price pressures are partially offset by appreciation of the Guinean franc, the government's repayment of central bank advances earlier in the year, and the non-reliance on central bank financing.

FIGURE 1 Guinea / Debt, fiscal deficit, inflation



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

The overall fiscal deficit (including grants) will widen to 2.5 percent of GDP in 2022, as capital expenditures resume on delayed infrastructure projects. Tax revenues should increase by 0.8 percentage points, to 13.2 percent of GDP, due to better tax administration and mining tax collection. Subsidies (electricity and petrol) remain high due to low electricity tariffs and higher hydropower generation, though lessened by the increase in petrol pump prices mid-year. The debt-to-GDP ratio is set to decrease from 45.5 percent of GDP in 2021, to 37.1 percent in 2022, reflecting repayment of domestic bonds and securitized debts.

The current account balance flips from a surplus of 3.7 percent GDP in 2021, to a deficit of 4.8 percent in 2022, due to a smaller trade surplus. Mining-related FDI, the main source of external financing, is projected to increase from 3.9 percent of GDP in 2021 to 9.0 percent in 2022. Estimated international reserves decline slightly in 2022 while the currency appreciated in nominal terms.

Based on GDP growth projections, extreme poverty incidence (percent of the population living below the international poverty line of US$2.15 per capita per day, 2017 PPP) is estimated to decrease by 0.7 percentage points between 2021 and 2022. However, some nonpoor vulnerable populations who are close to the national poverty line (5,006,362 GNF per capita per year in 2018/19) are likely being pushed into poverty due to rising food prices. Indeed, the national poverty rate is estimated to increase by 1.4 percentage points between 2021 and 2022, disproportionately affecting rural populations who spend over 60 percent of their total expenditure on food (54 percent for the urban population).

Outlook

Mining-related FDI will continue to drive growth. As services and non-mining recover, growth is projected to accelerate to 5.5 percent on average in 2023–2024. Commensurately, extreme poverty is projected to decline by 0.7 percentage points annually in 2023-2024 though this will require redistribution mechanisms from the mining sector to vulnerable populations and inclusive growth in services. Investments in energy and transport could support construction growth. Better provisioning of fertilizer stocks could improve agricultural productivity, but higher fertilizer prices may dampen earnings. Poor transportation infrastructure quality is likely to keep driving up food prices, reducing household food purchasing power, and, consequently, undermining poverty reduction. The fiscal deficit initially falls as tax reforms bear fruit in 2023, then increases as mining-related investment growth persists into 2024. Inflation is expected to remain high, yet decline gradually to 11.3 percent during 2023-2024. Uncertainties around the political transition could slow implementation of reforms to strengthen governance and financial performance of the public electricity utility, potentially reducing private investment and slowing social spending.

The current account deficit is projected to deteriorate to about 7.5 percent of GDP in 2023-2024, reflecting a modest trade surplus that is outweighed by net outflows for non-factor services and transfers. The trade surplus is expected to persist due to strong mining exports that will outweigh higher imports for infrastructure and food costs. FDI inflows could also increase, reflecting planned new mining projects, and support financing requirements.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.6	4.9	3.9	4.6	5.3	5.6
Private Consumption	5.4	3.5	5.5	4.1	5.0	4.7
Government Consumption	-6.3	42.9	-1.3	9.7	16.2	12.1
Gross Fixed Capital Investment	-8.4	-8.4	-15.8	44.4	28.6	34.9
Exports, Goods and Services	-0.6	33.5	14.0	3.1	18.3	13.6
Imports, Goods and Services	-9.5	39.4	7.2	11.9	25.2	20.3
Real GDP growth, at constant factor prices	6.5	4.9	3.9	4.6	5.3	5.6
Agriculture	7.6	-1.6	5.4	5.1	5.0	5.0
Industry	7.2	18.5	4.2	4.5	5.7	5.9
Services	5.5	-2.7	3.0	4.5	5.0	5.5
Inflation (Consumer Price Index)	9.5	10.6	12.6	12.8	12.3	10.3
Current Account Balance (% of GDP)	-10.8	-13.6	3.7	-4.8	-6.3	-8.8
Net Foreign Direct Investment Inflow (% of GDP)	9.1	10.7	3.9	9.0	11.4	10.1
Fiscal Balance (% of GDP)	-0.7	-3.2	-1.8	-2.5	-2.3	-3.2
Debt (% of GDP)	33.9	42.4	45.5	37.1	38.1	40.7
Primary Balance (% of GDP)	0.0	-2.3	-0.7	-1.3	-1.2	-2.2
International poverty rate ($2.15 in 2017 PPP)[a,b]	13.2	12.6	12.3	11.9	11.2	10.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	45.1	44.2	43.7	43.0	41.6	40.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.9	85.1	84.8	84.3	83.5	82.7
GHG emissions growth (mtCO2e)	4.4	2.4	4.4	4.0	3.9	3.8
Energy related GHG emissions (% of total)	9.7	10.0	10.1	10.2	10.4	10.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. 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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

GUINEA-BISSAU

Table 1	2021
Population, million	2.0
GDP, current US$ billion	1.7
GDP per capita, current US$	855.1
International poverty rate ($2.15)[a]	21.7
Lower middle-income poverty rate ($3.65)[a]	56.8
Upper middle-income poverty rate ($6.85)[a]	87.2
Gini index[a]	34.8
School enrollment, primary (% gross)[b]	118.7
Life expectancy at birth, years[b]	58.6
Total GHG emissions (mtCO2e)	4.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2010); Life expectancy (2020).

The Ukraine war has compounded inflationary pressures and is harming growth, causing the pace of poverty decline to slow. Election costs will increase debt while the removal of irregular government workers will help fiscal consolidation. Medium-term growth will improve as infrastructure investments come online. The outlook is subject to downside risks from continued inflationary pressure, shocks to international cashew prices, political instability from legislative elections, and climatic shocks.

Key conditions and challenges

Exports of raw cashew nuts, which account for 90 percent of merchandise exports, drive economic performance. Cashew production is dispersed among smallholder farmers, whose income supports overall economic activity. Poverty remains widespread, with high levels of inequality and increasing rural-urban disparities, while human development indicators remain among the lowest in the world, and low access to basic services contribute to exclusion and marginalization. Despite a gradual post-pandemic economic recovery, rising prices from the war in Ukraine are a concern, especially for the poor who spend nearly 60 percent of income on food, exposing them to the risk of sliding deeper into poverty.

Guinea-Bissau lacks the enabling environment for private sector-led growth due to poor infrastructure, low levels of human capital, and poor public services. This situation is compounded by strong elite competition for rents and weak public administration. The investment climate is not conducive to business activity as firms and households struggle to obtain access to finance, and the functioning of markets is undermined by the absence of public investments in fundamental economic services, and public goods. Infrastructure is in a poor state, but there have been recent mostly donor financed investments to improve this.

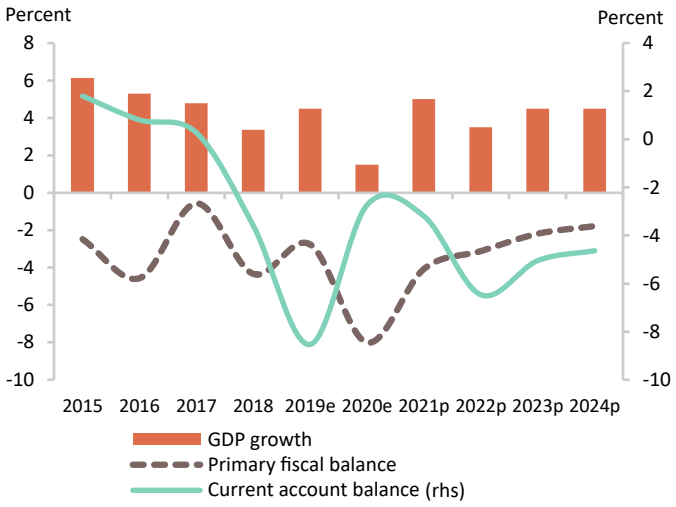
Political economy factors limit the transparency of the SOE sector in Guinea-Bissau. This is especially the case with the national electricity and water utility company (EAGB), which accrued substantial public debt through government guaranteed letters of credit, worth 0.7 percent of GDP to cover arrears. These are activated on a three-month basis. A lack of transparency makes identifying contingent liabilities difficult, which increases the fiscal risks in a country with very little debt absorption capacity for additional shocks. High non-performing loans continue to make the banking sector another possible contingent liability.

Recent developments

Economic activity is projected to slow to 3.5 percent in 2022 (1.5 percent in per capita terms) from 5 percent in 2021. On the demand side, this is driven by inflation that may average 7.5 percent in 2022, as a spillover from the Ukraine war, reducing private consumption. On the supply side, the cashew campaign is marred by problems with shipping and fuel shortages affecting domestic haulage. As of August 2022, cashew exports were 39 percent of exports in August 2021.

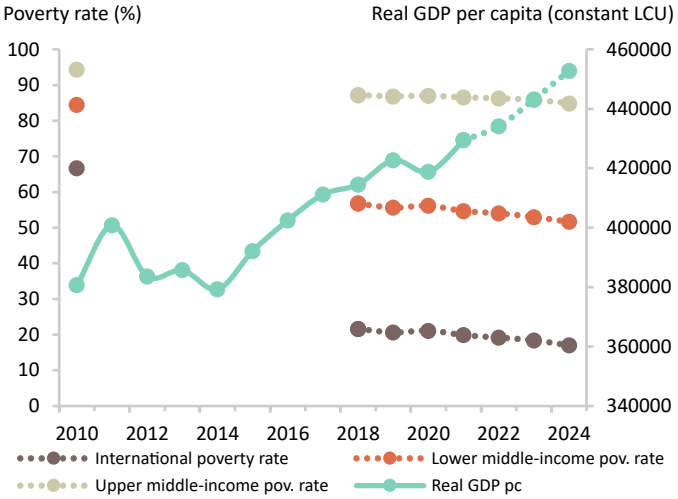
An unexpected fall in cashew prices towards the end of the campaign with substantial quantities in Bissau still to be exported, as well as an increase in oil and food import prices, means the current account deficit (CAD) will increase from 4.5 percent in 2021, to 6.5 percent in 2022. The

FIGURE 1 Guinea-Bissau / Evolution of main economic indicators



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

fiscal deficit is expected to fall from 5.7 percent to 4.5 percent, driven by the removal of irregular government workers. Guarantees to EAGB and December elections, to be financed by borrowing, will increase debt to 81 percent of GDP despite an expected increase in budgetary support from donors.

Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO). Its reserves declined to 5.2 months of imports in June 2022, from 5.5 months in 2021, due to higher energy prices and food imports caused by the Ukraine crisis. To counter inflation pressures, the BCEAO raised rates for liquidity calls (2 percent to 2.5 percent) and the marginal lending window (4 percent to 4.5 percent) in June and September 2022.

Using the international poverty line of $2.15 (2017 PPPs), poverty is projected to decline from 19.9 percent in 2021 to 19.2 percent in 2022. This 0.7pp decline, compared to a 1.2pp decline between 2020 and 2021, corresponds to over 4,000 fewer people in poverty, compared to over 14,000 fewer between 2020 and 2021. The decline in the pace of poverty reduction is driven by the fallout from the war in Ukraine.

Outlook

Real GDP growth is projected to be 4.5 percent in the medium-term from high forecasted cashew production and prices, and as road and energy infrastructure investments come online. Inflation will continue to be high, but will converge towards 3 percent in 2024, as the spillover from the Ukraine war eases. The outlook is subject to substantial downside risks stemming from political instability, climate shocks, uncertainty surrounding EAGB and nonperforming loans in the financial sector.

The CAD will fall to 5 percent of GDP in 2023 and 4.6 by 2024, as inflationary pressure eases and cashew exports increase. External financing needs will continue to be met by concessional loans and grants in 2023. The authorities are committed to medium-term fiscal consolidation, which includes enhanced management of fiscal risks, notably from SOEs, revenue mobilization and control of the wage bill. The primary deficit is projected to decline to 1.8 percent by 2024, with the public debt-to-GDP ratio expected to fall to 75 percent, as energy projects come online and partially mitigate EAGB arrears.

Rising food prices will limit the ability of vulnerable households to increase their real incomes, especially agricultural households who are amongst the country's poorest. An increase in formal remittances of 36 percent on average between January and June 2022, compared to the same period in 2021, and price controls on basic food items (rice, sugar and wheat flour) are likely to mitigate spillover effects from the war on household well-being. Consequently, the poverty rate is expected to continue gradually falling to reach 17 percent in 2024.

TABLE 2 Guinea-Bissau / 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	1.5	5.0	3.5	4.5	4.5
Private Consumption	1.4	-1.0	3.0	1.0	2.5	2.5
Government Consumption	16.6	9.0	-0.4	5.1	8.2	10.7
Gross Fixed Capital Investment	33.8	7.3	20.7	17.8	11.2	7.5
Exports, Goods and Services	8.7	-2.5	5.3	5.5	6.0	7.0
Imports, Goods and Services	14.1	-1.0	5.9	7.2	6.4	6.2
Real GDP growth, at constant factor prices	4.5	1.5	5.0	3.5	4.5	4.5
Agriculture	5.8	-0.2	4.4	4.6	5.1	5.1
Industry	4.2	-0.2	3.5	3.6	4.4	4.4
Services	3.5	3.5	5.9	2.6	4.0	4.0
Inflation (Consumer Price Index)	0.3	1.5	3.3	7.5	5.0	3.0
Current Account Balance (% of GDP)	-8.5	-2.7	-3.2	-6.5	-5.0	-4.6
Fiscal Balance (% of GDP)	-3.9	-9.6	-5.7	-4.5	-4.3	-3.9
Debt (% of GDP)	64.0	76.5	78.5	80.4	78.4	76.0
Primary Balance (% of GDP)	-2.8	-8.0	-4.1	-3.1	-2.2	-1.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	20.6	21.1	19.9	19.2	18.4	17.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	55.6	56.2	54.7	54.1	53.0	51.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	86.9	87.0	86.5	86.3	85.8	84.9
GHG emissions growth (mtCO2e)	0.7	1.0	1.2	1.2	1.3	1.1
Energy related GHG emissions (% of total)	7.9	8.0	8.2	8.4	8.6	8.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

KENYA

Table 1	2021
Population, million	55.0
GDP, current US$ billion	110.6
GDP per capita, current US$	2011.7
International poverty rate ($2.15)[a]	29.4
Lower middle-income poverty rate ($3.65)[a]	59.6
Upper middle-income poverty rate ($6.85)[a]	85.7
Gini index[a]	40.8
School enrollment, primary (% gross)[b]	103.2
Life expectancy at birth, years[b]	67.0
Total GHG emissions (mtCO2e)	85.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent official value (2015), 2017 PPPs.
b/ WDI for School enrollment (2016); Life expectancy (2020).

Kenya's growth is projected to moderate to 5.5 percent in 2022 due to global supply constraints following the war in Ukraine and poor agricultural performance. The poverty rate is projected to return to its pre-pandemic trend, however, the prolonged drought in the north-east and increase in cost of living has caused hardship in affected areas. Policies including climate-smart agriculture are key to reduce vulnerability to climate change and increase productivity.

Key conditions and challenges

Kenya's pre-pandemic growth was robust, averaging 4.8 percent (2015 – 2019) and has staged a strong recovery from the pandemic. Per capita real GDP increased by about one-third in the decade prior to the pandemic, contributing to the reduction in poverty (using $2.15 a day poverty line) from 36.7 percent in 2005 to 26.5 percent in 2019 (Figure 2). Although, vast differences across counties persist, the gap between the richest and the poorest populations remains high. Further, the economy has not been generating enough good jobs, with only about 30 percent of the workforce in non-agricultural wage jobs. In addition, Kenya is likely to see its largest ever youth cohorts joining the workforce over the next decade, adding about one million new workers per year. This could generate a demographic dividend for Kenya and boost living standards, but only if there are enough high-quality jobs and earning opportunities. A narrow export base and weak regulatory and business conditions have hindered trade and investment growth. Kenya's economy relies on rainfed agriculture and is vulnerable to climate change and extreme weather events.

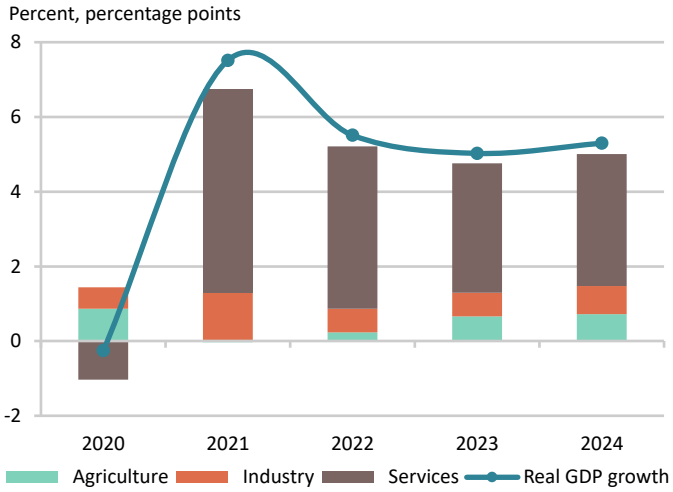
Meeting Kenya's jobs and growth challenge requires a shift away from the economy's recent reliance on debt-financed public investment and towards more private investment to sustainably generate jobs and income growth. This structural transformation would require eliminating economic distortions (including those which arise from an uneven playing field between the private sector and a large and inefficient SOE sector), strengthening regulatory and business environment (including by tackling corruption and excessive red tape), and improving access to finance (including by reducing government's domestic borrowing requirements). Adopting climate-smart agriculture is key to building resilience to climate change vulnerabilities. Further, ensuring increased access to better quality and more productive jobs, alongside job creation, will also help prevent potential increases in inequality.

Recent developments

Kenya's strong rebound from the pandemic in 2021 continued in Q1-2022, with real GDP growing by 7.5 percent in 2021 (Figure 1) and 6.8 percent in Q1-2022, driven by broad-based increases in services and industry. This was supported by a pickup in private sector credit, lower COVID-19 infections, high commodity prices, a recovery in tourism, and steady public investment. Agricultural output, however, contracted due to inadequate rains. Economic activity has weakened since Q2-2022 due to adverse impacts of the war in Ukraine, continued drought conditions, and a drop in business confidence.

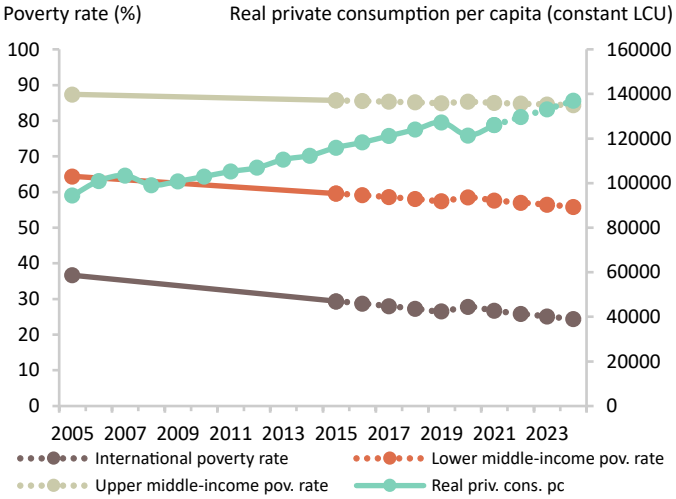
Shocks from global commodity markets and the regional drought pushed up domestic prices in 2022, leading to tightening of monetary policy. Inflation rose to

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



Sources: World Bank and Kenya National Bureau of Statistics.

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



Source: World Bank. Notes: see Table 2.

8.5 percent in August 2022, the highest since June 2017 and above the CBK upper bound target of 7.5 percent, even as price increases were partially muted by government subsidies on fuel, electricity and maize. To contain inflation, CBK raised the policy rate by 50 basis points to 7.5 percent in May 2022. High frequency monitoring of households shows a rise in food insecurity, most severely in rural areas, and over half of households reduced their food consumption in June 2022.

Further, most households reported an increase in prices of essential food items and over half of rural households reported being unable to access a core staple food such as beans or maize.

The government reduced the budget deficit in FY22 through revenue measures and expenditure moderation. Revenue increased to 17.4 percent of GDP in FY22 from 15.6 percent in FY21, reflecting a reduction of tax expenditures through harmonization of exemptions, and improvements in tax administration. While fiscal pressures increased from drought response and fuel subsidy, government reduced development spending by rationalizing the public investment program, containing the FY22 deficit at 6.2 percent of GDP, below its target of 8.2 percent.

Outlook

Real GDP is projected to grow by 5.2 percent on average in 2023–24, above the pre-pandemic average of 4.8 percent. The baseline assumes continued commitment to the multi-year fiscal consolidation by the incoming government and a return to favorable weather. Inflationary pressures are expected to remain elevated in H2-2022 due to ongoing domestic drought conditions, depreciation of the Kenya shilling, and second-round effects of higher fuel and electricity prices but will decline in 2023 partly due to adequate rains boosting agricultural performance.

Real per capita incomes are expected to grow, and the decline in poverty is expected to resume its pre-pandemic trend, declining by under a percentage point each year. The $2.15 poverty rate is expected to fall from 26.7 percent in 2021 to 25.8 percent in 2022, below its pre-crisis level of 26.5 percent (2019). However, rural areas may experience a decline in welfare, should the drought persist.

The government expects to reduce the fiscal deficit to 4.4 percent of GDP in FY23/24, mainly through higher revenue collection. A smooth government transition and the planned fiscal consolidation are expected to boost investor confidence and reduce government's domestic borrowing needs, allowing banks to increase lending for private sector investment. Progress on fiscal consolidation will be essential to achieve a durable, private sector-led recovery and to restore fiscal space for pro-poor spending and investment in human capital. Phasing out the untargeted fuel subsidy will create fiscal space for productive public spending.

There remain significant downside risks. Fiscal slippages including due to fertilizer and fuel subsidies could undermine medium-term fiscal consolidation and crowd out private sector credit. Unexpectedly prolonged recession in Europe could undercut ongoing recovery in exports and tourism. On the upside, a cooling of geopolitical tensions and stronger economic growth in China would boost global growth prospects and have positive spillovers for Kenya.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.2	-0.3	7.5	5.5	5.0	5.3
Private Consumption	5.0	-2.5	6.2	5.2	5.0	5.1
Government Consumption	5.6	3.0	5.7	6.6	5.2	5.0
Gross Fixed Capital Investment	4.5	2.5	10.9	7.0	7.5	8.1
Exports, Goods and Services	-3.2	-8.8	12.9	6.2	7.4	7.8
Imports, Goods and Services	1.8	-9.2	18.9	6.8	8.3	8.3
Real GDP growth, at constant factor prices	5.4	0.4	7.1	5.5	5.0	5.3
Agriculture	2.7	4.6	-0.2	1.3	3.8	4.2
Industry	4.0	3.3	7.2	3.5	3.6	4.3
Services	6.7	-1.8	9.5	7.4	5.8	5.9
Inflation (Consumer Price Index)	5.2	5.3	6.1	7.3	6.4	5.5
Current Account Balance (% of GDP)	-5.2	-4.8	-5.5	-6.0	-5.5	-5.0
Net Foreign Direct Investment Inflow (% of GDP)	0.9	0.5	0.2	0.6	0.8	0.9
Fiscal Balance (% of GDP)	-7.5	-7.8	-8.2	-7.2	-5.2	-4.2
Debt (% of GDP)	59.6	66.0	67.9	67.8	66.2	63.5
Primary Balance (% of GDP)	-3.3	-3.9	-3.5	-2.3	-0.3	0.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	26.5	27.8	26.7	25.9	25.1	24.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	57.5	58.5	57.6	57.0	56.4	55.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.0	85.3	85.0	84.8	84.6	84.4
GHG emissions growth (mtCO2e)	20.2	8.7	6.9	3.4	3.3	4.0
Energy related GHG emissions (% of total)	33.2	31.6	31.8	31.9	32.1	32.4

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/ Calculations based on 2005-IHBS and 2015-IHBS. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2005-2015) with pass-through = 1 based on private consumption per capita in constant LCU.

LESOTHO

Table 1	2021
Population, million	2.2
GDP, current US$ billion	2.3
GDP per capita, current US$	1084.9
International poverty rate ($2.15)[a]	32.4
Lower middle-income poverty rate ($3.65)[a]	54.6
Upper middle-income poverty rate ($6.85)[a]	81.0
Gini index[a]	44.9
School enrollment, primary (% gross)[b]	120.9
Life expectancy at birth, years[b]	54.8
Total GHG emissions (mtCO2e)	2.5

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

Following a prolonged recession during 2019-2020 and low growth in 2021, Lesotho's economy is expected to recover and grow by 2.6 percent in 2022. The outlook is subject to downside risks stemming from political instability, inflationary pressures exacerbated by the Ukraine war, notably for food and fuel, new COVID-19 variants, and climate shocks. Poverty is expected to remain around 35 percent, using the international poverty line. Unemployment levels remain elevated.

Key conditions and challenges

Lesotho's economy is struggling. Real GDP contracted by an average 0.7 percent annually between 2017 and 2019 before the sharp contraction of 8.4 percent in 2020 due to the COVID-19 pandemic. Despite some recovery to 1.3 percent growth in 2021, uncertainties surrounding political stability, fiscal outlook and the future of the COVID-19 pandemic continue to pose downside risks to growth.

Recent governments have been unstable, characterized by weak coalitions and frequent cabinet reshuffles. This has delayed reform implementation. National elections are scheduled for October 7, 2022. SACU revenues, which accounted for about half of government revenues and grants in 2020, are declining, while government expenditures are rising. Consequently, the fiscal deficit in 2022 should further widen from the 4.5 percent of GDP registered in 2021. As at September 8 2022, 45.2 percent of the population had been fully vaccinated against COVID-19, and this is one of the highest vaccination rates in the region. High food and fuel prices due to the war in Ukraine, combined with weak consumer demand, have been slowing recovery from the pandemic. Elevated inflationary pressures are expected to entailn more aggressive monetary policy responses, which negatively affect economic growth.

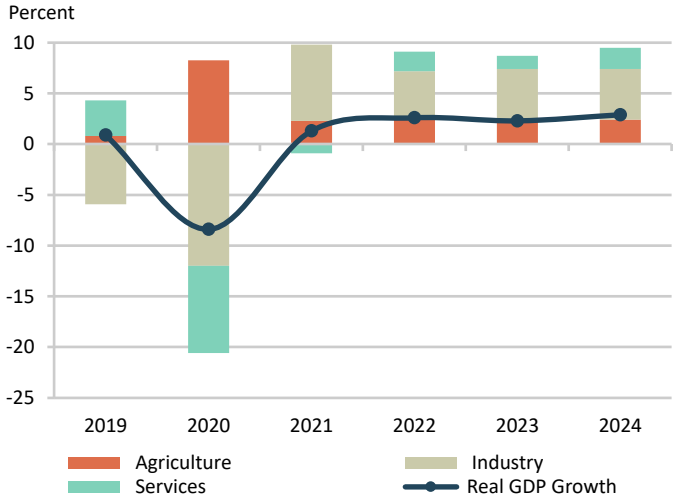
Even before the pandemic, Lesotho grappled with high poverty and unemployment. The unemployment rate was 22.5 percent (strict definition), and 38.3 percent in 2019 (expanded definition – including discouraged job seekers). About 36 percent of the population lives on less than US$2.15/person/day (using the new 2017 PPP) and inequality is high by global standards with the gini coefficient at 44.9 (2017 data). Food insecurity is rising – 521,000 people are affected in 2022/23 compared with 470,000 in 2021/22 – due to increased food prices, decreased income from livestock products, and job losses. Remittances from migrant workers (about 22 percent of GDP in 2019) - a crucial safety net in Lesotho - is yet to recover to pre-pandemic levels, exacerbating the food insecurity and poverty situation.

Recent developments

Economic recovery is expected to pick up momentum, underpinned by the recovery in sectors like construction, mining, manufacturing, business services, and public administration, which recorded double-digit growth rates in the fourth quarter of 2021. Exports of diamonds and textiles have recovered attributable to global economic recovery. GDP is projected to grow by 2.6 percent in 2022. The fiscal stance is expected to deteriorate with the deficit rising to 7.7 percent of GDP in 2022 as government expenditure remains elevated.

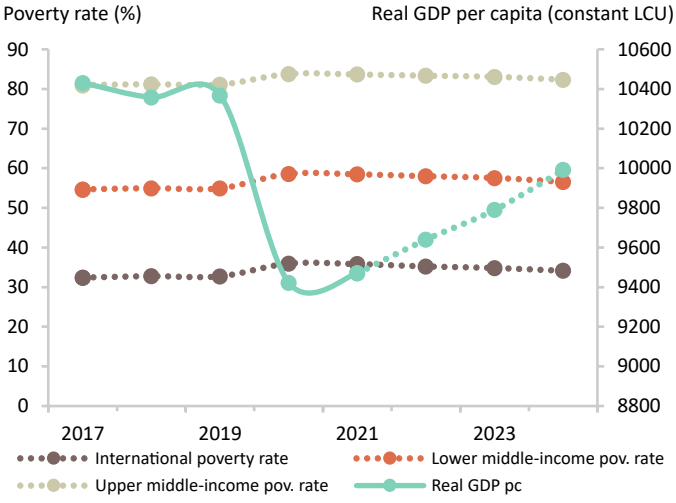
The annual inflation rate, which averaged 6.0 percent in 2021, has accelerated to 9.8 percent in July 2022, driven by higher food

FIGURE 1 Lesotho / Real GDP growth at factor costs and contributions to real GDP growth



Sources: WDI and staff estimates.

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



Source: World Bank. Notes: see Table 2.

and energy prices. To contain inflationary pressures, the Central Bank of Lesotho (CBL) increased the policy rate five times (between November 2021 and July 2022) from 3.50 to 5.50 percent (cumulative 200 basis points) per annum. The current account deficit is expected to double in 2022 to 7.4 percent of GDP, primarily due to higher prices and volumes of imports of goods and services, relative to exports.

Given the limited recovery, poverty levels are estimated to have remained at 36 percent in 2021. Other factors – such as rising food and energy, prices and slow labor market recovery from COVID-19-related lockdown measures – limit poverty reduction. The government has introduced a M30 million (approximately US$2 million) monthly fuel subsidy from July to December 2022 to cushion motorists and commuters from the high costs of energy prices. The fuel subsidy has reduced and fixed the prices of petroleum products until December 2022. Recurring climatic hazards that adversely affect Lesotho's agricultural sector's performance exacerbate the challenge, increasing food insecurity, particularly among the rural population. Government is also supporting the sector in the form of 80 percent and 70 percent government subsidies on seeds and fertilizers respectively.

Outlook

Real GDP is projected to grow by 2.3 percent in 2023, with an acceleration to 2.9 percent by 2024 as activity in the Lesotho Highlands Water Phase-II Project peaks. The services sector is also expected to drive growth, and this will benefit from positive spillovers from the construction sub-sector. Agriculture is expected to continue to register positive growth on account of envisaged good harvests for crops. The diamond industry is also expected to recover in a context of higher international prices.

The annual inflation rate is expected to remain elevated, as it is projected to average 7.0 percent in the medium-term. The fiscal position is projected to improve over the medium term as the deficit is expected to fall to 4.8 percent and 3.1 percent in 2023 and 2024 respectively. Tax revenues are expected to improve, boosted by the recently introduced revenue-mobilization measures, including the enactment of tobacco and alcohol products levy. The public debt-to-GDP ratio is expected to decline from 62.0 percent of GDP in 2021 and stabilize at 56.4 percent of GDP in the medium-term largely attributed to higher nominal GDP.

Poverty rates are expected to trend downwards over the medium term, but remain higher than in 2019 as increases on food and energy prices as well as a fragile economic environment constrain budgets and livelihoods of lower income households. The US$2.15/person/day (in 2017 PPP terms) poverty rate is projected to fall slightly to 35.2 percent in 2022 and reach 34.1 percent by 2024.

TABLE 2 Lesotho / 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	-8.4	1.3	2.6	2.3	2.9
Private Consumption	2.6	4.8	-2.0	3.6	3.6	3.6
Government Consumption	7.8	19.7	-5.3	-0.5	-1.1	-1.5
Gross Fixed Capital Investment	-16.2	-49.2	-4.0	41.3	50.1	39.6
Exports, Goods and Services	-13.3	-17.5	38.1	1.6	2.2	2.2
Imports, Goods and Services	-1.4	-0.5	15.0	6.8	10.3	10.3
Real GDP growth, at constant factor prices	0.9	-8.4	1.3	2.6	2.3	2.9
Agriculture	0.8	8.3	2.3	2.4	2.4	2.4
Industry	-5.9	-12.0	7.5	4.8	5.0	5.0
Services	3.5	-8.6	-0.9	1.9	1.3	2.1
Inflation (Consumer Price Index)	5.2	5.0	6.0	7.5	7.0	6.5
Current Account Balance (% of GDP)	-2.9	-1.4	-3.7	-7.4	-4.3	-6.9
Net Foreign Direct Investment Inflow (% of GDP)	1.5	1.3	1.1	1.1	1.2	1.3
Fiscal Balance (% of GDP)	-8.8	-0.8	-4.5	-7.7	-4.8	-3.1
Debt (% of GDP)	48.2	50.7	62.0	57.1	56.0	56.0
Primary Balance (% of GDP)	-7.7	0.1	-3.5	-6.8	-4.0	-2.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	32.7	36.0	35.8	35.2	34.8	34.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	54.9	58.6	58.5	58.0	57.6	56.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	81.1	83.8	83.7	83.4	83.1	82.3
GHG emissions growth (mtCO2e)	0.0	-2.6	0.8	1.6	1.6	1.6
Energy related GHG emissions (% of total)	30.5	28.4	27.7	27.6	27.7	27.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2017-CMSHBS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

LIBERIA

Table 1	2021
Population, million	5.2
GDP, current US$ billion	3.5
GDP per capita, current US$	677.4
International poverty rate ($2.15)[a]	27.6
Lower middle-income poverty rate ($3.65)[a]	60.6
Upper middle-income poverty rate ($6.85)[a]	88.9
Gini index[a]	35.3
School enrollment, primary (% gross)[b]	85.1
Life expectancy at birth, years[b]	64.4
Total GHG emissions (mtCO2e)	16.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2020).

After contracting by 3.0 percent in 2020 due to the COVID-19 pandemic, Liberia experienced a strong economic recovery in 2021. Growth recovered to 5.0 percent but is expected to slow to 3.7 percent in 2022, reflecting increased global uncertainties and commodity price shocks. Despite rising global prices, inflation in Liberia has been moderate since 2021. The macroeconomic outlook is promising for the medium term, subject to downside risks and uncertainties associated with the war in Ukraine and the 2023 elections.

Key conditions and challenges

Liberia faces core constraints to development that include low levels of human and physical capital, as well as overall low productivity and economic efficiency. The country's narrow revenue base hinders its capacity to boost spending, and its highly concentrated export structure—consisting primarily of mining and agricultural products—makes it vulnerable to commodity price fluctuations.

Growth is uneven and boom-bust cycles complicate economic management. After the civil war, the economy grew steadily, at 7.4 percent on average, from 2004 to 2013. This period of sustained growth was followed by successive exogenous shocks: the Ebola outbreak, the collapse in iron ore and rubber prices, the economic impact of the drawdown of United Nations peacekeeping forces, and the COVID-19 pandemic. Consequently, the economy contracted by 0.4 percent on average from 2014 to 2020. As a result, the country's international poverty rate is estimated to have increased to 33.2 percent by 2020, wiping out much of the gains made post-conflict when poverty decreased from 53.4 to 25.9 percent between 2007 and 2014. Non-monetary poverty indicators also lag the rest of the region and continued unequal access to productive assets, infrastructure, and markets mean regional and gender disparities in the country are exacerbated.

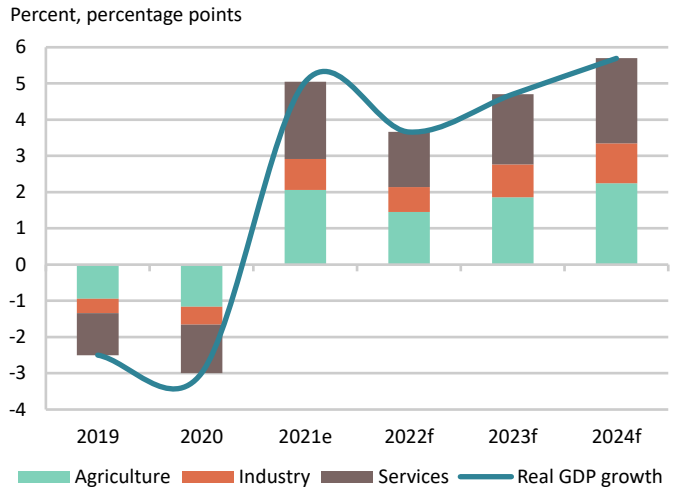
The main macroeconomic policy challenges include securing fiscal space to boost public investment while maintaining debt sustainability, enhancing the business environment and enabling greater access to credit, and facilitating the resolution of non-performing loans.

Recent developments

After contracting by 3.0 percent in 2020 due to the COVID-19 pandemic, growth recovered to 5.0 percent in 2021. The rebound was driven by improved external demand, higher prices for Liberia's main exports, and the resumption of normal domestic activity. However, growth slowed in the first half of 2022, even if mining and construction continued to perform well. In agriculture, rubber and cocoa production dipped by 13.5 percent and 27 percent, year-on-year, respectively. In industry, the production of iron ore, gold, and cement increased, reflecting firmer international prices and an uptick in construction activity. However, services growth fell, as reflected in the decline in beverages and electricity production.

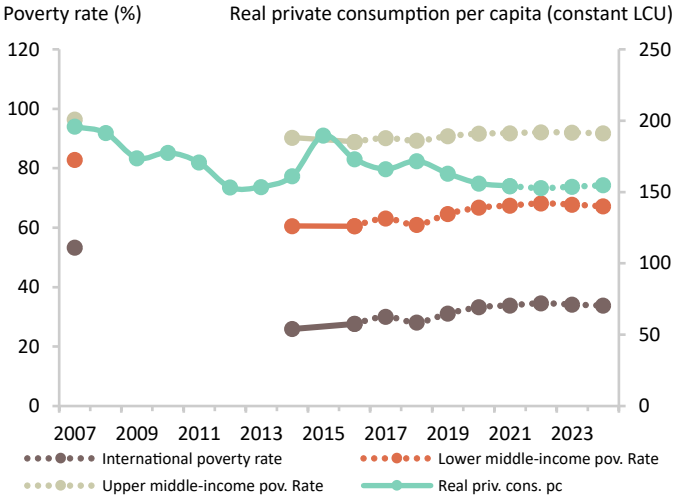
Despite higher global fuel and food prices, inflation remained contained in 2021 (7.9 percent) and during the first half of 2022 (7.1 percent). By July 2022, inflation had moderated further to 6.5 percent thanks to the Central Bank of Liberia's (CBL) restrictive monetary policy, supported by the nominal appreciation of the Liberian dollar. Indeed, the CBL maintained the policy rate well above inflation, currently at 15 percent, down from 20 percent in August

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



Sources: Liberian authorities, IMF, and World Bank staff.

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



Source: World Bank. Notes: see Table 2.

2021. While non-food inflation remained in double digits, largely driven by energy prices, food inflation (including alcohol and beverages) decelerated. Despite the contained food inflation, poverty is expected to have increased to 34.6 percent mostly due to negative growth in private consumption per capita.

Liberia's fiscal position improved in 2021, thanks to domestic revenue gains and spending consolidation. The gains in revenue were led by taxes on incomes and profits and international trade while efforts to contain the wage bill continued. During the first seven months of 2022, the government has kept its expenditures within the limits of revenue collected. As of July 31, 2022, the fiscal deficit was 0.2 percent of GDP (on a cash basis). Public debt declined from 55.0 percent of GDP in 2020 to 52.7 percent in 2021.

The current account deficit widened in 2021, mainly driven by trade dynamics. The phasing out of trade restrictions in 2021 resulted in imports rising faster than exports. However, in the first half of 2022, the value of exports increased by 26.5 percent, year on year, well above the 8.6 percent increase in the value of imports thanks to a significant increase in gold prices. By end-June 2022, the gross external reserves stood at US$607 million (4.0 months of imports).

Outlook

Growth is expected to slow to 3.7 percent in 2022 but average 5.2 percent over 2023-24. The deceleration in 2022 reflects increased global uncertainties and commodity price shocks. Over the medium-term growth is expected to be driven by expansion in the mining sector (underpinned by still high commodity prices and the expansion of a major mining project), agriculture and manufacturing, and recovery in services. Agriculture and manufacturing, the main drivers of diversification, are expected to play a pivotal role in making growth more broad-based, inclusive, and sustainable, thanks to structural reforms, including in key enabling sectors (such as energy, trade, transportation, and financial services). Improvements in the domestic food supply, cheaper electricity, reduced trade costs, and better public services are expected to boost the country's competitiveness and contribute to more robust economic growth.

Despite the recovery, private consumption has lagged GDP growth and poverty is projected increase to 34.6 percent by end-2022 before decreasing slightly to 33.8 by 2024, 2.7 percentage points above the rate prior to the pandemic.

Macroeconomic fundamentals are expected to remain healthy. Inflation is projected to remain low and stable, averaging 7.2 percent per year in 2022-24. As long as inflation is maintained stable, Liberian households will retain their purchasing power and it is projected that by 2023 poverty rates will slightly decrease. The fiscal deficit is projected to widen to 4.4 percent in 2022 but improve in the medium term with reforms aimed at improving domestic resource mobilization and consolidating expenditures. The current account is projected to narrow to 15.8 percent of GDP in 2022 and reach 15.0 percent by 2024, thanks to the recovery in mining and agriculture. Gross external reserves are projected at US$691 million (4.0 months of imports) in 2022, down slightly from US$700 million (4.2 months of imports) in 2021.

The outlook is subject to significant downside risk and uncertainties. The lingering effects of the war in Ukraine and the 2023 elections could pose significant risks to the outlook. The 2023 elections could trigger spending pressures on the budget, widening fiscal deficits, and as well cause businesses to postpone business decisions, thereby hindering economic recovery and growth.

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

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth, at constant market prices	-2.5	-3.0	5.0	3.7	4.7	5.7
Private Consumption	-2.8	-1.9	1.2	1.5	3.0	3.0
Government Consumption	4.0	-11.6	-3.7	-1.2	-9.2	-2.5
Gross Fixed Capital Investment	-7.8	-7.3	29.8	8.9	11.1	10.8
Exports, Goods and Services	1.6	1.2	15.4	2.0	2.7	3.0
Imports, Goods and Services	0.4	8.1	1.3	2.9	3.1	3.2
Real GDP growth, at constant factor prices	-2.4	-3.0	5.0	3.7	4.7	5.7
Agriculture	0.2	2.4	1.9	3.0	4.8	5.2
Industry	1.0	0.2	16.3	7.1	4.3	5.8
Services	-5.7	-8.8	3.6	2.8	4.8	6.1
Inflation (Consumer Price Index)	27.0	17.4	7.9	7.8	8.7	5.2
Current Account Balance (% of GDP)	-20.5	-16.3	-17.6	-15.5	-15.3	-15.0
Fiscal Balance (% of GDP)	-5.6	-3.7	-2.9	-4.4	-3.3	-3.4
Debt (% of GDP)	48.5	55.0	52.7	51.4	51.4	53.8
Primary Balance (% of GDP)	-5.0	-2.5	-1.9	-2.7	-1.7	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	31.1	33.2	33.9	34.6	34.1	33.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	64.7	66.7	67.5	68.2	67.8	67.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	90.8	91.6	91.8	92.1	92.0	91.7
GHG emissions growth (mtCO2e)	2.2	0.6	3.0	3.0	3.0	2.9
Energy related GHG emissions (% of total)	6.7	6.8	6.6	6.4	6.2	6.0

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 2016-HIES. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.7 (Low (0.7)) based on private consumption per capita in constant LCU.

MADAGASCAR

Table 1	2021
Population, million	28.4
GDP, current US$ billion	14.5
GDP per capita, current US$	509.1
International poverty rate ($2.15)[a]	80.7
Lower middle-income poverty rate ($3.65)[a]	92.4
Upper middle-income poverty rate ($6.85)[a]	98.2
Gini index[a]	42.6
School enrollment, primary (% gross)[b]	134.1
Life expectancy at birth, years[b]	67.4
Total GHG emissions (mtCO2e)	39.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

After rebounding by 4.4 percent in 2021, real GDP growth is projected to slow to 2.6 percent this year, dragged by natural hazards and the effects of the Ukraine war. Growth would average 4.4 percent in 2023-24, boosted by a mining sector recovery. Significant risks include dwindling fiscal space amid policy support to contain inflation, new waves of COVID-19, and implementation delays of critical reforms to restore macroeconomic stability and promote inclusive growth. Poverty is projected to exceed 80 percent.

Key conditions and challenges

Development prospects in Madagascar continue to be hampered by the country's low growth potential and exposure to frequent, deep, and persistent shocks. Policy uncertainty and low levels of investment in physical and human capital have led to low productivity growth and slow economic transformation and job creation. Furthermore, social and economic outcomes have been affected by multiple climate shocks including locusts, cyclones, and droughts.

The COVID-19 shock reversed more than a decade of modest gains in poverty reduction. The pandemic hit Madagascar when the economy had not yet sufficiently recovered from prolonged political unrest during 2009-12, triggering one of the deepest recessions in Madagascar's history, with GDP contracting by 7.1 percent in 2020. Economic activity had started to recover in 2021 but was interrupted in 2022 by new waves of COVID-19, a series of climate shocks, and higher inflation of food and fuel stemming from the Ukraine war. As a result, the poverty rate is now projected to remain slightly above 80 percent over the next couple of years, compared with an average of 42 percent for the rest of Sub-Saharan Africa.

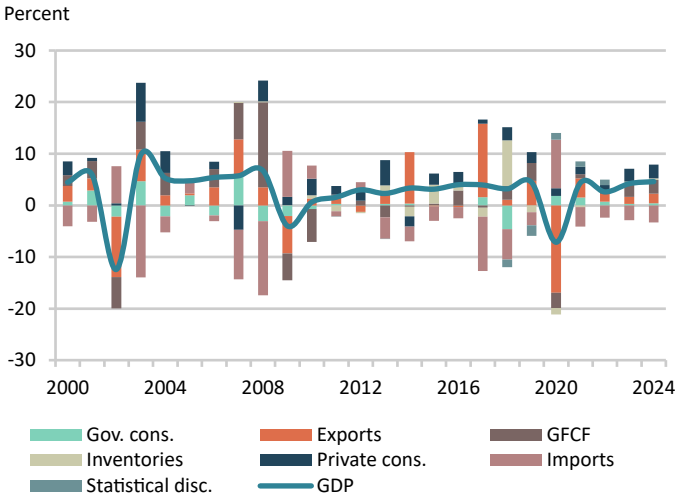
Beyond the need to scale up the response to recent shocks including through improving budget execution of social spending, accelerating growth and reducing poverty will require urgent reforms supporting private investment, connectivity infrastructures and access to basic services, all of which require deep governance and institutional reforms.

Recent developments

GDP growth rebounded by 4.4 percent in 2021, equaling its pre-pandemic rate in 2019 and higher than the 3.5 percent growth achieved in 2013-19 after the return to constitutional order. Growth was driven by a recovery in the industrial and services sectors, namely mining (taking advantage of high nickel prices), construction and public works, and telecommunication, banking, and business services. Sluggish growth in the agriculture sector, which employs two-thirds of the labor force, reflected several years of weak crop production due to the impact of natural disasters (locusts, cyclones, and droughts), exacerbated by deteriorating infrastructure. Preliminary estimated damages in agriculture during Q1 2022 amount to US$660 million (4.8 percent of GDP), with nearly half of it attributable to the loss of crops and agricultural assets. Net exports and private consumption dominated growth on the demand side.

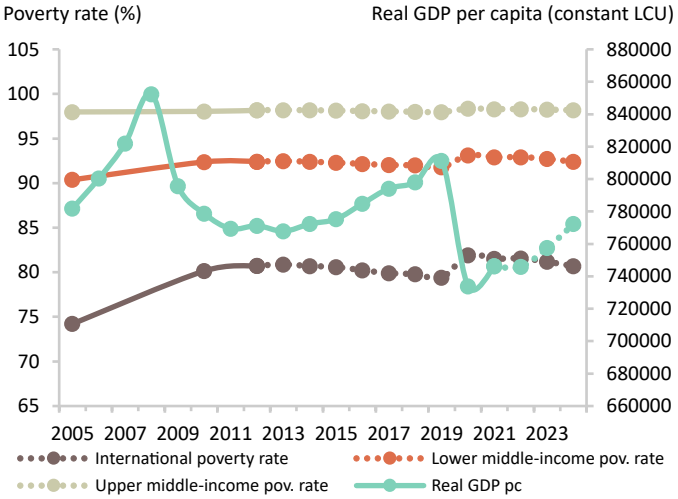
Inflation reached 6.9 percent (headline) in June 2022, up from 5.9 percent during the same period last year, partly fueled by the effects of the war in Ukraine on domestic prices and compounded by cyclones and drought.

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



Sources: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment.

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



Sources: World Bank. Notes: see Table 2.

The budget deficit narrowed to 2.8 percent of GDP in 2021 from 6.1 percent in 2020, mainly supported by low budget execution rates. Foreign-financed investment was far lower than expected (under 50 percent), and the government substantially underperformed relative to overly optimistic tax revenue previsions amid delayed disbursement of current grants in 2021 and some base effects from 2020. In 2020 and 2021, access to emergency lending allowed the government to increase public spending. However, in 2022 fiscal performance is likely to be challenged by the recent government policies to offset the impact of higher inflation. For example, public sector wages and the minimum private sector wage were recently raised. Other fiscal measures to mitigate the impact of inflation include the temporary capping of the domestic price of selected first necessity products (e.g., rice, edible oil, sugar, flour, gas), and subsidies on rice and cement imports. The central bank of Madagascar (BFM) raised borrowing costs for the second consecutive quarter following the August hike of its benchmark interest rate by 90 basis points to 8.9 percent.

The poverty rate is projected to remain high at 81.6 percent in 2022. About 37 percent of households in the south, a region heavily affected by droughts, are facing acute food insecurity, with many households being forced to sell assets and accumulate debt to feed themselves, or migrate in search for food.

Outlook

Growth is projected to decelerate to 2.6 percent in 2022, before accelerating to around 4.4 percent in 2023-24 boosted by a mining sector recovery buoyed by higher commodity prices (mainly nickel). The deceleration in 2022 mainly reflects the adverse impact of the war in Ukraine on the economic prospects of Madagascar's main trading partners, resulting in weaker export demand, deteriorating terms of trade, and slower recovery of tourist arrivals despite the government's easing of entry procedures and requirements. In addition, lower public investment is expected to drag growth in 2022 as about 230 construction companies have been facing significant payment arrears from the Road Fund, which disincentivizes further participation in public contracts. The ensuing degrading quality of roads will adversely impact the transport and tourism industries. Moreover, frequent power outages have resulted in a rise in insecurity, affecting households and small and medium firms. Moreover, the 2022 agricultural sector output will suffer as four major tropical storms hit Madagascar during Q1.

Considering the slow economic recovery projected in 2023-24, poverty measured at the international poverty line ($2.15 PPP) is expected to remain above 80 percent as rising food and fuel prices erode household purchasing power.

Risks are significant. Growth could further decelerate if the war in Ukraine leads to persistently higher energy prices, a weaker economy in Madagascar's main trade partners, and tighter global liquidity. Structural reforms to reduce trade and transport costs and facilitate foreign investment and domestic entrepreneurship would help lay the foundation for more competitive and resilient growth in the medium term. However, the window of opportunity for their materialization may be narrowing considering the forthcoming elections scheduled for next year. Moreover, with a COVID-19 vaccination rate among the lowest in the world (4.5 percent of the targeted population), Madagascar's growth prospect may not materialize if another wave of the pandemic hits. Finally, once the recovery is more entrenched, Madagascar should shift towards fiscal consolidation to secure external and public debt sustainability, including unwinding recent fiscal measures to mitigate the impact of elevated prices on firms and households.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.4	-7.1	4.4	2.6	4.2	4.6
Private Consumption	3.0	2.2	1.9	1.9	3.4	3.6
Government Consumption	0.0	24.3	15.5	6.3	2.5	3.7
Gross Fixed Capital Investment	12.8	-10.3	3.0	0.6	9.8	9.2
Exports, Goods and Services	10.9	-36.6	11.6	4.5	4.0	5.4
Imports, Goods and Services	4.6	-16.6	7.4	4.5	5.4	6.1
Real GDP growth, at constant factor prices	5.1	-9.4	4.7	2.6	4.2	4.6
Agriculture	5.9	-1.4	1.5	1.8	2.8	2.8
Industry	6.8	-29.5	13.2	5.0	5.6	5.9
Services	4.2	-6.9	4.3	2.4	4.5	5.1
Inflation (Consumer Price Index)	5.6	4.2	6.2	8.0	8.1	6.4
Current Account Balance (% of GDP)	-2.3	-5.5	-4.9	-5.3	-5.3	-5.2
Fiscal Balance (% of GDP)	-1.6	-6.1	-2.8	-3.5	-4.5	-5.1
Debt (% of GDP)	38.7	49.6	53.8	55.2	62.2	69.4
Primary Balance (% of GDP)	-1.0	-5.4	-2.2	-2.8	-3.6	-4.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	79.4	81.9	81.5	81.6	81.2	80.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	91.8	93.1	92.9	92.9	92.7	92.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	98.0	98.4	98.3	98.3	98.2	98.2
GHG emissions growth (mtCO2e)	0.3	-1.8	0.4	0.3	1.4	1.7
Energy related GHG emissions (% of total)	13.4	13.4	13.5	13.4	13.9	14.6

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 2012-ENSOMD. Actual data: 2012. Nowcast: 2013-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2012) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

MALAWI

Table 1	2021
Population, million	19.6
GDP, current US$ billion	12.3
GDP per capita, current US$	627.0
International poverty rate ($2.15)[a]	70.1
Lower middle-income poverty rate ($3.65)[a]	89.1
Upper middle-income poverty rate ($6.85)[a]	97.3
Gini index[a]	38.5
School enrollment, primary (% gross)[b]	144.8
Life expectancy at birth, years[b]	64.7
Total GHG emissions (mtCO2e)	20.0

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

The economy is projected to show subdued growth in 2022 owing to weakened agricultural performance, electricity supply disruptions, and high global commodity prices emanating from the impacts of the Russia-Ukraine war. Public debt reached unsustainable levels in 2021 and is now being restructured. Vulnerability to global and domestic risks remains substantial. Poverty levels are persistently high due to low agricultural yields and exacerbated by elevated inflation, especially food.

Key conditions and challenges

Malawi's economy continues to rely on subsistence rainfed agriculture, which limits its growth potential, increases its susceptibility to weather shocks, and creates food insecurity. The main export crop, tobacco, is projected to decline in the medium term, further constraining availability of foreign exchange. The Malawi Kwacha remains weakened following a 25 percent devaluation in May and continued pressure on the exchange rate. The devaluation briefly closed the spread between the official and parallel exchange rate, but this has widened again.

Weak macro-fiscal management has contributed to recurring and rising fiscal deficits, which have been largely funded by high-cost domestic borrowing. Efforts to address limited foreign exchange with non-concessional short-term swaps amidst liquidity challenges have also contributed to increased debt. Consequently, public debt is unstainable under current policies and without restructuring is expected to continue rising sharply. This reduces fiscal space for development spending and crowds out private sector investment.

The Russia-Ukraine war continues to impact the Malawian economy. Rising global oil prices have contributed to the domestic price of fuel more than doubling since February 2022. Prices of other commodities are also rising, exerting additional pressures on already elevated prices.

Electricity supply has been erratic, owing to underinvestment over recent years and the sustained impacts of Tropical Cyclone Ana, which damaged the Kapichira hydroelectric power plant – a key source of power. High fuel prices and the need for many companies to operate generators is increasing production costs, in turn constraining output.

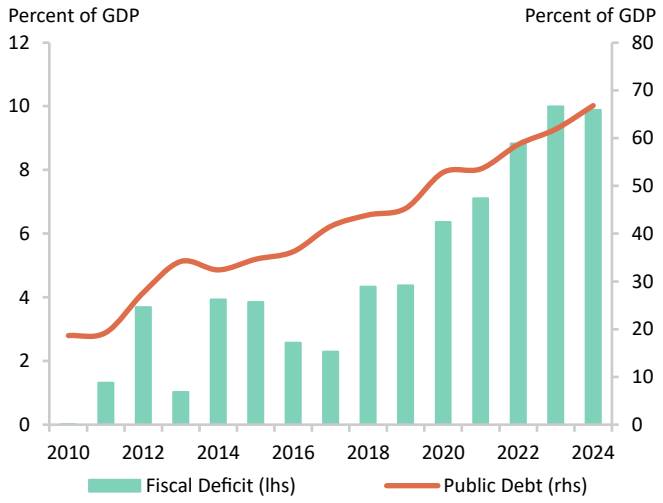
Due to recurrent weather shocks and low GDP per capita growth, the share of the population below the international $2.15 poverty line increased from 68 percent in 2010 to 70 percent in 2019. During the last decade, the national poverty rate, i.e., the share of the population living on $1.20 per day has stalled at approximately 50 percent.

Recent developments

Supported by the strong performance of the agriculture sector, Malawi's economic growth increased to 2.8 percent in 2021, from 0.9 percent in 2020. Economic activity picked up slightly, contributing to a mild recovery in the industry and services sectors. Nevertheless, the lack of GDP per capita growth kept the share of people living with less than $2.15/day at 70.6 percent in 2021.

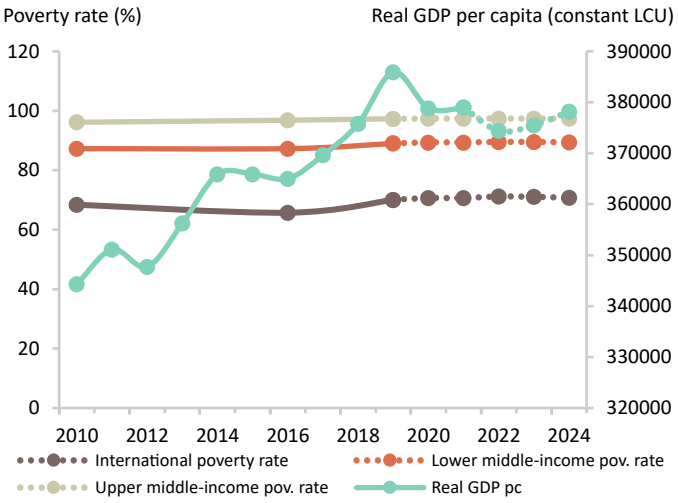
Owing to price increases for imports because of supply side constraints on the global market, the current account deficit worsened to 12 percent of GDP in 2021. Growth in export commodities remained weak, while imports increased in 2021 driven by increased fertilizer imports to support the Affordable Input Program (AIP).

FIGURE 1 **Malawi** / Fiscal deficit and public debt



Sources: Ministry of Finance, Economic Planning and Development, World Bank.

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



Source: World Bank. Notes: see table 2.

Gross reserves declined to 0.3 months import cover by June 2022, despite a boost from the IMF's Special Drawing Rights (SDR) allocation in August 2021.

Poor performance in revenue, largely driven by low disbursement of grants, compounded by fiscal pressures from the pandemic and government expansionary policies, including the implementation of the AIP, contributed to the fiscal deficit widening to 8.8 percent of GDP in FY2022. Expenditure increases were further driven by increases in the wage bill, debt servicing and social benefits. Performance of development spending was weak and continues to be undermined by high recurrent expenditure demands.

Headline inflation picked up to 24.6 percent in July 2022, driven by a constrained domestic food supply following a disappointing agricultural season. Consequently, prices of food commodities are rising, compounded by elevated global prices for grains and cooking oil. Food inflation has reached 32.5 percent, its highest point since March 2013. Rising global commodity prices have further contributed to rising domestic prices, including for fuel and gas. The 25 percent devaluation of the Malawi Kwacha against the US Dollar in May 2022 has exerted additional inflationary pressure.

Outlook

Economic growth is projected to decline to 1.5 percent in 2022 driven by lower than anticipated performance in agriculture and erratic electricity supply. Exposure to natural disasters and shocks could further constrain economic activity.

Gross official reserves are low and performance in the coming season of major export commodities, including tobacco, is projected to be lower than in 2021/22. Reduced import capacity is inducing supply distortions in the domestic market, exerting additional pressure on inflation. In addition, global commodity prices are still projected to be elevated over the medium term.

The FY2023 fiscal deficit is expected to widen to 10.0 percent of GDP without significant reforms. Despite ongoing consolidation efforts, expenditure will likely further rise owing to increased recurrent spending from elevated commodity prices. Public debt, already at high and unsustainable levels is projected to increase further due to high fiscal deficits. Non-concessional external debt incurred to support foreign currency reserves is currently being restructured but remains a concern.

Poor performance of exports, amidst elevated global prices for most key commodities, will result in a further weakened external sector and a high current account deficit. A more liberalized exchange rate regime should help improve the trade balance in the medium term, but limited diversification and declining global demand for tobacco will contribute to a sustained current account deficit.

The lack of sustained economic growth along with the continuous inflationary pressures and recurrent weather shocks will make it more difficult for the country to find a way to reduce poverty. The share of people living with less than $2.15 per day is projected to remain 71 percent in 2022 and 2023. However, more external shocks may result in further increasing poverty rates.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.4	0.8	2.8	1.5	3.0	3.4
Private Consumption	5.4	0.8	2.6	1.5	3.5	3.4
Government Consumption	5.4	0.8	-1.1	-2.9	-2.0	8.2
Gross Fixed Capital Investment	5.4	0.8	0.1	6.2	4.2	1.6
Exports, Goods and Services	5.4	0.8	2.7	1.4	3.1	3.7
Imports, Goods and Services	5.4	0.8	0.4	2.2	3.4	3.8
Real GDP growth, at constant factor prices	6.0	0.8	2.8	1.5	3.0	3.4
Agriculture	5.9	3.4	5.2	-2.3	1.7	3.1
Industry	7.7	1.2	1.9	1.0	3.7	3.8
Services	5.5	-0.5	2.0	3.3	3.3	3.5
Inflation (Consumer Price Index)	9.4	8.6	9.3	22.5	20.5	16.6
Current Account Balance (% of GDP)	-13.8	-11.7	-12.0	-12.9	-13.1	-13.2
Net Foreign Direct Investment Inflow (% of GDP)	0.3	0.6	0.8	0.8	0.9	1.1
Fiscal Balance (% of GDP)	-4.4	-6.4	-7.1	-8.8	-10.0	-9.9
Debt (% of GDP)	45.3	52.8	53.5	58.6	61.9	66.8
Primary Balance (% of GDP)	-1.5	-3.3	-3.3	-3.9	-4.1	-4.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	70.1	70.7	70.7	71.2	71.1	70.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	89.1	89.4	89.4	89.5	89.5	89.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	97.3	97.4	97.4	97.4	97.4	97.4
GHG emissions growth (mtCO2e)	2.3	1.7	1.6	1.5	1.6	1.5
Energy related GHG emissions (% of total)	7.0	7.1	7.1	7.0	6.9	6.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2019-IHS-V. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

MALI

Table 1	2021
Population, million	20.9
GDP, current US$ billion	19.1
GDP per capita, current US$	917.7
International poverty rate ($2.15)[a]	14.8
Lower middle-income poverty rate ($3.65)[a]	47.5
Upper middle-income poverty rate ($6.85)[a]	80.5
Gini index[a]	36.1
School enrollment, primary (% gross)[b]	75.6
Life expectancy at birth, years[b]	59.7
Total GHG emissions (mtCO2e)	46.7

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

Insecurity and political instability limited economic growth to 3.1 percent in 2021, leaving per capita income unchanged. The recovery expected in 2022 has been dampened by regional economic sanctions, which lasted for six months, combined with rising food price inflation, driven by low cereal production and higher global prices. Consequently, the poverty rate will increase slightly in 2022. The medium-term outlook is subject to significant downside risks from the political transition, insecurity, and climate-related shocks.

Key conditions and challenges

Mali's economy remains under-diversified and dominated by agriculture and low-productivity services. Manufacturing absorbs little employment and is concentrated in agro-industries and cotton ginning, reflecting low levels of capital. Exports are dominated by gold and cotton, exposing the economy to commodity-price and climatic shocks. GDP growth per capita stagnated during the last decade limiting progress in poverty reduction while human development indicators show mixed results.

Political instability, weak governance, and the absence of the state in remote areas remain the main bottlenecks for inclusive growth. This is exacerbated by persistent insecurity, which has expanded to central and southern regions, increasingly disrupting agriculture and service delivery. On January 9, 2022, ECOWAS and WAEMU imposed sanctions, including a trade embargo and the freezing of government assets in the region's Central Banks, in response to the authorities' decision to delay elections that were scheduled for February 2022. Sanctions were lifted on July 3, 2022, after the transitional government adopted a timetable leading to elections in 2024.

Recent developments

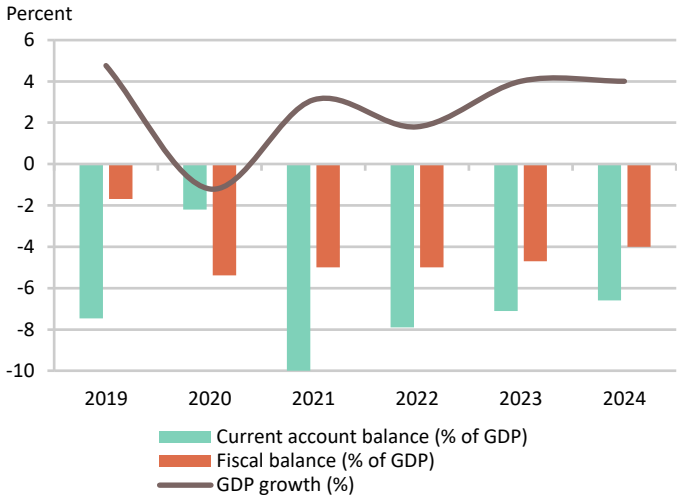
Real GDP grew by 3.1 percent in 2021, 0.1 percent in per capita terms, but economic activity slowed in the first quarter of 2022 due to the sanctions. Construction and manufacturing contracted sharply, while some services showed resilience. GDP growth is expected to remain positive in 2022, at 1.8 percent (but negative 0.9 percent in per capita terms), despite the ECOWAS sanctions and persistent insecurity, reflecting a modest recovery in food production and service sector resilience.

Food inflation picked up in 2021, following a drop in domestic cereal production in 2021, and continued to accelerate in 2022, averaging 12.3 percent y-o-y over the period January-June 2022 (H1) as global prices rose. Inflation in the transport sector increased by 10.9 percent y-o-y, driven by price increases in fuels and lubricants, which reflected the steep rise in global energy prices.

The current account deficit (CAD) widened in 2021, to 10 percent of GDP, and will remain high in 2022 due to elevated oil prices. Merchandise exports (-6 percent y-o-y) and imports (-21 percent y-o-y) declined significantly in H1-2022 due to the ECOWAS trade embargo but are expected to partially recover in the second half of 2022 after the removal of sanctions.

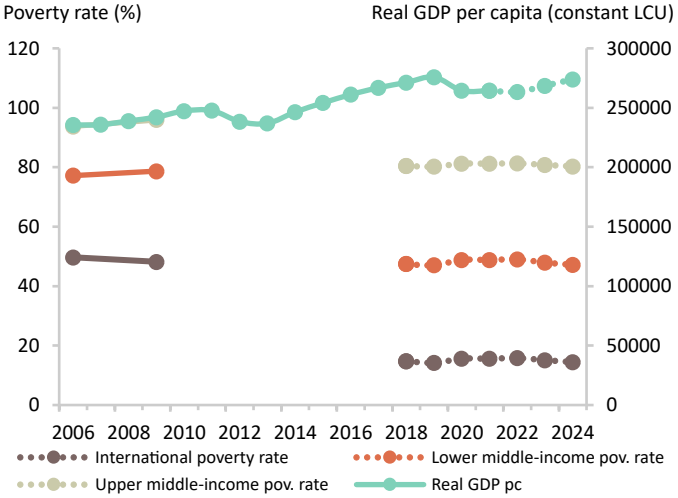
Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO). Its reserves declined to 5.2 months of imports in June 2022, from 5.5 months in 2021, due to higher energy prices and food imports caused by the Ukraine crisis. To counter inflation pressures, the BCEAO raised rates for liquidity calls (2 percent to 2.5 percent) and the marginal lending window (4 percent to 4.5 percent) in June and September 2022.

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



Sources: Malian government and the World Bank.

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



Source: World Bank. Notes: see Table 2.

The fiscal deficit remained elevated, at 5 percent of GDP in 2021, and public debt rose to 52 percent of GDP. Fiscal revenues contracted sharply in H1-2022 (-12.1 percent y-o-y) due to the sanctions. In contrast, wages and security spending increased, despite limited access to the regional debt market. This was possible through a reduction in public investment and exceptional private sector financing. The fiscal deficit is projected to stabilize at 5 percent of GDP in 2022 with both lower tax revenues and total public spending relative to 2021. Financing is expected to be mainly covered by domestic debt on the regional market. Public debt will increase to 55.9 percent of GDP by end 2022.

The extreme poverty rate ($2.15/day 2017 PPP), estimated at 15.6 percent in 2021, is projected to increase slightly, to 15.8 percent in 2022. Rainfall deficits in several localities and insecurity that disrupted field work reduced agricultural output. The subsequent deterioration in incomes is further increasing the exposure of poor households to food insecurity in the center and north. There were an estimated 1.3 million food insecure people in Q4 2021. From January to June 2022, about 1.5 million Malians (77 percent of those targeted) benefited from food assistance. At the same time, population displacement continues, particularly in the border areas with Burkina Faso and Niger. At the end of April 2022, there were over 370 thousand registered displaced persons.

Outlook

Growth is expected to recover gradually, averaging 4 percent over 2023-24, supported by a continued recovery of food production and services, including hospitality. Annual inflation will accelerate in 2022 to 8 percent before normalizing towards the regional target of 2 percent by 2025. The CAD will gradually narrow as trade flows normalize to reach 6.6 percent of GDP by 2024. The fiscal deficit will gradually decline and converge to the ceiling of 3 percent by 2025, while public debt will first increase before stabilizing around 55 percent by 2024.

The extreme poverty rate is expected to decline, by 1.4 percentage point to 14.4 percent over the same period with the number of poor projected to slowly decrease by an average of 50,000 people per year.

The outlook is subject to multiple downside risks. Despite the lifting of sanctions, further delays in the electoral timetable could trigger round(s) of economic sanctions. Other domestic risks relate to intensified insecurity, lower appetite for Mali's treasuries on the regional market, and climatic shocks. The war in Ukraine, and additional monetary tightening in the eurozone represent additional risks through elevated food and energy prices, and debt refinancing costs on the regional market.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.8	-1.2	3.1	1.8	4.0	4.0
Private Consumption	3.8	1.9	3.0	2.0	3.0	3.0
Government Consumption	4.0	4.5	5.8	7.1	4.1	2.1
Gross Fixed Capital Investment	6.3	-1.2	4.8	-10.4	7.4	8.9
Exports, Goods and Services	2.3	0.5	-1.0	2.6	5.0	5.0
Imports, Goods and Services	5.9	-2.9	14.1	-2.5	4.0	4.0
Real GDP growth, at constant factor prices	4.5	-1.1	3.0	1.8	4.0	4.0
Agriculture	4.0	-4.8	1.4	2.0	5.0	5.0
Industry	3.7	-0.1	1.0	3.0	6.0	4.0
Services	5.2	1.4	5.1	1.2	2.4	3.2
Inflation (Consumer Price Index)	-2.9	0.5	4.0	8.0	4.0	2.5
Current Account Balance (% of GDP)	-7.5	-2.2	-10.0	-7.9	-7.1	-6.6
Net Foreign Direct Investment Inflow (% of GDP)	5.0	3.1	5.5	4.4	3.2	3.1
Fiscal Balance (% of GDP)	-1.7	-5.4	-5.0	-5.0	-4.7	-4.0
Debt (% of GDP)	40.7	47.3	51.9	55.9	55.8	55.3
Primary Balance (% of GDP)	-0.7	-4.2	-3.6	-3.5	-2.9	-2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	14.2	15.6	15.6	15.8	15.1	14.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	47.1	48.8	48.8	49.0	47.9	47.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	80.2	81.2	81.2	81.3	80.8	80.3
GHG emissions growth (mtCO2e)	4.4	2.4	3.2	3.5	4.2	4.5
Energy related GHG emissions (% of total)	14.9	14.7	15.6	16.1	16.9	17.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. 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 2018/19 EHCVM. This survey replaced the previous 2009-ELIM survey used to calculate poverty rates in previous years.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

MAURITANIA

Table 1	2021
Population, million	4.8
GDP, current US$ billion	10.0
GDP per capita, current US$	2091.9
International poverty rate ($2.15)[a]	6.5
Lower middle-income poverty rate ($3.65)[a]	26.2
Upper middle-income poverty rate ($6.85)[a]	66.8
Gini index[a]	32.6
School enrollment, primary (% gross)[b]	100.4
Life expectancy at birth, years[b]	65.1
Total GHG emissions (mtCO2e)	14.0

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

After rebounding to 2.4 percent in 2021, growth will remain constrained in 2022, at 4 percent, as inflation, monetary tightening, and a global economic slowdown weigh on domestic and external demand. Poverty is expected to remain stable, amid higher food insecurity and inflation, while external and fiscal balances deteriorate. Growth is projected to pick up in the medium-term as gas production starts.

Key conditions and challenges

Mauritania's wealth of natural resources has elevated it to the ranks of a lower-middle income country. However, most of its population continues to depend on agriculture and livestock for their livelihood, and social indicators continue to be among the lowest in the world. The narrow basis of economic growth has failed to stimulate job creation, while the low labor force participation rate, particularly among women, has limited opportunities for the country to reap the benefits of an emerging demographic dividend.

Macroeconomic stability improved before the Covid-19 pandemic, benefiting from favorable terms of trade and reforms to improve fiscal sustainability. The pandemic delayed the implementation of structural reforms, and the economy remains undiversified and reliant on the extractives sector. The macroeconomic outlook is subject to various risks. The protracted Ukraine crisis is having additional negative spillovers on real, fiscal and external sectors. Sustained high oil and food prices, combined with volatile commodity export prices pose additional risks that could further slowdown economic activity and increase food insecurity. Regional insecurity in the Sahel is another source of risk. Mauritania is also exposed to recurring cycles of droughts that impact agricultural output and household income.

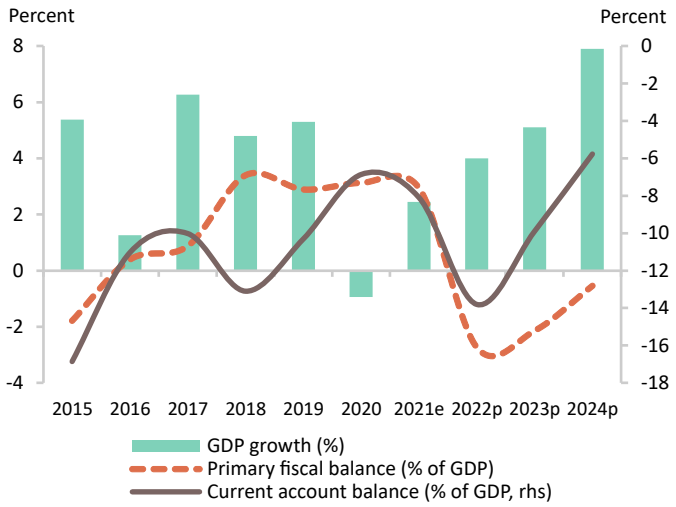
Poverty remains high with significant spatial disparities. The last household survey estimated the national poverty rate at 31.8 percent in 2019 with much lower levels in urban areas and coastal regions (17 percent and 18 percent respectively) than in rural and inland regions (46 percent and 38 percent respectively). With a low human capital index and a high vulnerability rate, respectively estimated at 0.38 and 44 percent, poverty is more likely to be transmitted intergenerationally.

Recent developments

Economic activity continued a positive trajectory in H1-2022. Industrial production grew strongly supported by higher production of extractives. Services activity rebounded, with air and maritime transports nearing their pre-pandemic levels. Inflation continued to increase, driven by high food prices, reaching 10.6 percent in July 2022. Though international food prices have started to fall, the decision in July 2022 to pass through global fuel prices at the pump, by 30 percent, could result in sustained inflationary pressures.

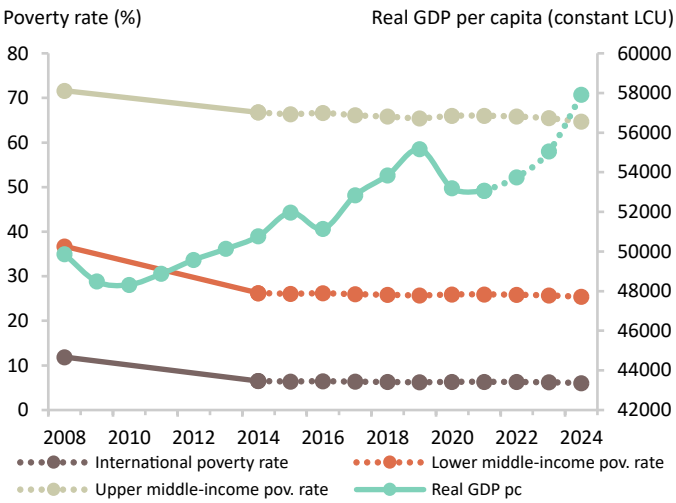
High inflation has affected household living conditions, especially in urban areas, where imports make up a large share of household food consumption. Higher food prices are expected to be mitigated by a slight improvement in economic activity, leading to a stable poverty rate of 25.9 percent in 2021 and 2022 ($US 3.65 per day poverty line (2017 PPP)). Food insecurity will likely continue to

FIGURE 1 Mauritania / Evolution of main macroeconomic indicators



Sources: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

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



Source: World Bank. Notes: See Table 2.

threaten poor households in the remainder of 2022, as the recent increase in fuel prices will further impact staple food prices. The decision of the Central Bank in August 2022 to increase the policy rate from 5 to 7 percent is yet to slow down inflation by limiting credit growth, which increased by 25 percent in H1-2022, exceeding its pre-pandemic level.

The fiscal balance remained in surplus in 2021, (2.2 percent of GDP) thanks to an increase in tax and mining revenues, and underspending on social programs. The fiscal surplus and growth reduced the debt-to-GDP ratio from 55.8 percent of GDP in 2020, to 51.7 percent in 2021. Lower revenue and higher energy subsidies eroded the fiscal surplus in H1-2022 (0.11 percent of GDP, compared to 3.8 percent of GDP in H1-2021).

The current account deficit (CAD) is widening in 2022, after reaching 8.1 percent of GDP in 2021. In H1-2022, the trade balance deteriorated, driven by an increase in food and energy imports, which was slightly offset by higher exports of gold as production increased.

Outlook

The ongoing Ukraine conflict, inflationary pressures, the economic slowdown in Europe and China, and increasing global uncertainty will continue to negatively affect Mauritania's economic outlook. Economic activity is expected to grow by 4 percent in 2022 (1.3 percent in per capita terms). Government spending is expected to compensate for the deceleration of private consumption in 2022 along with a rebound in gold production and services, but monetary policy tightening is required to subdue inflationary pressures. Notwithstanding high uncertainty, growth is projected to be sustained over the medium term, with the opening of new mines, gas production starting in 2024 and the scale up of public investment. Average inflation is expected to reach 8.9 percent in 2022, driven by high food and energy prices, but to gradually fall to 4.5 percent by 2024. Poverty is expected to decline slightly in 2023 and 2024 (to 25.4 percent), in line with economic activity and lower inflation.

The CAD is projected to widen to 13.8 percent of GDP in 2022, due to higher import prices, lower export prices and decelerating demand from the main trading partners (China and Europe). It is expected to improve to 5.8 percent of GDP in 2024, as gas exports offset lower prices for other exports. FDI related to the extractive industry should finance the current account.

Fiscal pressures will increase significantly in 2022, due to higher energy subsidies and transfers to mitigate social effects, as the 2021 surplus is projected to turn into a deficit of 3.8 percent of GDP. As the government gradually phases out energy subsidies, and with the beginning of gas production, the fiscal deficit is projected to narrow to 1.7 percent of GDP in 2024, putting the debt-to-GDP ratio back on a downward trend.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.3	-0.9	2.4	4.0	5.1	7.9
Private Consumption	2.7	2.7	2.7	1.9	2.3	2.7
Government Consumption	1.0	9.2	26.1	16.7	3.5	3.0
Gross Fixed Capital Investment	23.5	4.4	39.2	4.2	4.6	6.4
Exports, Goods and Services	16.7	-8.6	-11.7	3.1	4.6	8.9
Imports, Goods and Services	11.9	2.1	25.1	5.0	2.3	2.5
Real GDP growth, at constant factor prices	6.1	-0.1	0.8	4.0	5.1	7.9
Agriculture	7.4	-2.6	-3.6	-1.0	1.1	1.2
Industry	6.0	2.5	-6.6	4.1	5.8	12.0
Services	5.5	-0.3	6.4	6.0	6.3	8.6
Inflation (Consumer Price Index)	2.3	2.4	3.6	8.9	7.1	4.5
Current Account Balance (% of GDP)	-10.3	-6.9	-8.1	-13.8	-9.9	-5.8
Net Foreign Direct Investment Inflow (% of GDP)	-11.0	-11.0	-10.6	-8.7	-4.8	-3.6
Fiscal Balance (% of GDP)	2.0	2.2	2.2	-3.8	-3.2	-1.7
Debt (% of GDP)	55.7	55.8	51.7	52.0	51.5	50.4
Primary Balance (% of GDP)	2.9	3.1	2.9	-2.7	-2.1	-0.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	6.2	6.3	6.3	6.3	6.2	6.1
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	25.7	25.9	25.9	25.9	25.7	25.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	65.5	66.0	66.0	65.8	65.5	64.7
GHG emissions growth (mtCO2e)	4.0	3.4	2.8	2.9	3.0	3.4
Energy related GHG emissions (% of total)	30.4	31.1	31.3	31.6	32.1	32.7

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/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.
b/ Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.

MAURITIUS

Table 1	2021
Population, million	1.3
GDP, current US$ billion	11.5
GDP per capita, current US$	9096.5
Lower middle-income poverty rate ($3.65)[a]	1.8
Upper middle-income poverty rate ($6.85)[a]	13.5
Gini index[a]	36.8
School enrollment, primary (% gross)[b]	98.4
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	6.5

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

After a muted recovery in 2021, real GDP is projected to grow 5.8 percent in 2022. Headwinds from the war in Ukraine hit Mauritius hard through higher inflation, lower tourism activity, and a deterioration of the current account. With higher fiscal pressures, improving fiscal discipline, including through pension reform, and avoiding the reliance on quasi-fiscal operations, are key policy priorities. COVID-19 reversed recent gains in poverty reduction and female labor force participation.

Key conditions and challenges

Mauritius' development trajectory was becoming more fragile even before the pandemic hit in 2020, causing a contraction of 14.6 percent of GDP. Interrelated structural challenges during the last decade led to persistent fiscal deficits and a growing public debt-to-GDP ratio. Weaknesses stem from stagnating private investment, loss of export competitiveness, skill shortages coexisting with high structural unemployment, rising inequality, and mounting pressure on public finances from high and increasing social security spending driven by an aging population. Mauritius successfully handled the COVID-19 health emergency, and the extensive state support deployed during COVID-19 effectively protected livelihoods. Yet, it came at a high cost for the country's public finances.

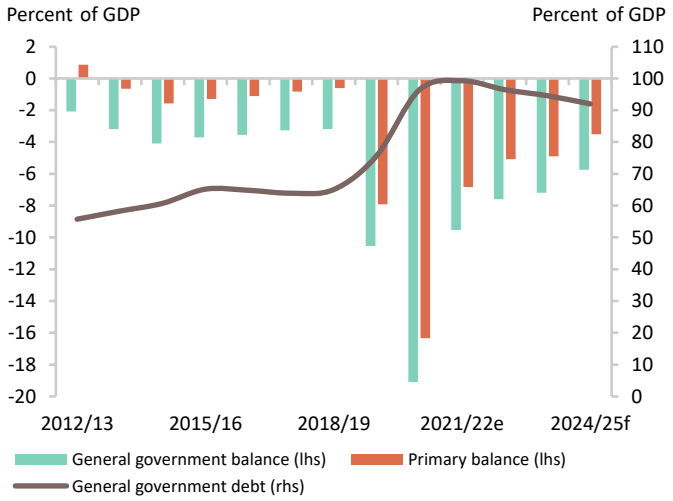
Public debt spiked despite a Rs55 billion (12.3 percent of GDP) non-refundable transfer to the government from the Bank of Mauritius (BoM) in FY2020/21, and a previous Rs18 billion transfer (3.5 percent of GDP) under the FY2019/20 budget. Those transfers blurred the separation of monetary and fiscal policies. The newly created Mauritius Investment Corporation (MIC), owned by the BoM, increased contingent liabilities, and further threatens the efficacy of anti-inflationary policies. Headwinds from the war in Ukraine caused renewed inflationary pressures, current account deterioration, faster rupee depreciation, and slower growth. While recent one-off quasi-fiscal operations have helped reduce the level of public debt, the soundness of the fiscal policy framework has been eroded by the reliance on unconventional measures. Policy priorities thus include sustained fiscal consolidation and better alignment between monetary and fiscal policies.

Promoting greater labor market opportunities is a priority to achieve inclusive growth, especially jobs for the youth and women with low educational attainments. Over 50,000 youth aged 16 to 29 are neither studying nor working, of which about 1 out of 3 has obtained at most a certificate of primary education. Only 1 in 2 women participates in the labor market (1 in 3 women among those with low educational attainment). The impact of COVID-19 has reversed recent gains in women's labor force participation, as women were significantly more likely to be laid off during the pandemic.

Recent developments

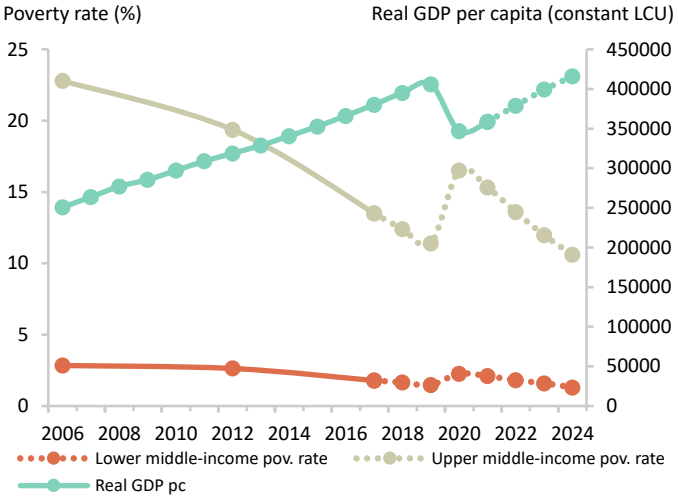
GDP rebounded by 3.6 percent in 2021, aided by widespread COVID-19 vaccination covering 90 percent of the eligible population by end-June 2022. Most sectors are back to pre-pandemic levels, but a 35 percent output gap remains in tourism, further hit by headwinds from the war in Ukraine. Since the reopening of borders in October 2021, tourism arrivals have improved substantially, reaching 557,245 over January-August 2022, up from 6,966 during the same period the previous year.

FIGURE 1 Mauritius / General government balance and debt



Sources: Statistics Mauritius, World Bank staff estimates.

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



Sources: World Bank. Notes: see Table 2.

Annual headline inflation rose to 4 percent in 2021 from 2.5 percent in 2020, driven by higher freight, energy, and food prices. Inflationary pressures increased following the Ukraine war, with annual inflation reaching 8.8 percent in August 2022, the highest in over a decade. To tame inflation, the BoM raised the Key Repo Rate 15 bps to 2 percent on March 9, its first hike since June 2011, and 25 basis points to 2.25 percent on June 3.

The fiscal deficit fell to 9.2 percent of GDP in FY21/22, on the back of GDP recovery and the progressive unwinding of COVID-19 support measures. Proceeds from the sale of shares of Airport Holdings Ltd to MIC in December 2021 for Rs13 billion (2.7 percent of GDP) helped reduce public debt, which stood at 95.9 percent as a share of GDP.

In 2021, Moody's downgraded Mauritius' credit rating from its longstanding Baa1 level to Baa2. In July 2022, Moody's once again downgraded Mauritius' to Baa3, albeit with an upgrade on the outlook from negative to stable. The latest downgrade was based on Moody's assessment that the government's reliance on unconventional and one-off measures to respond to the adverse economic and fiscal effects of the COVID-19 pandemic, has eroded the quality and effectiveness of institutions and policy-making. This, in turn, hampers Mauritius's resiliency and capacity to absorb future shocks.

Poverty (Upper-MIC threshold of $6.85 a day 2017 PPP) fell from 19 to 11 percent between 2012 and 2019. However, given the dramatic contraction of GDP in 2020, poverty is projected to have increased by over 5 percentage points, and fall below 14 percent in 2022.

Outlook

GDP is expected to grow by 5.8 percent in 2022 and 5.5 in 2023, supported by the continued recovery of tourism, and decelerate to its long-term trend over the medium-term. The current account deficit is expected to remain stable at 13.2 percent of GDP in 2022, with higher import costs delaying its recovery, which will happen gradually over the medium term, assuming sustained tourism recovery and strengthened export competitiveness. The fiscal deficit should moderate to 7.4 percent of GDP in FY2022/23 as the economic recovery accelerates and more COVID-19 support measures are lifted. As a result, public debt to GDP would gradually decrease over the medium term, assuming continued recovery and gradual fiscal consolidation.

Significant downside risks remain. Further COVID-19 waves, high fuel prices and low global growth may continue to weigh down tourism, while heightened geopolitical tensions and supply chain disruptions may continue fueling global inflation. As interest rates in leading economies rise, the rupee may depreciate further, fueling inflation. Strengthening the institutional framework and creating fiscal space through pension reform and other measures supporting fiscal discipline will be key to maintaining debt sustainability, thereby strengthening the macroeconomic foundations for inclusive growth.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices[a]	2.8	-14.6	3.6	5.8	5.5	4.2
Private Consumption	3.2	-15.3	3.0	2.6	2.3	2.0
Government Consumption	1.9	-1.0	-3.0	3.2	2.1	1.6
Gross Fixed Capital Investment	4.9	-25.8	13.9	1.1	1.4	0.8
Exports, Goods and Services	-4.0	-27.7	11.5	22.8	20.8	17.3
Imports, Goods and Services	2.4	-29.2	7.9	12.5	13.0	12.4
Real GDP growth, at constant factor prices	2.9	-14.4	3.6	5.8	5.5	4.2
Agriculture	4.2	-1.9	7.2	2.9	3.0	1.7
Industry	2.3	-19.2	10.2	2.7	3.1	2.1
Services	3.1	-13.6	1.8	6.7	6.2	4.8
Inflation (Consumer Price Index)	0.5	2.5	4.0	10.2	6.1	5.6
Current Account Balance (% of GDP)	-5.0	-9.3	-13.2	-13.2	-9.3	-7.8
Net Foreign Direct Investment Inflow (% of GDP)	24.6	-111.7	31.2	31.0	31.9	32.3
Fiscal Balance (% of GDP)[b]	-10.5	-19.1	-9.2	-7.4	-7.0	-5.6
Debt (% of GDP)[b]	75.6	96.4	95.9	93.5	91.8	89.4
Primary Balance (% of GDP)[b]	-7.9	-16.3	-6.6	-4.9	-4.8	-3.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	1.5	2.3	2.1	1.8	1.6	1.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	11.4	16.5	15.3	13.6	12.0	10.6
GHG emissions growth (mtCO2e)	1.6	-12.0	7.4	5.4	5.7	3.6
Energy related GHG emissions (% of total)	62.0	63.0	62.0	62.9	63.5	63.7

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/ Historical demand-side data is being revised due to a consistency problem.
b/ Fiscal balances are reported in fiscal years (July 1st - June30th).
c/ Calculations based on 2017-HBS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
d/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

MOZAMBIQUE

Table 1	2021
Population, million	32.2
GDP, current US$ billion	15.8
GDP per capita, current US$	490.7
International poverty rate ($2.15)[a]	64.6
Lower middle-income poverty rate ($3.65)[a]	83.1
Gini index[a]	54.0
School enrollment, primary (% gross)[b]	118.4
Life expectancy at birth, years[b]	61.4
Total GHG emissions (mtCO2e)	108.7

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

Following a contraction in 2020, the economy saw moderate growth of 2.3 percent in 2021, reflecting a rebound in aggregate demand. Growth is projected to average 5.6 percent during 2022-2024, driven by the start of LNG exports and high commodity prices. Poverty is projected to decline from 64.2 to 61.7 percent through 2022-2024. However, the Ukraine war has exacerbated inflation, triggering social unrest and fiscal pressures given spending on targeted subsidies to mitigate the rising cost of living.

Key conditions and challenges

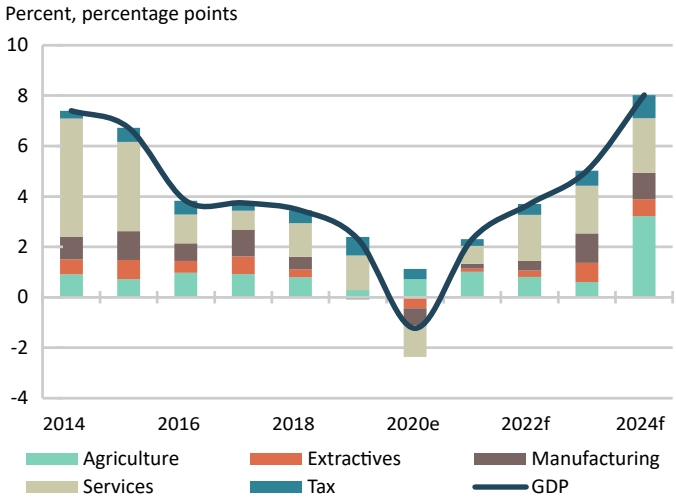
Mozambique has seen slow growth, limited structural transformation and widespread poverty. Growth plunged from 8 percent in 1993–2015 to 3 percent in 2016–2019, owing to multiple shocks, including the hidden debt crisis, insurgency, and tropical cyclones. The pandemic exacerbated the slowdown. Poverty reduction and job creation have been slow given the economy's dual focus on low-productivity subsistence agriculture and capital-intensive megaprojects with limited economic linkages. Low investments in human capital and infrastructure continue to inhibit productivity and inclusive growth. About 64.2 percent of the population remains poor in 2022, nearly half of which live in the northern provinces. Inequality is high, aggravating fragility and conflict. The private sector's potential for job creation and economic transformation is hampered by a challenging business environment, weak governance, and high credit cost. Nonetheless, the country's economic prospects are positive, reflecting the start of LNG exports and high commodity prices. However, the Ukraine war exacerbates downside risks, including weak global growth, potential social protests, and additional spending pressures to mitigate the increased cost of living.

Mozambique needs to accelerate its economic recovery and make growth more inclusive. Policy priorities include accelerating structural reforms to ensure macroeconomic stability, improve governance, boost competitiveness to attract private investment and strengthen resilience to shocks. Making growth more inclusive requires promoting human capital, agricultural productivity, and inter-sectoral linkages. However, Mozambique faces considerable fiscal constraints, namely large wage bill and debt service costs, and limited access to global financial markets. Further, fiscal revenues will only become significant after 2030 when LNG projects complete cost recovery. Therefore, in the short- to medium-term, Mozambique needs to generate fiscal space and reduce the public debt burden by improving spending efficiency and domestic revenue mobilization, minimizing SOEs fiscal risks and reducing commercial debt issuance.

Recent developments

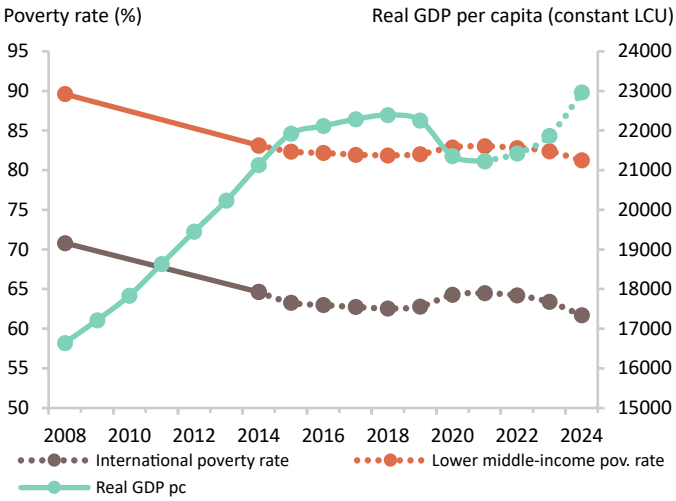
The economy is recovering from a prolonged slowdown, with real GDP growth at 2.3 percent in 2021. Growth reached 4.4 percent in June 2022 (year-on-year)—a four-year high—driven by strong agricultural growth, underpinned by investments in productivity and recovery across all other sectors. High commodity demand and prices and increased coal production boosted extractives. The resumption of mobility supported consumption, fostering services and manufacturing growth in the first half of 2022 (year-on-year). Information from the Purchasing Managers' Index (PMI)

FIGURE 1 **Mozambique** / Real GDP growth and sectoral contributions to real GDP growth



Source: World Bank. Notes: see Table 2.

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



Source: World Bank. Notes: see Table 2

shows that employment levels among Mozambican companies have steadily increased in the first half of 2022.

Despite the monetary tightening (policy rate increased from 10.3 to 15.3 percent between 2021 and 2022), inflation reached a 4-year high at 11.8 percent in July (year-on-year), driven by higher food, fuel, and transportation costs. The contractionary monetary stance hampers credit growth, limiting output and job creation, with negative implications for the poor.

Despite persistent spending pressures, the overall fiscal deficit declined from 5.4 to 5.0 percent of GDP between 2020 and 2021, reflecting a positive revenue performance, contained capital expenditure and debt service —the latter partly due to the debt service deferral initiative. Currency appreciation supported a drop in total public debt from 120 to 106.4 percent of GDP between 2020 and 2021. Mozambique is at high risk of debt distress, with debt assessed to be sustainable in a forward-looking sense. Fiscal performance deteriorated in the first half of 2022 due to lower grants disbursement. The overall fiscal deficit increased by 33 percent to US$180million, leading to increased domestic financing.

The import of the Coral LNG offshore platform in the first quarter of 2022, and costly imports, increased trade and current account deficits (CAD). The platform is fully financed by project financing. The CAD reached US$ 5.4bn (30 percent of GDP) in the first quarter, compared to US$ 927 million (7 percent of GDP) during the same period in 2021. Excluding the one-off LNG-related import, the CAD declined to US$907 million due to a hike in coal and aluminum exports. Owing to higher fuel imports, international reserves fell from US$3.3bn to US$3 billion, between December 2021 and June 2022.

Outlook

Growth is projected at 3.7 percent in 2022 and is expected to accelerate in the medium term, reaching 8 percent in 2024, reflecting agricultural growth, favorable commodity prices, start of LNG exports, and Totalenergies-led LNG project resumption from 2023. Continued demand recovery will support services and manufacturing growth. Inflation will likely hit double digits in 2022 before stabilizing around 8 percent between 2023 and 2024, as international fuel prices ease. However, domestic prices, particularly of food, will remain high, affecting the purchasing power of the poor, who on average, spend a larger share of their budget on food. The poverty rate is expected to remain high, averaging 63.1 percent in 2022-2024.

Fiscal pressures will remain significant, but the overall fiscal deficit is projected to decline, averaging 3.8 percent of GDP in 2022-2024 (below 5.0 percent in 2021). Stable revenue (at 25 percent of GDP), increased grants, and a relatively lower wage bill—due to the ongoing reform—will offset the debt service, security and humanitarian spending pressures, and spending on targeted subsidies to protect vulnerable households from inflation. The resumption of budget support will minimize financing needs.

The CAD will accelerate, averaging 42.1 percent of GDP in 2022-2024, reflecting LNG developments and high fuel and food import prices. Imports pressures will be partially offset by higher export volumes, driven by high demand and gas, aluminum, and coal prices. The CAD financing is expected from FDI, and debt (including IMF support). International reserves are projected to remain comfortable at $3.3bn over the medium-term, about 4 months of non-megaproject imports.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	2.3	-1.2	2.3	3.7	5.0	8.0
Private Consumption	3.1	-2.1	18.2	11.0	1.5	10.4
Government Consumption	3.6	-19.3	-5.8	11.7	-14.6	-4.3
Gross Fixed Capital Investment	-0.6	60.1	36.1	-16.8	11.0	-1.8
Exports, Goods and Services	-9.5	-15.0	24.1	9.6	15.1	6.4
Imports, Goods and Services	-1.5	-0.4	40.7	2.1	3.5	2.5
Real GDP growth, at constant factor prices	1.8	-1.9	2.3	3.7	5.0	8.0
Agriculture	1.3	3.1	4.2	3.3	2.5	7.9
Industry	-0.4	-5.8	1.7	3.5	10.7	13.5
Services	2.9	-2.7	1.6	4.0	4.1	5.7
Inflation (Consumer Price Index)	2.8	3.1	5.7	11.3	8.6	8.2
Current Account Balance (% of GDP)	-19.6	-25.7	-23.2	-46.6	-39.7	-40.0
Net Foreign Direct Investment Inflow (% of GDP)	14.4	16.7	32.4	21.7	20.0	17.8
Fiscal Balance (% of GDP)[a]	-0.5	-5.4	-5.0	-3.9	-4.2	-3.4
Debt (% of GDP)	107.5	120.0	106.4	102.6	101.4	100.0
Primary Balance (% of GDP)[a]	2.7	-2.2	-2.3	-0.4	-1.1	-0.1
International poverty rate ($2.15 in 2017 PPP)[b,c]	62.8	64.3	64.5	64.2	63.4	61.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	82.0	82.9	83.0	82.8	82.4	81.3
GHG emissions growth (mtCO2e)	-4.0	0.7	1.1	-0.3	0.6	2.6
Energy related GHG emissions (% of total)	7.9	8.3	8.8	8.0	7.8	9.0

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/ Figure includes once-off capital gains revenues in 2017, estimated at 2.7 percent of GDP.
b/ Calculations based on 2014-IOF. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2014) with pass-through = 0.87 based on GDP per capita in constant LCU.

NAMIBIA

Table 1	2021
Population, million	2.6
GDP, current US$ billion	12.3
GDP per capita, current US$	4761.8
International poverty rate ($2.15)[a]	15.6
Lower middle-income poverty rate ($3.65)[a]	33.3
Upper middle-income poverty rate ($6.85)[a]	57.3
Gini index[a]	59.1
School enrollment, primary (% gross)[b]	124.2
Life expectancy at birth, years[b]	64.0
Total GHG emissions (mtCO2e)	20.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2020).

Namibia's economy continues to recover given favorable prospects for the mining sector and waning effects of the pandemic. Spillovers from the war in Ukraine have raised socio-economic challenges, with higher import costs resulting in elevated inflation. As the economy recovers, protecting fiscal sustainability remains crucial given weaker SACU inflows. With a slow economic recovery, the projected upper middle-income poverty rate remains high at 62.4 percent.

Key conditions and challenges

Leading up to 2015, Namibia's economy experienced strong growth, averaging nearly 5 percent annually, fueled by investment and enabled by prudent economic management. Growth stagnated from 2016 onwards and three of the last five years have been marked by recession, with a sharp contraction in 2020 amid the COVID-19 crisis. Before the pandemic, the growth slowdown was on the back of severe drought, lower commodity prices, reduced public investment, weaker growth in neighboring countries and persisting structural rigidities. Public investment has historically been an important driver of growth, but elevated debt levels constrain fiscal space. Therefore, future growth will rely on leveraging greater investment and participation from the private sector. This shift in growth model is particularly critical to achieve socio-economic progress as envisioned in the Harambee Prosperity Plan II (2021-2025).

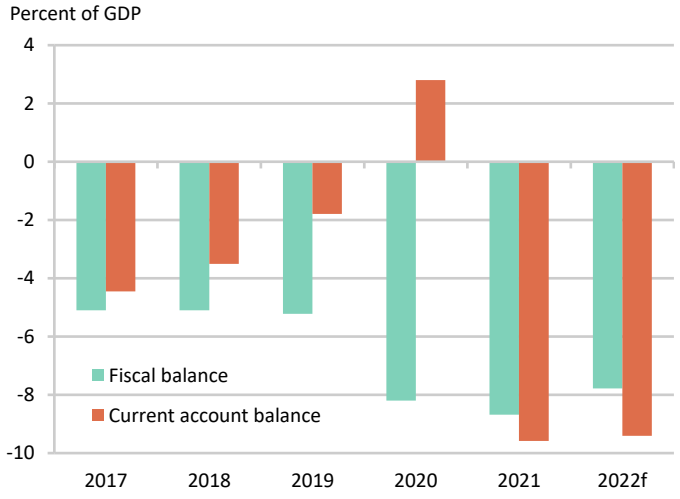
Global and regional developments will remain important drivers of Namibia's economic performance as well as fiscal and external positions, as the country is highly reliant on commodity exports and Southern African Customs Union (SACU) transfers. The twin shocks of the pandemic and spillovers from Russia's war in Ukraine have negatively affected socio-economic progress and raised food insecurity risks. Output remains below pre-pandemic levels and consumer inflation has reached multi-year highs in 2022, hitting hard on the most vulnerable.

Unemployment has remained elevated in the subdued economic recovery, amplified by skills mismatches. This exacerbates Namibia's high level of inequality (Gini index at 59.1 in 2015) and means poverty is relatively high for the country's level of development. Risks related to climate, the state of the pandemic and the protracted effects of the war in Ukraine are important in the domestic outlook.

Recent developments

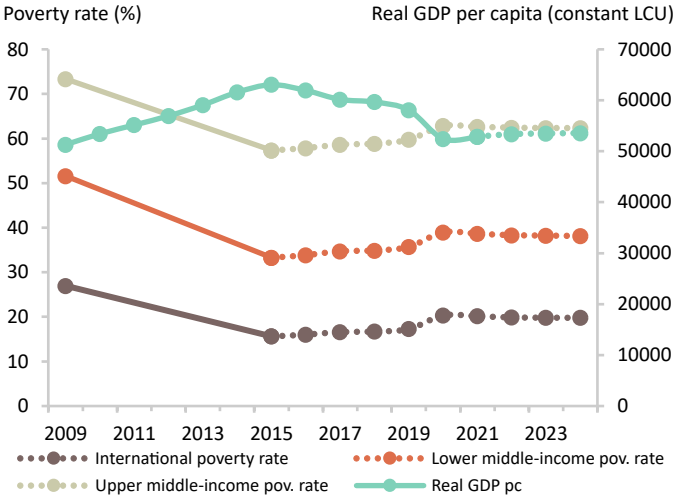
Namibia's economic recovery continued in the first half of 2022 but has been uneven, with several sectors lagging. Real GDP growth increased to 5.3 percent YoY in Q1, supported by stronger activity in the mining, manufacturing and financial services sectors. Momentum in the mining sector was sustained into the second quarter as diamond production was further boosted by Debmarine's new diamond recovery vessel, the Benguela Gem, which was inaugurated in March. Diamond production was 50 percent higher in H1-2022. Beyond the positive developments in the mining sector, the effects of the pandemic on economic activity have significantly waned. All remaining COVID-19-related restrictions were removed in July 2022. However, with a slow economic recovery of only 0.8 percent in per capita terms in 2021, the upper middle-income poverty rate is estimated to remain high at about 63 percent

FIGURE 1 **Namibia** / Fiscal and external balances



Sources: Central Bank, World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

while employment is estimated to remain below pre-pandemic levels.

External vulnerabilities have elevated. The current account (CA) deficit soared to 15.8 percent of GDP in Q1-2022, which is similar to the deficit registered in Q3-2021 and larger than the deficit of 8.1 percent of GDP in Q4-2021. The widening in the deficit over the quarter was driven by weaker exports, higher mineral fuel imports and lower receipts from the SACU pool. The war-induced acceleration in import prices kept the CA balance under pressure in Q2.

Given pressures on global oil and food prices, annual inflation increased to 7.3 percent in August, the highest rate in over five years. The Bank of Namibia has responded by hiking its policy rate by a cumulative 175 basis points since February. Authorities have implemented efforts to support fiscal consolidation, including containing expansion of the wage bill and divestiture from SOEs, but lower SACU receipts remain a challenge. The budget deficit is estimated to have remained wide at 8.7 percent of GDP in 2021.

Outlook

GDP growth is projected at 2.8 percent in 2022 and is expected to average around 2 percent in the outer years. The economic performance in 2022 will be largely supported by the exceptional increase in diamond production and the waning effects of the pandemic. Diamond output is expected to be at least a third higher in 2022, boosted by the new recovery vessel. In addition, the improved pandemic situation is expected to support the ongoing recovery of sectors which were hardest hit by the pandemic, including tourism. Consumer spending growth was robust in Q1 but will likely be impacted by increased price pressures and resultant cautious spending. Amid higher inflation, monetary policy tightening is expected to continue, driven by the exchange rate peg with the Rand. Risks to the growth outlook are significant, mainly related to the effects of the Ukraine war, the pandemic situation, and a faster deceleration in global growth.

Namibia's twin deficits are expected to remain high in 2022, given the elevated cost of imports and subdued SACU receipts. The current account deficit is projected to remain over 9 percent of GDP, somewhat mitigated by a better export performance. In the fiscal accounts, lower SACU receipts are expected to be partly offset by the revenue boost from new diamond production. The fiscal deficit is projected to be above target at 7.8 percent of GDP in 2022, partly as higher interest costs slow the pace of consolidation, and public debt (including guarantees) is projected to rise close to 80 percent of GDP. Amid revenue constraints, maintaining fiscal discipline while preserving social spending remains important to stabilize the debt trajectory, reduce fiscal risks and prevent a further worsening in poverty. Weak per capita GDP growth, elevated unemployment, and slow job creation pose challenges to the extent of poverty reduction that can be achieved. The upper-middle-income poverty rate is expected to remain near 62 percent in the medium run.

TABLE 2 Namibia / 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	-8.0	2.7	2.8	2.0	1.9
Private Consumption	-0.1	-11.3	12.6	3.9	2.8	3.0
Government Consumption	1.5	0.4	1.7	-0.8	-0.3	0.7
Gross Fixed Capital Investment	-9.5	-19.2	4.0	5.1	4.4	4.9
Exports, Goods and Services	-8.7	-17.3	-2.3	9.8	6.2	3.3
Imports, Goods and Services	-4.0	-18.0	15.6	7.1	4.9	4.0
Real GDP growth, at constant factor prices	-0.2	-6.6	1.8	2.8	2.0	1.9
Agriculture	-3.1	6.3	2.0	1.5	2.0	2.0
Industry	-2.1	-12.9	1.4	5.7	2.4	2.1
Services	1.0	-5.3	1.9	1.7	1.8	1.8
Inflation (Consumer Price Index)	3.7	2.2	3.6	6.2	5.1	4.5
Current Account Balance (% of GDP)	-1.8	2.8	-9.6	-9.4	-6.6	-5.2
Net Foreign Direct Investment Inflow (% of GDP)	-1.5	-2.0	4.3	1.7	1.7	1.9
Fiscal Balance (% of GDP)	-5.2	-8.2	-8.7	-7.8	-6.6	-5.8
Debt (% of GDP)[a]	62.4	70.0	73.5	78.9	80.4	81.8
Primary Balance (% of GDP)	-1.4	-3.7	-4.2	-2.6	-1.4	-0.8
International poverty rate ($2.15 in 2017 PPP)[b,c]	17.3	20.3	20.2	19.9	19.8	19.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	35.7	38.9	38.6	38.3	38.2	38.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	59.7	62.8	62.6	62.4	62.4	62.3
GHG emissions growth (mtCO2e)	-4.3	-1.5	-0.6	0.5	2.5	3.0
Energy related GHG emissions (% of total)	18.5	18.0	18.2	18.3	18.5	18.5

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/ Refers to Public and Publicly Guaranteed debt
b/ Calculations based on 2015-NHIES. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

NIGER

Table 1	2021
Population, million	25.1
GDP, current US$ billion	14.9
GDP per capita, current US$	593.5
International poverty rate ($2.15)[a]	50.6
Lower middle-income poverty rate ($3.65)[a]	81.1
Upper middle-income poverty rate ($6.85)[a]	95.0
Gini index[a]	37.3
School enrollment, primary (% gross)[b]	66.4
Life expectancy at birth, years[b]	62.8
Total GHG emissions (mtCO2e)	47.5

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

Due to climate-related shocks and worsening insecurity, real GDP growth decelerated to 1.4 percent in 2021 (2.3 percent contraction in GDP per capita) and the extreme poverty rate reached 51.1 percent. The economy is expected to grow by 5 percent in 2022 as agricultural production normalizes, and to accelerate as large oil revenues come onstream in 2024. Growth and the rate of poverty reduction are subject to significant downside risks and strengthening of targeted programs.

Key conditions and challenges

Niger's economy is highly dependent on agriculture and remains vulnerable to external shocks, especially climate-related shocks. This is reflected in a robust but volatile growth trajectory that ranged between 2.4 percent and 10.5 percent from 2011 to 2019. As growth has been associated with limited improvements in productivity and with high population growth (averaging 3.9 percent over 2010-19) per capita GDP remains at US$593.5 in 2021, towards the bottom of the world's income distribution. Over 50 percent of the population lives in extreme poverty, aggravated by gender disparities.

After the 2020 COVID-19 pandemic and global economic downturn, the country has continued to be shaken by natural disasters, a worsening security situation, and indirectly by the war in Ukraine. Deteriorating regional security has been affecting important agricultural areas, and addressing insecurity is key to improving economic performance, public finances, service delivery and access to markets.

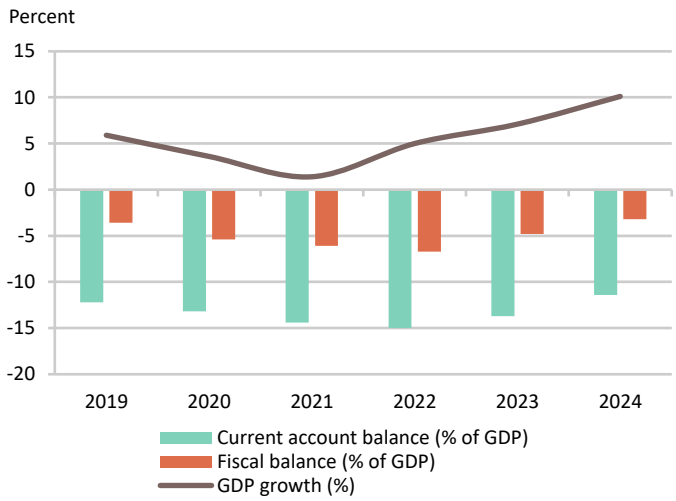
Comprehensive institutional and economic reforms, to increase overall productivity especially in agriculture, are needed to support a more resilient and inclusive development trajectory. Reforms should strengthen economic governance, including ensuring that the rents from the petroleum sector are invested to support inclusive growth, promoting financial inclusion, adopting digital technologies, and broadening access to education and training to support job creation. Accelerating crisis preparedness through climate adaptation investments, along with strengthening the disaster risk management framework and social safety nets, are also key to increase resilience to climate change as 75 percent of the workforce is still in subsistence agriculture.

Recent developments

As a result of poor rainfall and an increase in security incidents in rural areas, agricultural production declined in 2021 (-5 percent) leading to 1.4 percent GDP growth (-2.3 percent in per capita terms). Private consumption's contribution to growth declined from 3.1 percentage points (pp) in 2020 to -1.2 pp in 2021, while gross fixed investments contribution turned positive in 2021 to 2.8 pp. The share of Nigeriens living below the international poverty line (US$2.15/day per capita, 2017 PPP), is expected to have increased by 1.2 percentage points to 51.1 percent in 2021, an increase of 0.8 million in the number of extreme poor, reaching 12.8 million people.

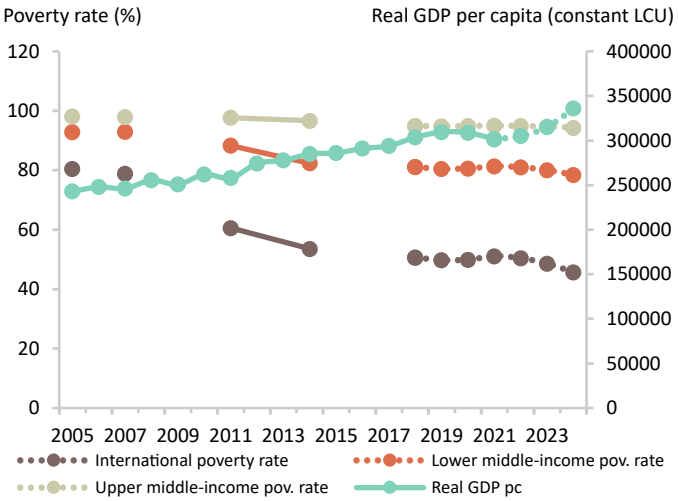
Growth is projected to recover to 5 percent of GDP (1.2 percent in per capita terms) in 2022, as agriculture production normalizes following an average rainy season. On the demand side, public and private investment will benefit from large-scale infrastructure projects, while higher food prices may weigh on private consumption. The current account deficit is projected to

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



Sources: INSN and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

further widen to 14.9 percent of GDP, amid extractive projects-related imports and higher food imports.

Inflation reached 5.2 percent in the first half of the 2022. Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO). Its reserves declined to 5.2 months of imports in June 2022, from 5.5 months in 2021, due to higher energy prices and food imports caused by the Ukraine crisis. To counter inflation pressures, the BCEAO raised rates for liquidity calls (2 percent to 2.5 percent) and the marginal lending window (4 percent to 4.5 percent) in June and September 2022.

The fiscal deficit will increase to 6.7 percent of GDP in 2022, above the budgeted level of 5.4 percent of GDP, to accommodate additional spending to address food scarcity, implement an emergency plan to support agriculture and livestock, and to start construction of new schools. As a result of the widening fiscal deficit and the CFAF depreciation vis-à-vis the US dollar, public and publicly-guaranteed debt will increase to 54.8 percent of GDP by the end of 2022 - an increase of 15 percentage points since 2019.

The extreme poverty rate is expected to decline to 50.4 percent in 2022 as growth, particularly in agriculture, recovers. However, export bans on some staple foods from neighboring countries, agricultural production deficits recorded in several areas (Tahoua and Tilaberi) and ongoing insecurity is negatively impacting the supply of cereals, putting 4.4 million people (18 percent of the population) at risk of food insecurity in 2022.

Outlook

Growth is expected to gain traction in 2023 (7.1 percent, equivalent to 3.2 percent in per capita terms) and surpass 10 percent in 2024 on the back of the start of large-scale oil production and exports. Inflation will moderate to 4 percent and 3 respectively in 2023 and 2024 as food prices normalize. An ambitious fiscal adjustment supported by an IMF program aims to bring the fiscal deficit down to around 3 percent in 2024 through a series of measures to improve the structurally low level of domestic revenues. This would put the debt-to-GDP ratio onto a declining path.

The poverty headcount rate is projected to decline in line with higher non-oil growth and lower inflation in 2023 and 2024. However, despite projected GDP growth being above Niger's population growth rate of 3.8 percent, the absolute number of poor will remain roughly constant between 2021 and 2024 and progress will depend on progress with the aforementioned reforms.

This outlook is subject to a high degree of uncertainty and multiple downside risks including intensified climate change-related shocks, security risks, tighter global financial conditions, food security challenges, delays in oil production expansion and social discontent from high inflation. The war in Ukraine, and additional monetary tightening in the eurozone represent additional risks through elevated food and energy prices, and debt refinancing costs on the regional market.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.9	3.6	1.4	5.0	7.1	10.1
Private Consumption	4.3	7.7	-0.2	3.0	5.3	5.8
Government Consumption	7.0	5.0	9.8	2.1	10.0	12.5
Gross Fixed Capital Investment	12.5	-3.4	7.7	9.5	4.5	2.5
Exports, Goods and Services	1.1	-6.3	6.7	2.0	29.1	40.8
Imports, Goods and Services	6.2	2.7	6.9	5.0	9.8	7.0
Real GDP growth, at constant factor prices	6.1	4.2	1.0	5.1	7.1	10.1
Agriculture	3.4	7.7	-5.1	5.0	6.5	7.0
Industry	9.0	1.9	4.1	6.4	12.0	26.0
Services	7.0	2.1	5.4	4.4	4.8	3.0
Inflation (Consumer Price Index)	-2.5	2.8	2.9	5.3	4.0	3.0
Current Account Balance (% of GDP)	-12.2	-13.2	-14.4	-15.0	-13.7	-11.4
Net Foreign Direct Investment Inflow (% of GDP)	5.3	2.5	3.3	4.3	4.3	4.3
Fiscal Balance (% of GDP)	-3.6	-5.4	-6.1	-6.7	-4.8	-3.2
Debt (% of GDP)	39.8	45.0	51.3	54.8	54.9	52.7
Primary Balance (% of GDP)	-2.6	-4.4	-5.0	-5.6	-3.4	-1.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	49.8	49.9	51.1	50.4	48.6	45.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	80.5	80.6	81.3	81.1	80.0	78.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	94.8	94.9	95.0	94.9	94.7	94.3
GHG emissions growth (mtCO2e)	4.5	4.0	3.9	3.6	4.2	4.4
Energy related GHG emissions (% of total)	6.8	6.8	6.8	6.5	6.6	6.9

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

NIGERIA

Table 1	2021
Population, million	211.4
GDP, current US$ billion	429.1
GDP per capita, current US$	2029.9
Poverty rate (national poverty line, %)[a]	41.6
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	87.5
Life expectancy at birth, years[b]	55.0
Total GHG Emissions (mtCO2e)	363.7

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

While economic growth in Nigeria has rebounded, macroeconomic stability has weakened. Amidst global commodity shocks, a depreciating currency, and monetization of the deficit, inflation is surging and pushing millions of Nigerians into poverty. Meanwhile, a costly petrol subsidy, low oil production and non-oil revenues, and increasing interest rates are causing fiscal challenges. Risks are tilted to the downside stemming from the lack of macro-fiscal reforms, an uncertain external outlook, deteriorating security, and the upcoming 2023 elections.

Key conditions and challenges

Following a contraction of 1.8 percent in 2020 because of the COVID-19 pandemic, GDP growth rebounded to 3.6 percent in 2021 driven by base effects in most non-oil sectors. However, macroeconomic stability has weakened due to a depreciating currency, increasing inflation, higher fiscal pressures, and declining forex reserves.

High inflation has been chronic in Nigeria for the last two decades, but since 2019 inflation has accelerated driven by the multiple exchange rates, trade restrictions, and monetization of the public deficit. These policies have pushed inflation from 11.8 percent in 2018-2019 to 17 percent in 2021, almost double the inflation target of 9 percent set by the Central Bank of Nigeria (CBN). Nigeria's fiscal position has been deteriorating since 2015 due to low and declining oil and non-oil revenues and rising expenditures, resulting in persistently high fiscal deficits.

To put the economy on a sustainable and inclusive growth path, it will be critical to stabilize the macroeconomy by reducing inflation, increasing revenues, and adopting a single market-driven exchange rate regime. It would be also important to reopen land borders for trade, remove import and FX restrictions on staple foods and medicines, and reduce subsidized CBN lending to medium and large firms. Such reforms will be essential for diversifying the economy out of oil, building resilience, and creating quality jobs that are critically needed to reduce poverty.

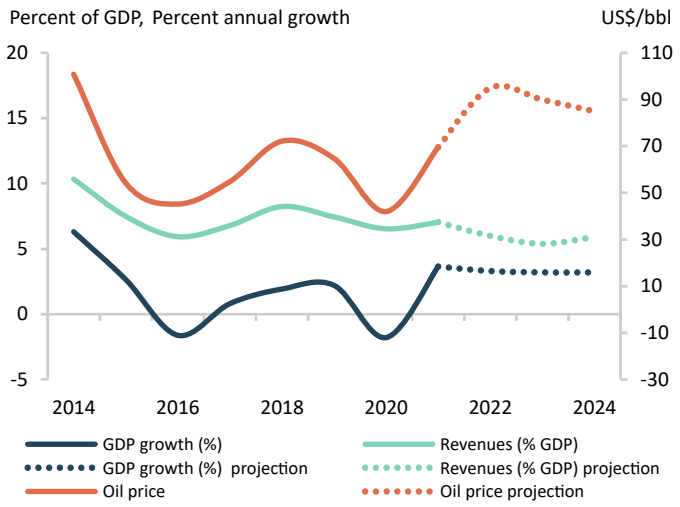
Recent developments

In H1 2022, GDP grew by 3.5 percent, driven by trade, transport, telecommunication, and financial services. In contrast, the oil sector shrank by 19.7 percent despite the sharp increase in global oil prices. The subdued oil production — below the OPEC quota — is the result of funding shortfalls, lack of adequate maintenance, and security risks.

Inflation spiked and reached 19.6 percent in July 2022. The monetary authorities have responded by increasing the monetary policy rate by 250 basis points since May 2022. However, this measure has not been fully effective in containing inflation due to the monetarization of the deficit, a depreciating currency and an increase in imported food and energy inflation. The banking sector remains robust, and credit expanded by 21.3 percent in Q1 2022 spurred by CBN's development finance interventions.

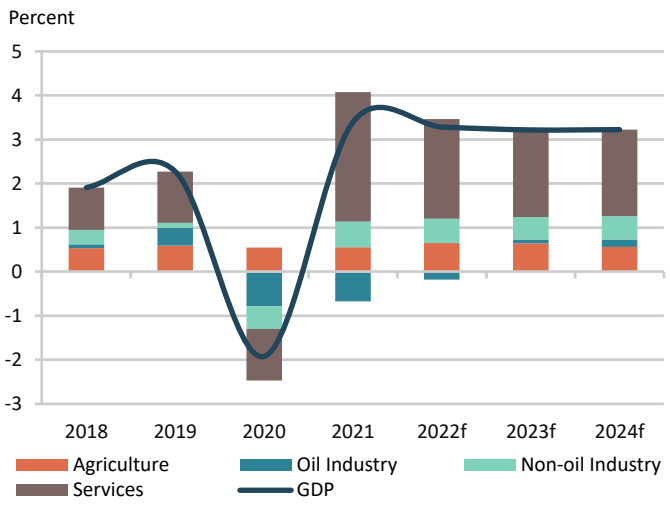
On the fiscal front, the decoupling between oil prices and oil revenues that started in 2021 continued in 2022. While oil prices have risen globally, the fiscal position has worsened because the cost of the petrol subsidy has increased to about 2.7 percent of GDP and oil production has fallen to a three-decade low. Low non-oil revenues and high interest payments compound fiscal pressures. Thus, the fiscal deficit is expected to remain above 5 percent in 2022,

FIGURE 1 **Nigeria** / Oil price shock transmission channels



Sources: National Bureau of Statistics and World Bank.

FIGURE 2 **Nigeria** / Real GDP growth and contributions to real GDP growth



Sources: National Bureau of Statistics and World Bank.

breaching the stipulated limit of 3 percent specified by the 2007 Fiscal Responsibility Act. This will keep the public debt stock at over 37 percent of GDP and push the debt service to revenue ratio from 85.4 percent in 2021 to 102.3 percent in 2022.

The current account balance (CAB) recorded a surplus of 2.3 percent of GDP in Q1 2022, driven by a 129-percent increase in crude oil exports reflecting higher oil prices. This CAB surplus, which is expected to shrink during the rest of the year as a result of higher import prices of food and refined petroleum products, has not translated into increased foreign reserves due to higher FX interventions, new FX schemes, and lower capital inflows.

Outlook

The economy is projected to grow by an average of 3.2 percent per year between 2022 and 2024, slightly above the population growth rate of 2.6 percent. Growth will be driven by services, trade, construction, and agriculture. Oil production is projected to remain subdued in 2022 because of inefficiencies and insecurity. From the demand side, growth will be driven by private consumption and investment reflecting the strong growth in the services and construction sectors.

Inflation is projected to average 18.5 percent in 2022 and decrease slightly to 15.5 percent in 2023, as the main sources of inflationary pressure are expected to persist, hampering poverty reduction. With Nigeria's population growth continuing to outpace poverty reduction, the number of Nigerians living below the national poverty line is set to rise by 11.8 million between 2019 and 2024.

Fiscal, external, and debt pressures are expected to persist over the outlook period due to rising global and domestic interest rates and low oil revenues resulting from the moderation in oil prices and inability to significantly increase oil production. While the current account is expected to remain positive in 2022 and 2023, this is not expected to translate into higher international reserves. Meanwhile, non-oil revenues will not increase as a share of GDP without significant tax revenue reforms. As a result, the fiscal deficit will remain high and average more than 6 percent of GDP in 2022-2024, pushing debt service to balloon to about 111 percent of revenues by end-2024.

Downside risks to Nigeria's outlook have intensified. Growth may be affected by a further decline in oil production amidst deteriorating security, scarcity of foreign exchange, and tighter liquidity. In parallel, debt pressures will increase if the petrol subsidy is not phased out and planned reforms to increase non-oil revenues do not materialize. The February 2023 general elections are another source of risk if they lead to large government spending and/or cause social unrest. The authorities can strengthen the economy by implementing macroeconomic reforms to: (i) reduce inflation, (ii) address mounting fiscal pressures, and (iii) catalyze private investment to create quality jobs.

TABLE 2 Nigeria / 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	-1.8	3.6	3.3	3.2	3.2
Private Consumption	-1.0	-1.0	25.6	4.5	2.6	2.9
Government Consumption	8.8	61.6	-34.0	-14.0	-3.6	1.0
Gross Fixed Capital Investment	8.3	-14.7	4.6	7.9	3.9	8.0
Exports, Goods and Services	15.0	-33.4	-32.1	0.5	9.0	3.6
Imports, Goods and Services	27.3	-61.9	44.4	4.0	4.3	9.0
Real GDP growth, at constant factor prices	2.3	-1.9	3.4	3.3	3.2	3.2
Agriculture	2.4	2.2	2.1	2.7	2.7	3.0
Industry	2.3	-5.8	-0.5	-1.4	5.8	3.6
Services	2.2	-2.2	5.6	5.4	2.5	3.1
Inflation (Consumer Price Index)	11.4	13.2	17.0	18.5	15.5	13.5
Current Account Balance (% of GDP)	-3.1	-4.0	-0.4	1.1	1.2	0.1
Net Foreign Direct Investment Inflow (% of GDP)	-0.5	-0.2	-0.4	-0.3	-0.3	-0.3
Fiscal Balance (% of GDP)	-4.6	-5.1	-5.9	-5.9	-6.4	-5.9
Debt (% of GDP)	30.5	36.0	37.7	37.6	37.6	38.0
Primary Balance (% of GDP)	-2.6	-2.7	-3.7	-2.2	-2.7	-2.1
Poverty rate (national line, %)[a]	40.2	42.1	41.6	41.3	41.0	40.7
GHG emissions growth (mtCO2e)	2.5	1.1	1.5	1.3	1.1	1.0
Energy related GHG emissions (% of total)	37.2	37.2	37.0	36.4	35.5	34.4

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/ Calculations based on 2018-LSS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024. These calculations use the national poverty line of 137,430 naira per person per year, in 2018/19 prices. The national line is used, as it will remain the yardstick on which policymakers in Nigeria focus, even as the PPP price data and international poverty lines for cross-country comparisons are updated. For further details see https://blogs.worldbank.org/africacan/what-does-moving-2017-ppps-and-new-international-poverty-lines-mean-nigeria

RWANDA

Table 1	2021
Population, million	13.3
GDP, current US$ billion	11.0
GDP per capita, current US$	825.1
International poverty rate ($2.15)[a]	52.0
Lower middle-income poverty rate ($3.65)[a]	78.0
Upper middle-income poverty rate ($6.85)[a]	92.2
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	131.3
Life expectancy at birth, years[b]	69.3
Total GHG emissions (mtCO2e)	7.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Rwanda is facing new challenges from increases in food and fuel prices, compounded by other spillovers from the war in Ukraine. Real GDP growth is projected at 6.0 percent in 2022 and 6.9 percent on average in 2023–24, after a 10.9 percent in 2021. Inflation is expected to rise to around 12 percent, raising households living costs. After increasing in 2020, poverty is expected to reach pre-crisis levels in 2024.

Key conditions and challenges

Rwanda achieved impressive economic growth over 2010-2019, averaging 7.2 percent, aided by a large public investment push. Capital accumulation, mostly large-scale public investment in infrastructure, was the main growth driver. Limitations of the state-led development model have become apparent. Labor productivity and total factor productivity are low for its income level. To sustain growth and create jobs to reduce poverty, the government must facilitate private sector-led development. Key reforms should aim to enable competitive domestic enterprises, foster innovation, develop long-term finance, and promote regional integration.

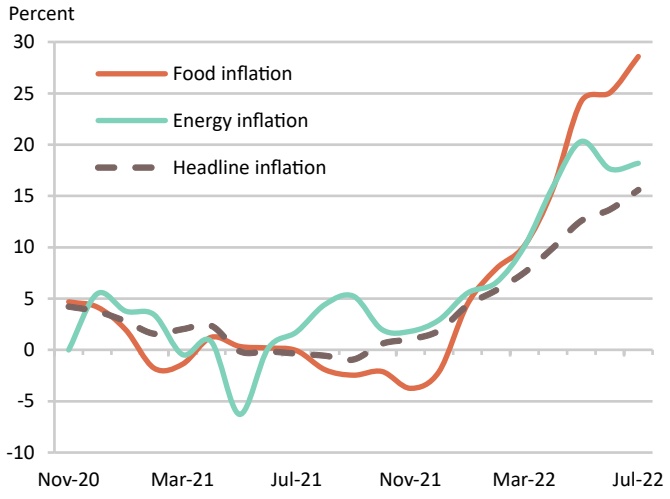
Rwanda remained with some wounds from the COVID-19 pandemic. Economic scarring may manifest in persistent increases in poverty and inequality, reductions in potential growth and increased debt vulnerabilities. Learning losses due to school interruptions, lower returns to spending on education due to the lack or low quality of remote learning, and premature youth employment following school dropouts, may result in permanent losses in lifetime earnings and productivity, especially among children from poor households. Negative impact on potential growth could be accentuated by the additional human capital depreciation through prolonged unemployment and deteriorating health conditions of productive individuals. With recent increases in public and publicly guaranteed debt levels, at 73.3 percent of GDP in 2021, meeting spending needs, while safeguarding fiscal sustainability and containing debt vulnerabilities, will require stepping up efforts to ensure spending is well-targeted and cost-effective, secure concessional financing, and implementing measures to mobilize domestic revenues. Rwanda has relatively higher poverty rates than African peers with similar income per capita, and poverty reduction has become less responsive to growth in recent years. Inequality in Rwanda measured by the Gini coefficient is the second highest among low-income countries at 43.7 (2017). Rwanda now faces challenges in fully translating its strong growth into commensurate gains in poverty and inequality reduction.

High reliance on rainfed agriculture and livestock production, makes Rwanda highly exposed to seasonal weather patterns. Rapid urbanization and depletion of forest and water resources in recent years led to increased vulnerability to flood risks, land degradation, and biodiversity loss.

Recent developments

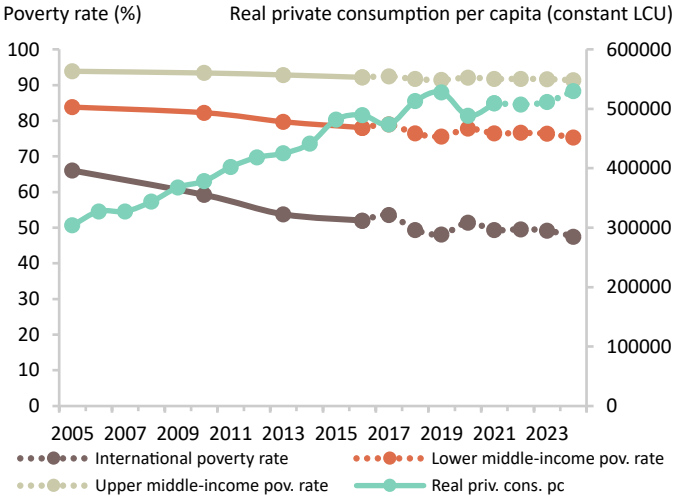
Early economic indicators point to potential moderation in growth in H1-2022, as inflation pressures, due to spillovers from the war in Ukraine, depress consumption and investment. The index of industrial production for formal activities increased by 9.4 percent compared to 21.4 percent in the same period of 2021. The composite indicator of economic activities rose by

FIGURE 1 **Rwanda** / Headline, food and energy inflation



Sources: World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

12.1 percent compared to 21.8 percent of the same period in 2021. In 2022, food production fell by 2.3 percent. Furthermore, external demand for Rwanda's goods and services has moderated, potentially widening Rwanda's trade deficit (about 0.7 percent of GDP in 2022).

Headline inflation reached 15.9 percent in August 2022, mostly due to high food inflation (29.2 percent), amid rising global commodity prices and adjustments to fuel and fertilizer prices and reduced agricultural food production. Poorer households are expected to be more affected by food inflation since food purchases represent more than 70 percent of their budgets. To reduce inflationary pressures and preserve the purchasing power of consumers, the National Bank of Rwanda raised its policy rate to 6.0 percent from 5.0 percent in August 2022, building on a 50-basis point increase in February.

The government maintained a fiscal stimulus to protect human capital and support the recovery. The pandemic response significantly accentuated the prioritization of human capital spending. The share of social sectors in total spending was maintained at about 23 percent for the last three FYs to FY22, reflecting the expansion of spending on health and social protection to protect the most vulnerable. The Economic Recovery Fund, amounting to US$250 million, has been the cornerstone of the support the recovery from the COVID crisis. Additionally, the government fast-tracked a US$250 million package—through the Manufacture and Build to Recover Programme—to support private investments in manufacturing and construction. With grant increases, the fiscal deficit is estimated to have declined to 6 percent of GDP in FY21/22 from 7.5 percent in FY20/21.

Outlook

GDP growth is expected to accelerate to 6.9 percent on average in 2023–24 due to uncertainty surrounding the war in Ukraine. Tapering growth in private consumption is expected to drive small reductions in poverty to reach pre-crisis levels (below 48 percent) in 2024. Rwanda is being affected through slower external demand, inflation (higher oil and fertilizer prices) and higher Central bank interest rate. Industrial activities will continue benefiting from government support of the manufacturing and construction sectors and a recovery in tourism activities. However, softening global growth momentum will negatively affect Rwanda's current account deficit in the near term. The Central Bank projects headline inflation to average about 12.1 percent in 2022, well above the upper bound of the central bank's target range of 5±3 percent. The inflation will start trending toward its target range in mid-2023. Persistence of higher levels of inflation, especially in food, has the potential to delay or even revert the expected small poverty gains in the next few years. If food inflation is twice as high as non-food inflation, as has been the case for the last few months, poverty in 2024 is projected to be 2.4 percentage points higher than the pre-war projection.

The government plans to rationalize both recurrent non-wage spending and capital budgets to preserve space for growth-enhancing investment. This will be driven by phasing out COVID-related spending, tight recurrent spending control, discontinuing underperforming public investment and avoiding inefficient spending (through digitalizing delivery of some public goods and strengthening the oversight of SOEs). On the revenue side, the implementation of the Medium-Term Revenue Strategy through tax policy reforms (personal/corporate income tax and value-added taxes). Fiscal consolidation, however, faces rising challenges, including from the increased spending pressures from measures to contain the impact of the war in Ukraine (such as the current fuel and fertilizer subsidy).

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	9.5	-3.4	10.9	6.0	6.7	7.0
Private Consumption	5.5	-5.0	7.2	2.2	3.5	6.4
Government Consumption	17.5	-1.9	4.3	4.1	6.2	8.3
Gross Fixed Capital Investment	32.1	-2.3	21.1	24.6	2.2	0.7
Exports, Goods and Services	19.9	-9.2	2.8	34.5	25.1	13.2
Imports, Goods and Services	18.0	-3.4	3.6	30.8	8.9	5.9
Real GDP growth, at constant factor prices	8.9	-3.5	10.9	6.0	6.7	7.0
Agriculture	5.0	0.9	5.8	2.9	5.5	5.0
Industry	16.6	-4.2	14.7	9.7	9.2	8.5
Services	8.3	-5.5	12.2	6.2	6.3	7.4
Inflation (Consumer Price Index)	2.4	7.7	0.8	12.1	8.0	5.0
Current Account Balance (% of GDP)	-11.9	-12.2	-10.9	-12.4	-11.2	-10.1
Net Foreign Direct Investment Inflow (% of GDP)	2.5	1.0	1.9	3.0	3.2	2.9
Fiscal Balance (% of GDP)	-9.2	-10.4	-7.9	-7.1	-6.2	-6.0
Debt (% of GDP)	56.8	72.4	73.3	73.1	75.9	76.4
Primary Balance (% of GDP)	-7.7	-8.8	-5.7	-4.6	-3.8	-3.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	48.1	51.4	49.4	49.6	49.2	47.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	75.6	77.8	76.5	76.6	76.4	75.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	91.5	92.1	91.7	91.8	91.7	91.4
GHG emissions growth (mtCO2e)	1.3	1.7	3.4	4.0	4.3	4.4
Energy related GHG emissions (% of total)	17.0	17.4	17.6	17.7	17.8	17.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2010-EICV-III and 2016-EICV-V. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2010-2016) with pass-through = 0.7 based on private consumption per capita in constant LCU.

SÃO TOMÉ AND PRÍNCIPE

Table 1	2021
Population, million	0.2
GDP, current US$ billion	0.5
GDP per capita, current US$	2361.7
International poverty rate ($2.15)[a]	15.6
Lower middle-income poverty rate ($3.65)[a]	44.8
Upper middle-income poverty rate ($6.85)[a]	79.7
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	106.8
Life expectancy at birth, years[b]	70.6
Total GHG emissions (mtCO2e)	0.4

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

São Tomé and Príncipe (STP)´s economy is suffering with the surge in commodity prices associated with the war in Ukraine, which worsened terms of trade despite better tourism prospects. Persistent electricity outages further weaken growth prospects. Inflation picked in end-June as fuel and food prices increased due to global supply bottlenecks. Expanded social protection has kept poverty stable. Geopolitical factors and delays in the implementation of structural reforms pose risks to the outlook.

Key conditions and challenges

STP is a small, remote, island economy heavily exposed to external shocks and constrained by a weak private sector and low human capital. Growth opportunities are further limited by underdeveloped infrastructure, especially unreliable and expensive electricity. STP is highly dependent on overseas development aid (ODA) and has pursued a "public expenditures-led" growth model. This growth model is unsustainable due to declining external financing and low domestic revenue mobilization.

STP's fast-growing population is young and lacks employment opportunities, relying on informal and subsistence activities. Poverty remains high, with about 15.3 percent of the population living on less than US$ 2.15/day (in 2017 PPP terms) in 2022 while another 29 percent of the population lives on less than US$ 3.65/day (the poverty line for lower middle-income countries). To reduce the poverty impact of the pandemic, the Vulnerable Families Program, introduced in 2019, was complemented with the COVID-19 response cash transfer program to provide support to 16,000 families.

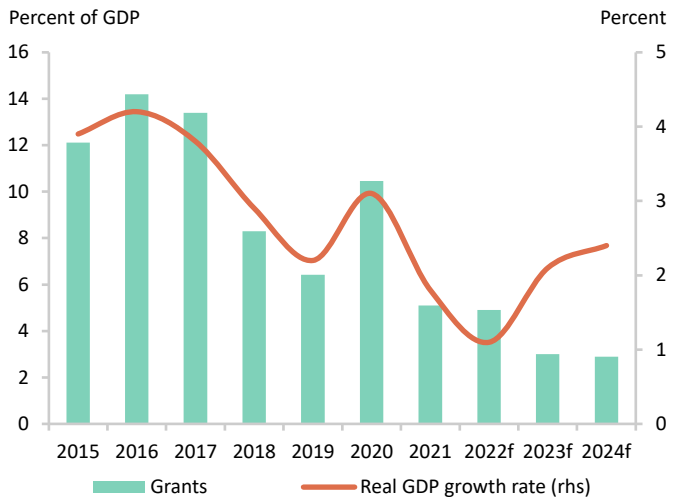
Despite a stronger tourism's recovery, the ongoing energy crisis, destructive flooding in late 2021 and May 2022, and lower-than-expected externally financed public investments continue to take a toll on STP's economy in 2022. STP remains highly vulnerable to climate change and risks stemming from its fragile energy sector that needs urgent investment and governance reforms. Reducing reliance on ODA and building the private sector's ability to generate jobs are essential for sustainable and inclusive poverty reduction. Its natural wealth, including extensive marine zone, and growing human capital present important opportunities if barriers to business can be reduced.

Recent developments

Real GDP growth is estimated to decline from 1.8 percent in 2021 to 1.1 percent in 2022 owing to persistent energy shortages, lower external financing for public investments, notwithstanding a strong recovery of tourism. The current account deficit (CAD), excluding grants, is projected to worsen to 23.6 percent of GDP due to higher fuel and other import prices and lower global demand for commodities. However, tourism's recovery is being led by the resumption of international travel, additional air connectivity to STP, and progress on COVID-19 vaccination (46.4 percent of the population fully vaccinated). The number of annual tourist arrivals reached 14,160 by July-2022 compared to 15,101 in all of 2021. Lower external financing, higher import bill, and unexpected flood-related spending reduced net international reserves to about US$ 16.3 million in end-March 2022, covering less than two months of imports.

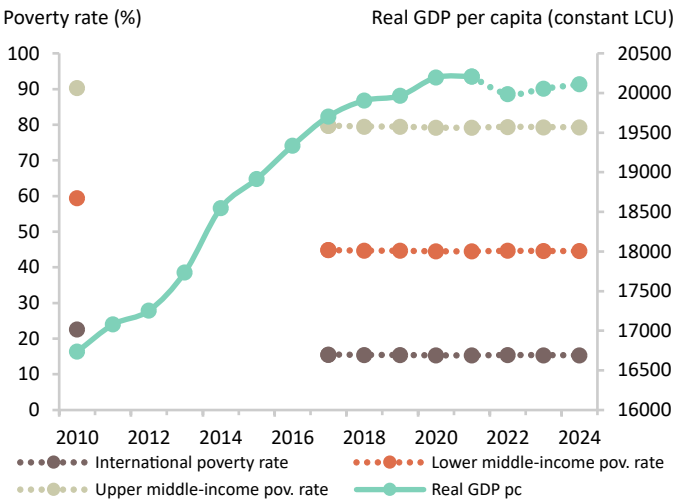
Overall fiscal revenue performance will be undermined by lower levels of domestic revenue mobilization as economic activity slows down, and delays in external grants

FIGURE 1 São Tomé and Príncipe / Real GDP growth and Grants



Sources: Ministry of Finance, IMF, World Bank MTI.

FIGURE 2 São Tomé and Príncipe / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

disbursements. Expenditures are expected to increase driven by higher cost of goods and services and adjustment in civil service wages in June, which represent around half of the total current primary spending. The domestic primary deficit (excluding oil) is projected to increase slightly from 4.5 percent in 2021 to 4.6 percent of GDP in 2022, while public sector gross debt will increase from 91.6 percent to 93.4 percent of GDP.

Inflation has surged to 16.7 percent in June 2022 from 9.5 percent in end-2021, reflecting higher global prices of imports, higher local food prices exacerbated by more expensive inputs, and the fuel price adjustments of April. Given its currency peg, the real exchange rate has appreciated, undermining competitiveness. To help in curbing inflation, the central bank raised the base interest rate from 9 percent to 10 percent in June, tightening excess liquidity.

Despite high inflation, slow recovery, and population growth outpacing economic growth, growth in agriculture, a key sector of employment, and the extension of pandemic cash transfers through the end of 2022 have propped up household incomes sufficiently to avoid increases in poverty.

Outlook

Real GDP growth is projected at 2.1 percent in 2023 supported by higher externally funded infrastructure development projects and a more robust recovery of tourism. Since growth will barely outpace projected population growth of 1.9 percent, poverty is expected to fall only marginally, reaching 15.0 percent by 2024. The CAD is projected to improve to around 20.9 percent of GDP in 2023 as tourism receipts and demand for high-value commodities gradually increase and fuel imports should gradually decline as the energy sector becomes more efficient.

The improvement in domestic resource mobilization through the introduction of VAT coupled with planned energy reforms is expected to improve the government's fiscal position, contributing to narrowing the domestic primary deficit to about 3.1 percent of GDP in 2023.

At the same time, since the COVID-19 expansion of cash transfers will end in December 2022 (reducing the number of beneficiary families from 16,000 to 4,500), it will be important to use the country's growing social protection system strategically to mitigate the poverty impact of higher consumer prices due to these reforms.

The central bank is expected to support the peg, as external financing improves and the inflation differential to the euro area moderates. Reforms in the energy sector continue to be critical to address unsettled external arrears.

The outlook is subject to substantial risks. Delays in the implementation of much needed reforms (the introduction of VAT and energy sector reforms) could narrow the fiscal space for social and infrastructure spending. Furthermore, the legislative elections on 25 September further contribute to delays in the reform agenda due to political uncertainty. Climate-related events could undermine the agricultural and fisheries sectors, and delays in externally funded projects could subdue industrial activity and strain the economy. Risks to the reform agenda are partially mitigated by the support of the multilateral development partners.

TABLE 2 São Tomé and Príncipe / 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	3.1	1.8	1.1	2.1	2.4
Real GDP growth, at constant factor prices	2.5	2.3	1.5	1.1	2.1	2.4
Agriculture	1.0	-1.1	-1.0	1.0	1.5	2.0
Industry	0.7	4.4	-1.5	-1.2	-0.5	1.3
Services	3.2	2.2	2.5	1.7	2.7	2.7
Inflation (Consumer Price Index)	7.7	9.4	9.5	17.2	10.7	9.3
Current Account Balance (% of GDP)	-19.9	-11.4	-17.1	-20.3	-18.9	-17.5
Fiscal Balance (% of GDP)	-2.6	-4.9	-5.9	-6.2	-4.9	-4.0
Debt (% of GDP)	99.9	87.6	91.7	94.2	92.6	88.5
Primary Balance (% of GDP)	-2.0	-4.6	-5.7	-5.7	-4.5	-3.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	15.4	15.3	15.3	15.4	15.4	15.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	44.7	44.5	44.5	44.7	44.6	44.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	79.4	79.2	79.1	79.4	79.3	79.3
GHG emissions growth (mtCO2e)	2.3	1.2	0.9	1.3	1.4	1.6
Energy related GHG emissions (% of total)	36.6	37.0	37.1	37.5	38.0	38.6

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/ Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.

SENEGAL

Table 1	2021
Population, million	17.2
GDP, current US$ billion	27.6
GDP per capita, current US$	1607.3
International poverty rate ($2.15)[a]	9.3
Lower middle-income poverty rate ($3.65)[a]	37.4
Upper middle-income poverty rate ($6.85)[a]	74.4
Gini index[a]	38.1
School enrollment, primary (% gross)[b]	83.0
Life expectancy at birth, years[b]	68.2
Total GHG emissions (mtCO2e)	35.0

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

Growth is projected to decelerate to 4.8 percent in 2022, after reaching 6.1 percent in 2021, as domestic and external shocks dampen industrial and agricultural production. The fiscal deficit is expected to remain high, at 6.2 percent of GDP, while poverty has stagnated. Risks, mainly on the downside, include continued inflationary pressures associated with a prolonged conflict in Ukraine, ECOWAS sanctions on Mali, regional instability, climate, and domestic social unrest.

Key conditions and challenges

Senegal's economy is weathering the impact of several adverse shocks. The ongoing Ukraine conflict poses immediate challenges through higher energy and food prices. Elevated energy prices are increasing the cost of doing business, and negatively impact growth in extractive and manufacturing industries. Real GDP growth averaged 5.5 percent between 2015-21, but didn't translate into significant poverty reduction or reduced inequality. Senegal's structural long run constraints to inclusive and sustained growth include insufficient competition, inadequate private financing and uneven tax enforcement, inequitable and inefficient public social spending, and high and rigid labor costs that have constrained the development of the private sector, limiting job creation in productive sectors.

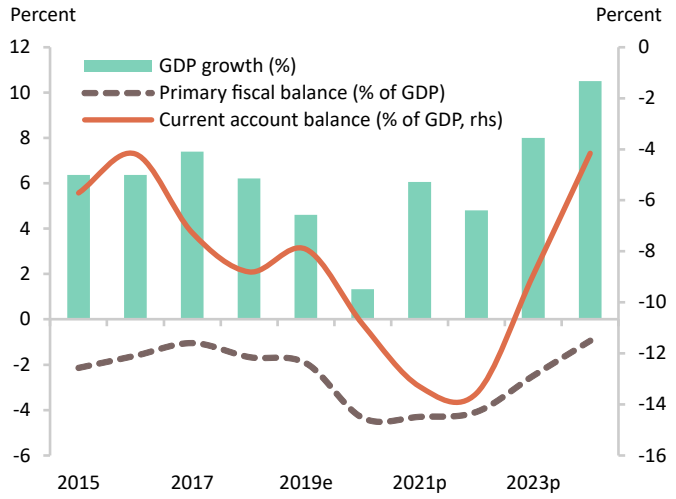
Risks are mainly on the downside. A prolonged conflict in Ukraine could keep inflation pressures elevated and further strain fiscal space to cushion the effect of the crisis on the poor, creating discontent and political instability. Senegal is also negatively affected by sub-regional insecurity, rising social and geopolitical tensions, and the tightening of international and regional financing conditions. Finally, Senegal is exposed to climate shocks (floods, droughts, and associated health hazards), which could reduce agricultural productivity, exacerbated by the recent increase in the prices of fertilizer imports.

Recent developments

Growth is estimated to decelerate to 4.8 percent in 2022 (2.1 percent in per capita terms), from 6.1 percent in 2021 (3.3 percent in per capita terms). The higher international prices for oil, fertilizer and food have depressed private consumption, and slowed industrial production in 2022. The poverty headcount rate is expected to remain stable around 37 percent (using the lower middle-income poverty line), as growth is driven mainly by urban services, while the majority of the poor derive their incomes from agriculture. High food inflation, which accounts for about half of final household consumption, has also hindered poverty reduction.

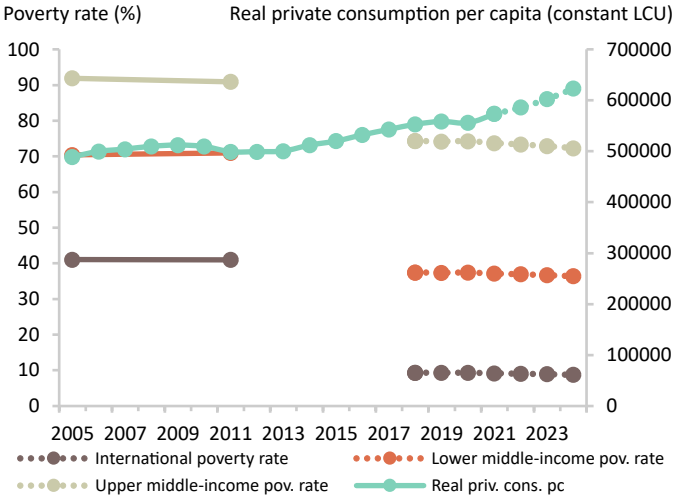
Inflationary pressures continue to negatively impact livelihoods and affecting nonmonetary dimensions of welfare, especially human capital. Inflation accelerated to 11.3 percent (y/y) in August 2022, driven mostly by a sharp increase in food prices (+17.1 percent). Rising food prices are already causing the poorest households to replace higher quality foods with poorer substitutes, with the possibility of worsening malnutrition. Previous negative shocks, such as the 2020 pandemic have already worsened food insecurity with the incidence of (moderate) food insecurity increasing from 33 percent in 2018/19 to nearly 50 percent in 2020.

FIGURE 1 Senegal / Evolution of main macroeconomic indicators



Sources: Senegalese authorities and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO). Its reserves declined to 5.2 months of imports in June 2022, from 5.5 months in 2021, due to higher prices of energy and food imports from the war in Ukraine. To counter inflation pressures, the BCEAO in June and September 2022 raised rates for liquidity calls (2 percent to 2.5 percent) and the marginal lending window (4 percent to 4.5 percent).

The trade deficit deteriorated to 9.4 percent of GDP in H1 2022 from 6.8 percent in H1 2021, driven by higher imports (38.9 percent, y/y), mainly petroleum products, food, and raw materials and subdued exports (a 24.6 percent (y/y) increase, driven by higher exports of phosphoric acid and petroleum products).

On the fiscal front, Government's response to rising food and energy prices included suspending customs duties on oil, rice and sugar imports, doubling budgeted energy subsidies, increasing the prices of high-octane gasoline (+15 percent) and diesel (+20 percent) and electricity tariffs for medium and high consumers (+18 percent). Social tariffs remained unchanged compared to 2021. The fiscal deficit in H1 2022 widened to 4.4 percent of GDP, compared to 3.9 in H1 2021. The 2022 budget deficit of 6.2 percent may be exceeded without additional fiscal consolidation measures in the second half of the year. Transfers and subsidies (+22 percent, y/y), interest payments (+19.6 percent) and the wage bill (+17.1 percent) drove the increase in Government consumption in H1 2022. The debt-to-GDP ratio reached 73.2 percent of GDP in 2021, a +9.4 ppt increase since 2019.

Outlook

The recovery's momentum remains uncertain and is likely to be influenced by oil price developments, social unrest, regional insecurity and monetary policy tightening, which could depress external demand. Real growth is expected to decelerate to 4.8 percent in 2022, but should rebound in 2023-2024 to an average growth of 9.3 percent, mainly driven by hydrocarbon production. Average annual inflation is expected to peak at 8.7 percent in 2022, but decelerate in the medium term as global inflation pressures and consequently government consumption for social support eases.

The Current Account Deficit (CAD) is expected to widen to 13.6 percent of GDP in 2022, as import prices, notably for energy, increase. Hydrocarbon receipts and increased regional trade should significantly improve the CAD to an average of 6.5 in 2023-2024, financed by oil-sector related foreign investment and a mix of concessional and commercial borrowing.

Government remains committed to fiscal consolidation in the medium term to keep debt on a sustainable path. Fiscal policy is expected to remain expansionary in 2022, but to decline afterwards as increases in wages, transfers and energy subsidies are not expected to continue in the medium term. The fiscal deficit is projected to average 3.8 percent in 2023-2024 driven by domestic revenue mobilization and the gradual phasing out of energy subsidies. Fiscal consolidation and growth are expected to support a decline in the debt-to-GDP ratio in 2023-2024, to an average of 68.8 percent.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.6	1.3	6.1	4.8	8.0	10.5
Private Consumption	3.8	2.2	6.0	4.9	5.5	6.1
Government Consumption	7.5	2.6	5.4	8.8	4.7	4.0
Gross Fixed Capital Investment	10.3	4.3	7.4	8.5	9.7	8.0
Exports, Goods and Services	14.7	-13.2	14.7	-1.6	10.7	22.1
Imports, Goods and Services	6.8	7.0	8.0	5.5	5.7	5.6
Real GDP growth, at constant factor prices	4.5	1.9	5.8	4.8	8.0	10.5
Agriculture	4.3	12.8	-1.0	-2.0	3.5	3.6
Industry	5.0	-0.4	10.9	3.9	10.6	17.5
Services	4.3	-0.1	5.7	7.2	8.1	9.0
Inflation (Consumer Price Index)	1.0	2.5	2.2	8.7	6.1	5.0
Current Account Balance (% of GDP)	-7.9	-10.9	-13.3	-13.6	-8.9	-4.2
Fiscal Balance (% of GDP)	-3.9	-6.4	-6.3	-6.2	-4.6	-3.1
Debt (% of GDP)	63.6	69.2	73.2	75.1	71.5	66.0
Primary Balance (% of GDP)	-1.9	-4.4	-4.3	-4.1	-2.5	-0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	9.3	9.3	9.2	9.1	8.9	8.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	37.4	37.4	37.1	36.9	36.7	36.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	74.2	74.3	73.7	73.3	72.9	72.3
GHG emissions growth (mtCO2e)	3.9	1.1	3.1	1.6	3.9	4.8
Energy related GHG emissions (% of total)	26.6	25.5	25.3	25.1	25.8	26.8

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 2009-, 2014-, and 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.

SEYCHELLES

Table 1	2021
Population, million	0.1
GDP, current US$ billion	1.5
GDP per capita, current US$	14691.9
International poverty rate ($2.15)[a]	0.5
Lower middle-income poverty rate ($3.65)[a]	1.2
Upper middle-income poverty rate ($6.85)[a]	6.7
Gini index[a]	32.1
School enrollment, primary (% gross)[b]	100.8
Life expectancy at birth, years[b]	77.2
Total GHG emissions (mtCO2e)	0.5

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

Seychelles' economy continues to recover, with real GDP growth projected at 11.0 percent in 2022, driven largely by a recovery of tourism. Key risks to the outlook include inflationary pressures and lower-than-expected tourism stemming from the Ukraine war, and new COVID-19 variants. These risks could reduce household income, increase poverty, and limit the effectiveness of social transfers. Fiscal consolidation and structural reforms are therefore critical for sustaining inclusive growth.

Key conditions and challenges

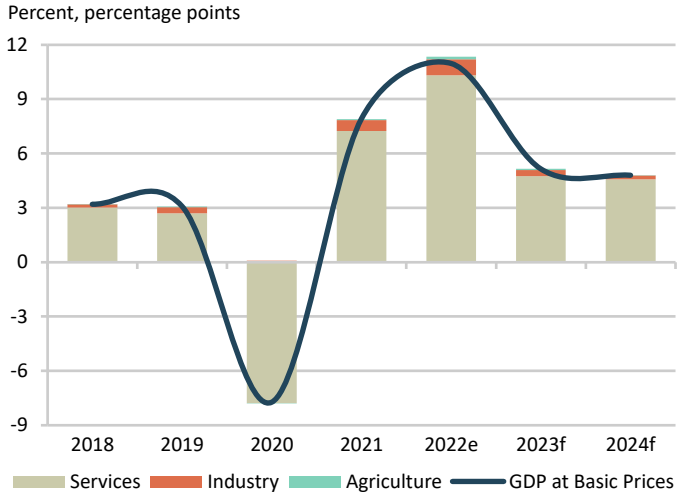
Seychelles is a small island economy heavily dependent on tourism and fisheries. Tourism centers on large hotels that offer comprehensive packages, exhibiting a high degree of vertical integration, with limited participation of local operators offering complementary services such as local restaurants, taxis, and other accommodations. The fishing industry also contains little local value added. Yet, Seychelles' tuna canneries are among the largest in the world, contributing 8 to 20 percent to GDP annually and employing 17 percent of the population. Climate change and rising sea levels have affected soil salinity and aquifers,, constraining agriculture and fisheries' growth. During the extreme rainfalls of 1997-1998 El Nino and 1998-2000 La Nina, fisheries accounted for 45 percent of total losses, followed by agriculture and tourism.

The limited domestic sources of growth, combined with a heavy reliance on imports, exposes Seychelles to external shocks. These are transmitted mainly through disruptions in international travel and tourism demand, fluctuations in fishing stocks, and unstable prices of essential commodities. In addition, Seychelles is vulnerable to new COVID-19 variants. A potential external shock from new infection waves (despite a vaccination rate of 84 percent) could adversely impact Seychelles' main tourist markets. The service sector accounts for the largest share of employment (with tourism alone directly employing an estimated 27 percent of the labor force). Adverse shocks to services could once again derail the downward trend in poverty. The recent Ukraine war would exacerbate these effects by undermining the authorities' efforts to mitigate the impact of high food and energy prices. Specifically, the needed increase in social transfers could lead to a deterioration of fiscal and debt sustainability.

Recent developments

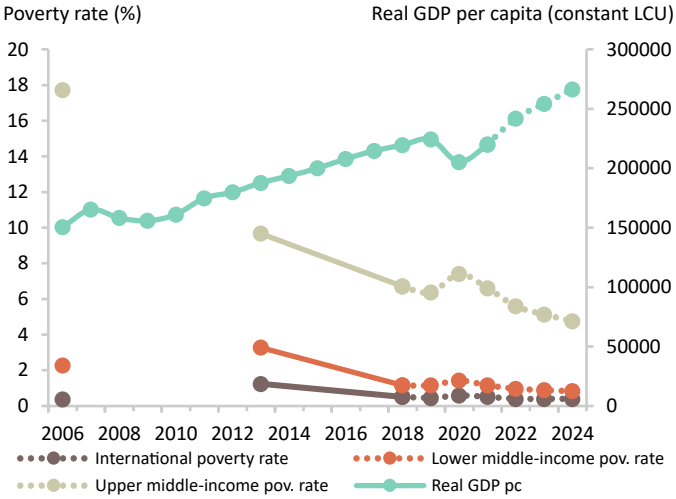
The economy has continued on its recovery path in 2022, driven by a rebound in tourism and the services sector. In the first half of 2022, tourist arrivals have been strong, reaching about 70 percent of the 2019 level (in contrast to the 60 percent decline in 2020). Although the war hurt tourist arrivals from Russia and Ukraine, increased tourist arrivals from Western Europe have helped offset this loss. As a result, tourism earnings in Q1 2022 reached pre-pandemic levels (at around SCR 650 million). Tourism growth has also helped catalyze growth in the industrial and agriculture sectors (through linkages to fisheries and canneries), buoyed by growth in private consumption. Average annual inflation has moderated, in line with an appreciation of the Seychelles rupee (as tourism has recovered). This has partly offset the upward pressure on prices from the Ukraine

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



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

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



Source: World Bank. Notes: see Table 2.

war and residual cost-push factors arising from pandemic-related disruptions of production, trade, and distribution channels. On the external front, the current account deficit (CAD) narrowed in the first half of 2022 due to higher tourism receipts. As a result, gross international reserves remained close to 2021 levels, reaching USD 668 million as of June 7, 2022 (or 4.1 months of imports). Freezes on staffing and wages, coupled with a year-on-year 37 percent expansion of revenues (for Q1 2022) due to robust economic growth, is expected to keep the fiscal deficit on a declining path and support debt reduction.

As tourism continues to pick up, poverty rate is projected to decline to 7.2 percent in 2022 from 7.4 percent in 2021 (when measured against the new poverty line for upper middle-income countries of USD 6.9 a day per capita in PPP terms). However, the ongoing inflationary pressures may undermine this projection if the recently announced subsidies/assistance are not well targeted to the most vulnerable households.

Outlook

The ongoing rebound in tourism and activity will lead to growth peaking at 11.0 percent in 2022 before eventually moderating to about 5.0 percent in the medium-term. Tourist arrivals and investments in large resorts will continue to be the key growth driver over in the medium-term, complemented by growth in private consumption. Higher food and fuel prices are expected to raise inflation in 2023. Thereafter, price pressures should moderate, reflecting strong growth prospects and a stable rupee backed by recovering tourist arrivals. The current account deficit is projected to peak in 2022 (due to higher import prices of fuel and wheat), then narrow over the medium term as tourism inflows rebound and FDI inflows increase. Tourist earnings are expected to reach 2019 levels by 2024.

Fiscal consolidation is the key priority for a sustained downward debt trend, with an expected reduction in the deficit to 3.8 percent by end-2022. The GoS will continue to contain wages and salaries, at around 11 percent of GDP over the medium term, and to rationalize expenditures on goods and services. Increased capital expenditure on some new capital projects (i.e., drug rehabilitation center, La Digue hospital) will be financed by grants. Revenues are projected to remain buoyant, supported by efforts to improve tax administration and compliance. Savings from fiscal consolidation will help finance increased transfers (of an estimated 0.3 percent of GDP), to support low-income households in dealing with the impact of higher- than-expected inflation.

As growth continues to pick up, poverty will reach pre-pandemic levels of 6.4 percent by 2023 and decline further to 5.7 percent by 2024 as inflation stabilizes. This may further be boosted as Aeroflot is planning to resume direct flights to Seychelles before the end of the year since Russian tourists made up nearly 14 percent of Seychelles tourists in early 2022 before the onset of the Ukraine war. However, given how long the war is dragging on, this prospect is not fully certain.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.1	-7.7	7.9	11.0	5.2	4.8
Private Consumption	5.9	-5.0	8.9	9.2	2.5	5.9
Government Consumption	0.8	11.0	2.3	4.3	2.1	1.7
Gross Fixed Capital Investment	-1.7	-33.6	22.0	18.9	9.9	4.0
Exports, Goods and Services	3.1	-35.7	12.3	17.6	17.3	17.3
Imports, Goods and Services	2.0	-34.2	14.4	15.3	14.4	14.9
Real GDP growth, at constant factor prices	3.1	-7.7	7.9	11.0	5.2	4.8
Agriculture	2.2	-0.3	2.7	6.9	3.4	1.1
Industry	3.2	0.8	5.1	7.8	3.0	2.0
Services	3.1	-8.9	8.4	11.5	5.5	5.2
Inflation (Consumer Price Index)	1.8	1.2	9.8	4.1	4.7	1.5
Current Account Balance (% of GDP)	-16.1	-21.9	-20.1	-22.4	-19.3	-17.4
Net Foreign Direct Investment Inflow (% of GDP)	16.0	10.7	10.2	11.0	10.6	11.2
Fiscal Balance (% of GDP)	-0.8	-18.4	-5.6	-3.8	-0.8	1.1
Debt (% of GDP)	58.0	88.7	76.2	73.3	67.0	61.3
Primary Balance (% of GDP)	2.6	-14.8	-2.9	-1.4	1.8	2.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.5	0.6	0.5	0.4	0.4	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	1.2	1.4	1.2	1.0	0.9	0.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	6.4	7.4	6.6	5.6	5.1	4.8
GHG emissions growth (mtCO2e)	5.0	-2.0	-29.2	8.2	5.3	7.2
Energy related GHG emissions (% of total)	78.8	79.8	70.7	72.3	73.1	74.5

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 2018-HBS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

SIERRA LEONE

Table 1	2021
Population, million	8.1
GDP, current US$ billion	4.0
GDP per capita, current US$	490.5
International poverty rate ($2.15)[a]	26.1
Lower middle-income poverty rate ($3.65)[a]	64.3
Upper middle-income poverty rate ($6.85)[a]	89.9
Gini index[a]	35.7
School enrollment, primary (% gross)[b]	141.3
Life expectancy at birth, years[b]	55.1
Total GHG emissions (mtCO2e)	9.4

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

A nascent economic recovery from the pandemic was disrupted in 2022 by a net negative terms-of-trade shock with the onset of the war in Ukraine. Domestic inflation accelerated and presented risks to social and political stability. Back-to-back economic shocks have aggravated fiscal pressures and risks to debt sustainability. Slower growth and higher food inflation have intensified food insecurity and slowed the pace of poverty reduction.

Key conditions and challenges

Sustained economic growth has been constrained by (i) exposure to multi-dimensional exogenous shocks (economic, epidemic, climactic); (ii) fragile institutions; and (iii) limited fiscal space. Agriculture and mining account for two-thirds of all economic output. Thus, the economy is vulnerable to global commodity price fluctuations and climatic shocks. Institutions are under-resourced, and inefficiencies compounded by corruption. Fiscal space is limited and insufficient to bridge significant social and physical infrastructure deficits.

Since the 2010s, the economy has been affected by back-to-back crises, interspersed with periods of short-lived recovery: the Ebola epidemic (2014-16), the collapse in global commodity prices (2015-16), mudslide in Freetown (2017), COVID-19 pandemic (2020), and implications of the war in Ukraine (March 2022 onwards).

Accelerating inflation and intensifying fiscal pressures pose significant risks to the economic outlook. Risks of social instability have also risen, as witnessed during the violent riots in August 2022 which left 20 people dead.

Recent developments

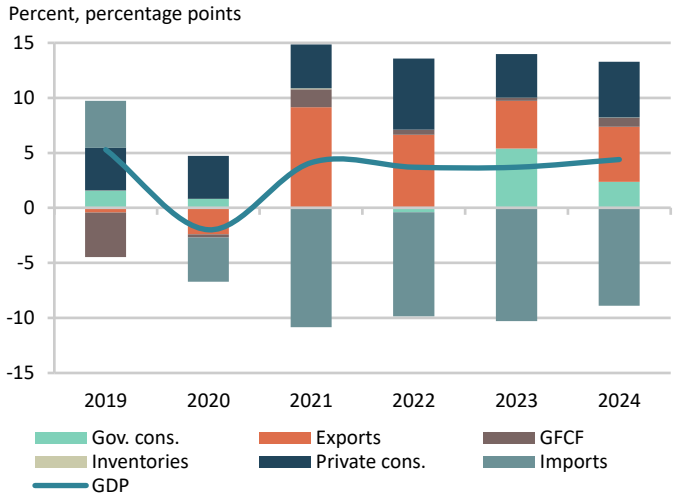
In 2021, GDP growth reached 4.1 percent, driven by a rebound in private consumption and mining activity. However, in 2022, this nascent recovery was disrupted by a net negative terms-of-trade shock with the onset of the war in Ukraine and the rise in global food and fuel prices (only partially mitigated by higher prices for key exports). The rise in fuel prices also caused pervasive power outages.

Higher inflation has put pressure on the Leone, which has depreciated by over 20 percent since end-2021, further fueling imported inflation. Bank of Sierra Leone raised the monetary policy rate by 175 basis points during 2022, but monetary policy effectiveness is limited by a shallow financial sector and fiscal dominance (over 3/4th of domestic credit is to the government). This sovereign-banking nexus has supported stability in the financial sector, despite an increase in non-performing loans (by 2.4 pp during 2021 to 14.8 percent of loans).

Fiscal pressures have intensified. In response to COVID-19, the deficit rose from 3.1 percent of GDP in 2019, to average 6.2 percent of GDP during 2020-21. During 2022, inflationary pressures have prompted authorities to increase energy subsidies and cash transfers to vulnerable households, slowing the planned fiscal consolidation.

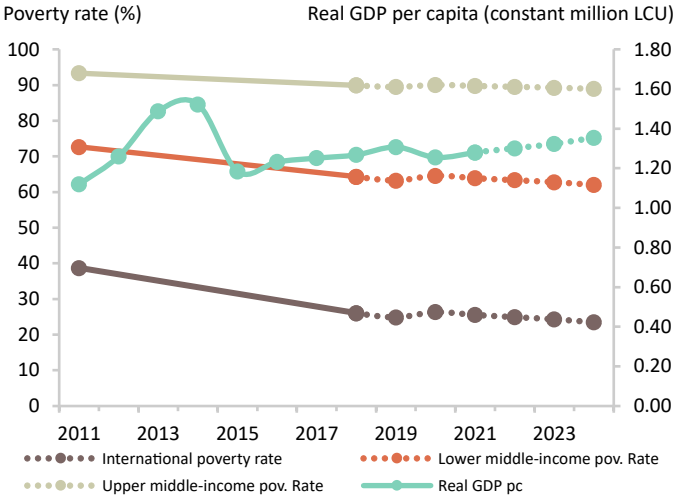
After dropping to 7.0 percent of GDP in 2020, the current account deficit rose to 14.5 percent of GDP in 2021, in line with historical averages, as the economy recovered, and trade flows resumed. An increase in mining FDI due to resumption of operations at the Marampa mine, an additional allocation of Special Drawing Rights (SDR), and emergency support from the IMF and WB boosted external reserves

FIGURE 1 Sierra Leone / Real GDP growth and contributions to real GDP growth



Sources: Sierra Leone authorities and World Bank staff estimates and projections.

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



Source: World Bank. Notes: see Table 2.

(>5 months of imports) in 2021. However, rising debt service obligations and increased forex demand for imports have eroded reserves through 2022.

High food and fuel inflation, and lower-than-normal agricultural yields, had significant social impacts. According to the World Food Programme (2022), 73 percent of Sierra Leoneans are food insecure. The poverty rate is estimated to have increased during the pandemic in early 2020. However, since 2021, poverty is estimated to have declined, albeit slowly, because GDP growth occurred mostly in the capital-intensive mining sector. These estimates are based on real per capita GDP growth and don't consider the additional distributional impact of food and energy inflation, which have a proportionately higher effect on the poorer segments of the population.

Outlook

GDP growth is now projected at 3.7 percent during 2022, down from 5 percent projected at the end of 2021. It will be supported by: (i) resumption of iron-ore mining at Marampa and Tonkolili, for the first time since Ebola; and (ii) a gradual recovery in consumption demand. However, supply chain disruptions and inflationary pressures caused by the war in Ukraine will dampen investments and slow the recovery in private consumption. Over the medium-term, GDP growth is projected to average 4 percent, but remain below the long-term average of 4.3 percent, reflecting economic scarring from repeated shocks. Inflation will remain elevated (averaging 22 percent in 2022) and moderate gradually to 18 percent by 2024, in line with global projections for commodity prices and pick-up in domestic food production.

The overall fiscal deficit is projected at 5.0 percent of GDP in 2022, 1.2 percentage points higher than the original budget. However, it is expected to decline to about 3 percent of GDP by 2024, as the authorities strengthen expenditure controls and improve revenue mobilization through the development of a medium-term revenue strategy.

The current account deficit is expected to narrow to 12.7 percent of GDP by 2024 as the recovery in the mining sector boosts exports. However, import growth is also expected to remain high driven by persistent high food and fuel prices, and a gradual rebound in aggregate demand (including from public investments). The deficit is expected to be financed over the medium-term by FDI in mining and agriculture and continued access to concessional financing from multilateral.

The poverty rate (at PPP US$2.15/day) is expected to decline moderately given the pick-up in economic growth, driven largely by the mining sector. Reducing poverty and food insecurity would require raising agricultural productivity, which employs nearly 80 percent of the population, and creating jobs outside agriculture for low-skilled workers.

Besides commodity price fluctuations, the main risks to the outlook stem from rising public discontent, and uncertainties associated with the upcoming general elections. Any aggravation of the negative terms-of-trade shock could destabilize inflation and cause further public expenditure overruns. Higher food inflation would hurt the poor disproportionately. Rising inflation can further spur public discontent and rioting, which could hamper the authorities' reform appetite ahead of general elections in mid-2023, resulting in the populist policies.

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

	2019	2020	2021	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.3	-2.0	4.1	3.7	3.7	4.4
Private Consumption	4.3	4.3	4.2	6.7	4.0	5.1
Government Consumption	5.1	2.7	0.1	-1.2	18.2	7.0
Gross Fixed Capital Investment	-34.2	-4.1	22.2	5.3	3.4	9.5
Exports, Goods and Services	-1.6	-9.8	40.8	22.0	12.2	13.0
Imports, Goods and Services	-7.0	7.5	18.5	14.2	14.0	11.0
Real GDP growth, at constant factor prices	5.3	-2.0	4.1	3.7	3.7	4.4
Agriculture	5.4	1.6	2.5	2.8	3.0	3.2
Industry	10.9	-7.1	17.4	9.0	8.0	9.8
Services	3.8	-5.9	3.3	3.5	3.4	4.5
Inflation (Consumer Price Index)	14.8	13.5	11.9	21.9	21.0	18.0
Current Account Balance (% of GDP)	-15.3	-7.0	-14.5	-14.9	-13.9	-12.7
Net Foreign Direct Investment Inflow (% of GDP)	7.9	3.4	8.7	8.4	6.4	5.5
Fiscal Balance (% of GDP)	-3.1	-5.8	-6.6	-5.0	-4.5	-3.0
Debt (% of GDP)	70.9	76.3	78.8	81.0	80.7	78.1
Primary Balance (% of GDP)	-0.4	-2.7	-3.4	-2.1	-1.5	0.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	24.9	26.3	25.6	24.9	24.3	23.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	63.2	64.6	63.9	63.3	62.8	62.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	89.5	90.1	89.8	89.5	89.3	88.9
GHG emissions growth (mtCO2e)	-2.7	-1.4	0.7	6.4	0.8	0.6
Energy related GHG emissions (% of total)	9.5	9.1	9.0	8.5	8.5	8.5

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 2011-SLIHS and 2018-SLIHS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using point-to-point elasticity (2011-2018) with pass-through = 0.6 based on GDP per capita in constant LCU.

SOMALIA

Table 1	2021
Population, million[a]	15.2
GDP, current US$ billion	7.6
GDP per capita, current US$	502.2
International poverty rate ($2.15)[b]	70.7
Gini index[b]	36.8
School enrollment, primary (% gross)[c]	33.0
Life expectancy at birth, years[d]	57.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Estimates based on 2013 population estimates by UNFPA and assumes an average annual population growth of 2.8%.
b/ Most recent value (2017), 2017 PPPs.
c/ Somali Poverty and Vulnerability Assessment Report (World Bank, 2019).
d/ Most recent WDI value (2020).

2021 saw a modest economic rebound at 2.9 percent, on par with the population growth rate. Despite an improvement in political stability following the conclusion of the elections, economic growth in 2022 is projected to decline to 2.2 percent. Drought conditions have worsened, commodity prices have increased, and humanitarian support has been insufficient for addressing high levels of food insecurity. Internal displacement is widespread, and poverty is projected at 72 percent.

Key conditions and challenges

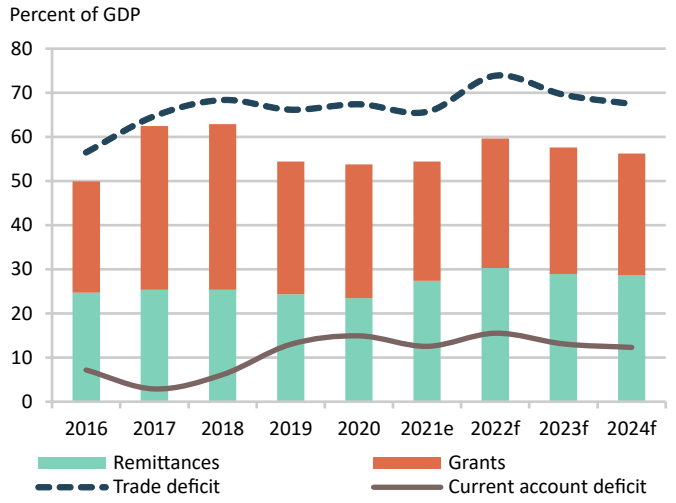
As a legacy of decades of conflict and fragility, the Somali economy does not generate the jobs and incomes needed to reduce poverty. Economic growth has been slow and insufficient to keep up with population growth. Real GDP growth averaged only 2.9 percent between 2014 to 2021 with no growth in per capita terms. Overall employment remains low; less than half of the Somali working-age population is actively participating in the labor market with lower participation among women and youth, at 43 percent and 39 percent, respectively. The economy is extremely vulnerable to natural disasters and external economic shocks. Cycles of floods and droughts have become increasingly frequent, damaging traditional agriculture-based livelihood systems, and contributing to widespread food insecurity and internal displacement. Somalia is in debt distress and depends on official development assistance (ODA) and external remittances to finance consumption and the large trade deficit which averaged 67 percent of GDP in 2020 and 2021.

To achieve sustained economic growth, Somalia will need to build resilience to shocks. While more urbanized parts of the economy continue to develop, including the booming new services sectors such as telecommunications, there are insufficient jobs to move people out of poverty. The country lacks monetary policy instruments and there is negligible fiscal space to respond to shocks or to invest in much-needed human and physical capital. Encouraging broad-based private sector activity including entrepreneurial activities for women and youth can help the economy to increase domestic production capacity and move away from a consumption-driven economy dependent on external flows. Somalia is participating in the Heavily Indebted Poor Countries (HIPC) initiative to address high levels of indebtedness for loans contracted before the civil war. Reaching the HIPC Completion Point milestone is envisaged in the second half of 2023, which would enable Somalia to qualify for debt relief and provide enhanced access to finance for development priorities.

Recent developments

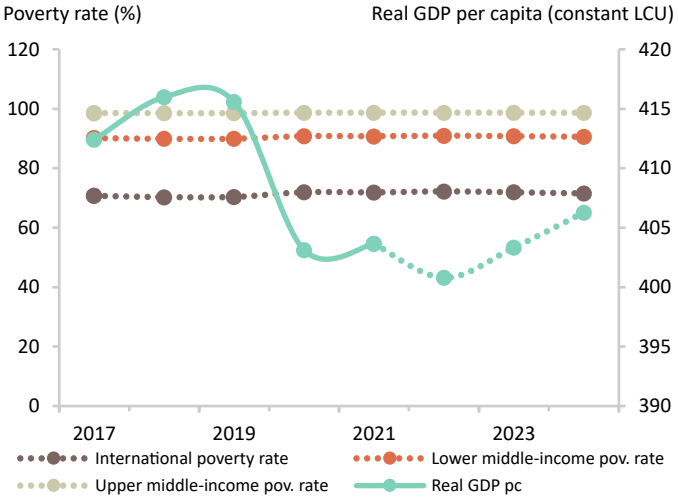
Somalia is experiencing a severe drought with famine conditions emerging in some parts of the country, which is preventing the economy from sustaining a modest rebound in growth. Real GDP growth is projected to slow down to 2.2 percent in 2022, from 2.9 percent in 2021. Exports, which are dominated by livestock, have been adversely affected by the drought, while the import bill has risen by 10 percent y-o-y as food and energy costs increased globally. Overall, the trade deficit is estimated to widen by 8.3 percentage points to 74 percent of GDP. Commodity prices which started rising in mid-2021 following challenges in global supply chains continue to

FIGURE 1 Somalia / External position



Source: Somalia Authorities & World Bank Staff Calculations.

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



Source: World Bank. Notes: see Table 2.

increase due to the worsening drought conditions, as well as the impacts of the Ukraine war. Inflation reached 7.7 percent in July 2022 (y-o-y) compared to 4.3 percent in the same period in 2021.

Poverty in Somalia is deep and widespread, increasing susceptibility to negative shocks. An estimated 72 percent of the population lived below the poverty line in 2021 with the majority of the population having experienced a reduction in income compared to pre-pandemic levels. The modest economic rebound pushed nominal GDP per capita to US$502 in 2021 from US$466 in 2020, but there has been no growth in real GDP per capita. The worsening drought conditions are estimated to have led to nearly 50 percent of the population being food insecure and 1 million people displaced from their homes as rural dwellers seek access to food and basic services in urban areas by end of July 2022. This growing size of the internally displaced population is likely to contribute to greater vulnerability and poverty overall. Increasing remittance inflows and grants (jointly estimated at 60 percent of GDP) as well as the government's social protection program, Baxnaano, are providing some relief to the challenging economic situation.

Somalia's fiscal situation has been challenging in 2022. While domestic revenue mobilization recovered to the pre-COVID-19 pandemic levels, the tax-to-GDP ratio remains low at 2 percent. Following the peaceful conclusion of parliamentary and presidential elections in 2022, the new government should be in a position to focus on taking measures to build economic resilience including expanding revenue mobilization, which is currently dominated by trade-related taxes.

Outlook

The economy is expected to pick up over the medium term, with growth projected to expand to 3.6 percent in 2023 and 3.7 percent in 2024. The peaceful conclusion of elections is expected to increase business confidence and encourage new investments. Improved growth conditions for Somalia's main trading partners, the Gulf Cooperation Council countries, are projected to contribute to an increased demand for the country's livestock exports. Ongoing investments in sectors such as energy, transport, education, and health are expected to improve conditions for trade and gradually contribute to improvements in human capital. Furthermore, upon reaching the HIPC Completion Point milestone Somalia is expected to access new sources of financing to boost economic growth and resilience.

The international poverty rate is projected to remain at around 72 percent between 2022 and 2024. Accelerating the pace of poverty reduction will require policy interventions and public investments that raise productivity, create jobs, and expand pro-poor programs which focus on women and youth.

TABLE 2 Somalia / Macro poverty outlook indicators (percent of GDP unless indicated otherwise)[a]

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.7	-0.3	2.9	2.2	3.6	3.7
CPI inflation, annual percentage change	4.5	4.3	4.6	8.5	3.6	3.8
Current account balance	-13.0	-14.9	-12.5	-15.5	-13.1	-12.3
Trade balance	-66.2	-67.4	-65.7	-73.9	-69.6	-67.5
Private remittances	24.3	23.5	27.4	30.3	28.9	28.7
Official grants	30.1	30.3	27.0	29.4	28.7	27.6
Fiscal balance[b]	0.3	0.4	-1.1	0.2	-0.1	-0.2
Domestic revenue	3.5	3.1	3.0	3.1	3.4	3.7
External grants	1.7	4.3	1.9	4.3	3.3	2.2
Total expenditure	4.9	7.0	6.0	7.3	6.8	6.1
Compensation of employees	2.5	3.3	3.3	3.3	3.1	2.9
External debt	82.0	56.8	45.0	44.0	6.5	9.0
International poverty rate ($2.15 in 2017 PPP)[c,d]	70.3	71.9	71.9	72.2	71.9	71.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	90.0	90.8	90.8	90.9	90.8	90.6
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	98.5	98.7	98.7	98.7	98.7	98.7

Sources: Federal Government of Somalia, IMF, and World Bank staff estimates.
Notes: e = estimate; f = forecast.
a/ GDP baseline estimates 2019-21 are by Somalia National Bureau of Statistics (SNBS, June 2022).
b/ Federal Government of Somalia (FGS).
c/ Calculations based on 2017 SHFS-wave 2. Actual data: 2017. Nowcast: 2018–21. Forecasts are from 2022–24.
d/ Projection using neutral distribution (2017) with pass-through = 1 based on private consumption per capita in constant US dollars.

SOUTH AFRICA

Table 1	2021
Population, million	60.0
GDP, current US$ billion	421.2
GDP per capita, current US$	7015.8
International poverty rate ($2.15)[a]	20.5
Lower middle-income poverty rate ($3.65)[a]	40.0
Upper middle-income poverty rate ($6.85)[a]	61.6
Gini index[a]	63.0
School enrollment, primary (% gross)[b]	98.4
Life expectancy at birth, years[b]	64.4
Total GHG emissions (mtCO2e)	560.7

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

The South African economy continues to recover, albeit more slowly than expected, with growth estimated at 1.9 percent in 2022. Employment growth picked up in the first half of 2022, but the labor market situation remains challenging. Poverty has reached levels not seen for more than a decade, while inflation has increased to a 13-year high. The outlook is clouded with risks, and sustained reforms and investments are required to support better growth outcomes and poverty reduction.

Key conditions and challenges

South Africa's economy only expanded by an average of 1.0 percent between 2012 and 2021, leading to a contraction of income per capita of 5.6 percent during this period. GDP rebounded 4.9 percent in 2021 but remained below pre-Covid levels. The country's long-standing weak performance has been rooted in persistent structural constraints, especially in the energy sector, and in low and uneven human capital development. Low investment has been a significant drag on economic performance, exacerbating the decline in potential output amid weak business confidence and limited competition in several priority sectors.

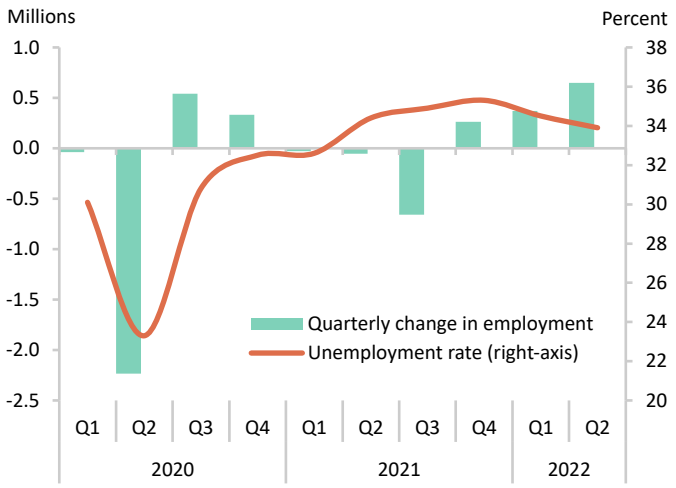
The adverse welfare effects of the pandemic remain visible. In April, South Africa ended a two-year National State of Disaster related to COVID-19. However, the virus has left significant scarring on the economy since around 821 thousand fewer people were employed in Q2-2022 compared to pre-COVID levels. The absence of pro-job growth explains that only 38.7 percent of the working-age population is employed. Job losses have been higher for the more vulnerable, exacerbating inequality, which was already among the highest in the world (Gini Index of 67 in 2018). As a result, it is estimated that poverty rates (63.1 percent in 2021 based on the upper middle-income poverty line) have climbed back to levels of more than a decade ago, and an additional 1.5 million people are poor relative to 2019.

South Africa's growth recovery is fragile as it is not broad-based and exposed to the negative impacts associated with the energy crisis on businesses and households. External and fiscal accounts have benefited from the recent upswing in commodity prices but the country's heavy trade reliance on commodities and the government's high debt level continue to make them vulnerable to shocks, including weaker global growth and climate risks. Today, real GDP per capita resembles the levels seen over a decade ago. A lack of improvement in living standards would threaten social stability and put additional pressure on public finances, which are already strained.

Recent developments

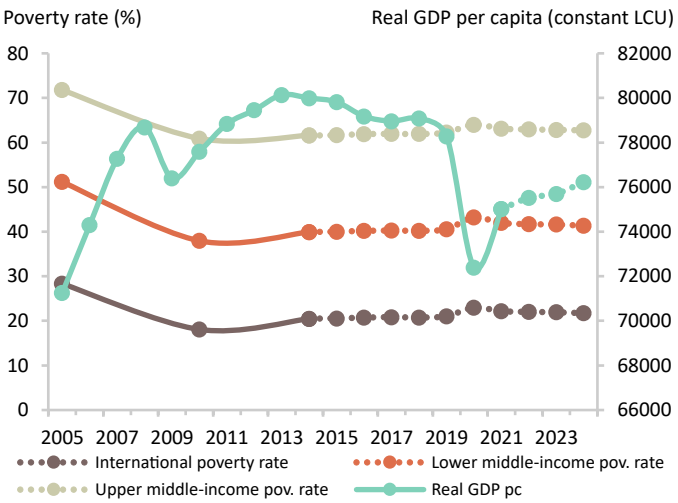
South Africa's economy began 2022 on a positive note but a multiplicity of shocks subsequently hit economic momentum. Real GDP increased by 1.7 percent QoQ in the first quarter, driven by manufacturing, trade, and financial services. However, the economy contracted in Q2 by 0.7 percent because of the devastating flooding in the KwaZulu-Natal province, and the intensification of electricity supply shortages, which hurt confidence and restrained industrial output and activity in other sectors. Price pressures also increased due to the effects of the Ukraine war. The escalation of load shedding drove the government to launch a new energy plan in July to end the power crisis in the medium-term. While growth momentum was disrupted, the unemployment rate declined

FIGURE 1 South Africa / Employment growth and unemployment rate



Sources: Statistics South Africa and World Bank.

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



Source: World Bank. Notes: see Table 2.

to 33.9 percent in Q2, albeit still above the elevated pre-pandemic levels.

The war-induced spike in commodity prices boosted South Africa's export prices but also raised input costs. The current account surplus improved to 3.7 percent of GDP in 2021 but deteriorated in the first half of 2022. Higher mineral prices provided a windfall for tax revenues as miners' earnings remained firm, leading to a lower than expected fiscal deficit of 5.0 percent of GDP in FY2021/22. Public debt as a share of GDP was equal to 67.4 percent at the end of FY2021/22, lower than in FY2020/21 due the relatively rapid GDP growth rate.

The shock from the Ukraine war propelled the rise in domestic energy and food prices, underpinning the increase in headline inflation to a 13-year high of 7.8 percent YoY in July. To counter inflation risks and contain the rise in inflation expectations, the South African Reserve Bank accelerated monetary tightening in recent months, taking its cumulative hikes to 275 basis points thus far in the current cycle.

Outlook

GDP growth is expected to ease to 1.9 percent in 2022 and average below this rate in 2023 and 2024. The outlook is in the context of strong realized growth in the first quarter, the full reopening of the economy, planned infrastructure spending, and the partial rebound from the direct shocks which hindered growth in Q2, particularly severe flooding. In the absence of reforms, structural bottlenecks will continue to hamper growth outcomes, including the extent of electricity shortages and logistical constraints. Investment is expected to slightly improve from low levels.

The economic outlook is clouded with risks, concerning slowing global growth, persistent spillovers from the war in Ukraine on input costs, and a further tightening in global financial conditions.

South Africa's expected growth remains insufficient to address socio-economic challenges. The unemployment rate is expected to remain elevated over the medium run, hindering progress in reducing poverty and inequality. The poverty rate is estimated to hover around 63 percent between 2022 and 2024. Headline inflation is projected to average 6.8 percent in 2022, heavily affecting the most vulnerable and eliciting further monetary tightening.

Revenue overperformance has mitigated the deterioration in public finances over the last two years, but significant vulnerabilities persist. The revenue windfall associated with higher global commodity prices is considered temporary, and limiting fiscal slippages remains critical. The acceleration in inflation has fueled demand for wage increases. Nevertheless, keeping the growth of the wage bill under control, limiting transfers to financially distressed SOEs, and containing the expansion of social protection programs (beyond the SRD grant) will be essential to protect fiscal sustainability. Public sector financing needs are expected to remain large, and higher interest rates will impact the pace of fiscal consolidation.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	0.3	-6.3	4.9	1.9	1.4	1.8
Private Consumption	1.2	-5.9	5.6	2.6	2.2	2.0
Government Consumption	2.1	0.8	0.6	0.4	-1.7	0.8
Gross Fixed Capital Investment	-2.1	-14.6	0.2	4.2	4.8	4.8
Exports, Goods and Services	-3.4	-11.9	10.0	6.7	2.3	3.0
Imports, Goods and Services	0.4	-17.4	9.5	11.9	4.9	4.5
Real GDP growth, at constant factor prices	0.2	-5.9	4.7	1.9	1.4	1.8
Agriculture	-6.4	14.9	8.8	0.9	2.0	2.0
Industry	-1.5	-12.5	6.1	-2.5	1.5	1.1
Services	1.1	-4.4	4.1	3.3	1.3	2.0
Inflation (Consumer Price Index)	4.1	3.3	4.6	6.8	5.7	4.6
Current Account Balance (% of GDP)	-2.6	2.0	3.7	0.2	-1.6	-2.1
Net Foreign Direct Investment Inflow (% of GDP)	0.5	1.5	9.7	0.5	0.6	0.6
Fiscal Balance (% of GDP)	-5.0	-10.0	-5.0	-5.8	-5.7	-5.3
Debt (% of GDP)	57.2	70.2	67.4	71.8	74.9	77.4
Primary Balance (% of GDP)	-1.5	-5.8	-0.8	-0.9	-0.5	0.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	21.0	23.0	22.2	22.0	21.9	21.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	40.6	43.2	42.0	41.7	41.6	41.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	62.3	64.0	63.1	63.0	62.9	62.8
GHG emissions growth (mtCO2e)	1.0	-1.0	0.7	0.6	0.3	0.5
Energy related GHG emissions (% of total)	78.3	78.0	78.2	78.0	77.7	77.4

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/ Calculations based on 2014-LCS. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2014) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

SOUTH SUDAN

Table 1	2021
Population, million	11.4
GDP, current US$ billion	5.0
GDP per capita, current US$	437.3
International poverty rate ($2.15)[a]	67.3
Lower middle-income poverty rate ($3.65)[a]	86.5
Upper middle-income poverty rate ($6.85)[a]	96.6
Gini index[a]	44.2
School enrollment, primary (% gross)[b]	73.0
Life expectancy at birth, years[b]	58.1
Total GHG emissions (mtCO2e)	60.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2016), 2017 PPPs.
b/ WDI for School enrollment (2015); Life expectancy (2020).

Despite high oil prices, the economy is projected to contract by 2.8 percent in FY2021/22 due to falling oil production and weather-related and external shocks. These, coupled with structural challenges related to weak governance, inadequate service delivery, and ongoing localized conflict, contributed to high levels of food insecurity and widespread poverty. Key downside risks include heightened conflict, climate shocks, and adverse terms of trade amid limited fiscal resources and pressing humanitarian needs.

Key conditions and challenges

A decade after independence, South Sudan's development prospects remain constrained by high levels of fragility amid localized/inter-communal conflict. A 2018 peace agreement ended five years of civil war; however, the transition period needed for its full implementation has been extended until 2025. The country is vulnerable to climate change and external shocks. Oil accounts for nearly all exports and around 90 percent of government revenues. A modest economic recovery in 2019 was upended by historic floods and the COVID-19 pandemic that led to a massive loss in oil revenues. The government's response – salary arrears and reliance on monetary financing – further compounded economic hardship and added to currency and inflation pressures.

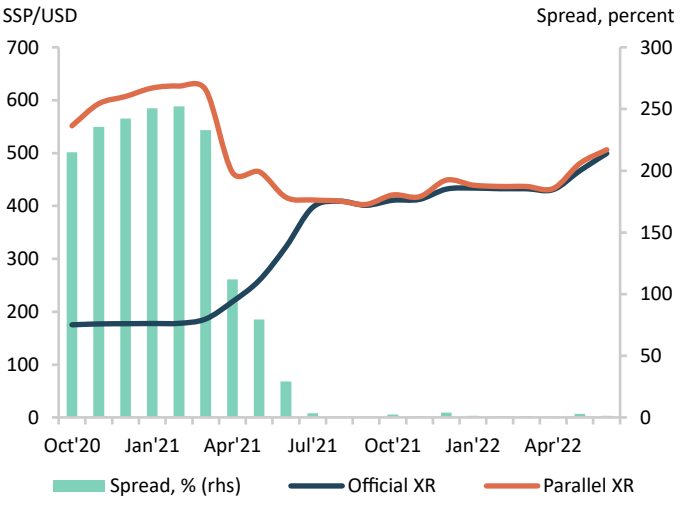
Since 2021, reforms initiated under an IMF staff-monitored program have helped improve macroeconomic and price stability. Higher oil prices following the Ukraine war have supported FX buffers and fiscal revenues. Poverty, however, remains dire, with 7 in 10 people living in extreme poverty. Some 8.3 million people, comprising 75 percent of the population, face severe food insecurity made worse by higher global food prices and domestic floods. In addition, 2.2 million people are internally displaced (55 percent of whom were women and girls), up from 2 million in 2021. An additional 2.3 million remain refugees in neighboring countries.

External risks relate to adverse global oil and food prices that reduce scarce fiscal resources amid pressing humanitarian needs. Implementing the 2018 peace deal, the timeline for which was recently extended by 2 years, is essential for domestic peace and stability and the resumption of growth. Macroeconomic, governance, and transparency reforms are urgent to ensure scarce resources are spent on development needs and to facilitate a sustainable and inclusive economic recovery. Reforms and investments are especially critical in agriculture, which supports livelihoods for 80 percent of the population; these will help to support diversification away from the oil sector, create jobs, and build resilience to climate change.

Recent developments

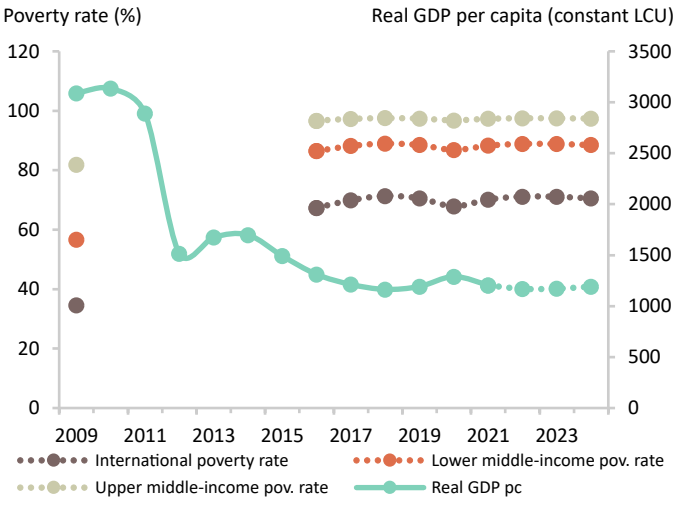
Economic activity has remained weighed down by a fourth consecutive year of flooding, lingering impacts of the COVID-19 pandemic, violence flareups, and higher food inflation due to the war in Ukraine. Oil production fell 8.6 percent in FY2021/22 due to floods and COVID-related delays in investments to replace exhausted wells. Agricultural prospects remain disappointing: the cereal deficit in 2022 is estimated at 541,000 tons (16 percent higher than in 2021), mainly driven by reduced yields due to widespread floods and prolonged dry spells. GDP is estimated to contract by 2.8 percent in FY 2021/22,

FIGURE 1 **South Sudan** / Exchange rate developments



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

following a 5.1 percent decline the previous year.

Tighter monetary policy and successful exchange rate reforms in 2021 helped to ease inflation pressures, which averaged 22 percent in FY2021/22, vs. 43.1 percent in FY2020/21. Official Juba CPI data shows year-on-year inflation dropped to -11.5 in June 2022; however, monthly inflation momentum has increased since March in line with global food prices. The exchange rate premium between official and parallel markets has increased, albeit modestly, following the appreciation of USD and drawdown on FX deposits at the central bank by the Ministry of Finance to reduce salary arrears.

Notwithstanding higher oil revenues, fiscal pressures remained significant in FY2021/22due to rising road investments, reduction of arrears, and unanticipated debt repayments.

The FY2022/23 draft budget envisages sustained increases in capital expenditures, a 20 percent increase in public sector salaries to protect against the impacts of inflation, and rising transfers to regions, which will widen the fiscal deficit. Public financial management (PFM) reforms to strengthen expenditure controls and cash management have been initiated, including an IFMIS. But there is limited transparency on oil revenues, including servicing of non-concessional external debt. South Sudan remains at a high risk of debt distress for both external and domestic debt.

Rising food import costs have been offset by higher oil export revenues, completion of transfers to Sudan, and weaker demand for capital imports. Consequently, the current account shifted to a surplus of 0.8 percent of GDP from a deficit of 5.5 percent.

Outlook

GDP growth should remain negative in FY2022/23, reflecting the continued impact of floods on agricultural and oil output, with oil production projected to drop by 3.8 percent. Nonetheless, higher government current spending should support a return to positive growth in the service sector.

Over the medium term, growth should rise to above 2 percent as oil output recovers and non-oil activity improves, supported by higher government outlays on critical public investments, health and education, and moderating inflation. This outlook is predicated on prudent monetary and fiscal policies that anchor macro-stability, progress on governance, transparency, and structural reforms, and steady implementation of the peace deal. The current account surplus is expected to benefit from the completion of financial transfers to Sudan, but eventually narrow as the peak in global energy prices passes.

Poverty is tenacious and expected to remain stagnant at around 71 percent in the medium term as real growth prospects are limited. Addressing this reinforces the urgency of fiscal and PFM reforms that generate budgetary resources to increase social expenditures. While efforts to modernize tax administration using digital solutions and expand the tax base will help, fiscal pressures will remain substantial given sizable debt service obligations, reduction of legacy arrears, and ramping up social and humanitarian expenditures. It is, thus, also vital to strengthen the management and transparency of oil revenues.

TABLE 2 South Sudan / 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	9.5	-5.1	-2.8	-0.8	2.1
Real GDP growth, at constant factor prices	3.2	9.5	-5.1	-2.8	-0.8	2.1
Agriculture	9.9	6.0	-4.0	-1.8	-1.8	2.5
Industry	20.9	27.5	-2.3	-3.4	-1.8	1.2
Services	-12.1	-9.6	-9.7	-2.0	1.1	3.5
Inflation (Consumer Price Index)	63.6	33.3	43.1	22.0	28.0	16.1
Current Account Balance (% of GDP)	-6.3	-20.3	-5.5	0.8	3.5	1.9
Net Foreign Direct Investment Inflow (% of GDP)	-1.7	-0.4	0.9	1.0	0.9	2.4
Fiscal Balance (% of GDP)	-1.0	-9.8	-6.8	-3.0	-7.0	0.9
Debt (% of GDP)	32.7	40.7	57.6	59.5	46.4	34.9
Primary Balance (% of GDP)	-0.5	-7.8	-4.4	-0.8	-5.2	2.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	70.5	67.8	70.1	71.1	71.1	70.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	88.5	86.9	88.3	88.9	88.9	88.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	97.4	96.8	97.4	97.5	97.5	97.4
GHG emissions growth (mtCO2e)	-10.2	0.2	0.7	0.1	0.0	0.3
Energy related GHG emissions (% of total)	2.9	3.3	3.3	3.3	3.4	3.5

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 2016-HFS-W3. Actual data: 2016. Nowcast: 2017-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2016) with pass-through = 0.87 based on GDP per capita in constant LCU.

SUDAN

Table 1	2021
Population, million	44.9
GDP, current US$ billion	34.3
GDP per capita, current US$	764.3
International poverty rate ($2.15)[a]	15.3
Lower middle-income poverty rate ($3.65)[a]	49.7
Upper middle-income poverty rate ($6.85)[a]	86.2
Gini index[a]	34.2
School enrollment, primary (% gross)[b]	79.0
Life expectancy at birth, years[b]	65.5
Total GHG emissions (mtCO2e)	127.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2020).

Real GDP growth is projected at 0.3 percent in 2022, following a contraction in 2021. Annual inflation remains in triple digits, and balance of payments pressures have increased due to high global food and fuel prices from the Ukraine-Russia war. Extreme poverty is estimated to have increased in 2021, and the political impasse may delay HIPC completion, undermining efforts to tackle significant external debt vulnerabilities. Failure to reach domestic political consensus is a key downside risk.

Key conditions and challenges

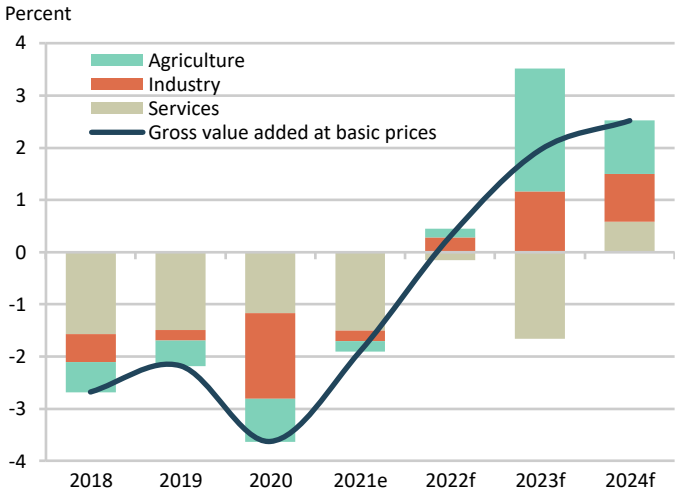
The political impasse that started with the October 2021 military takeover has severely impacted the Sudanese economy. Grants were expected to provide almost one-third of revenues in 2021-2022, but international assistance has been on hold since the military takeover. The pause in external grants caused a depreciation of the SDG, weakening the balance of payments. This has been exacerbated by the Ukraine war because Sudan imports about half its wheat from Russia. As a result, higher global food prices, coupled with higher import needs have raised import costs, worsening the balance of payments, and food insecurity. The World Food Program projects that as much as 39 percent of the population could become food insecure by the Fall of 2022. Recent floods could further devastate agriculture production, displacing populations, and worsening household welfare.

Reduced fiscal space has caused the government to cut public expenditures, limiting much-needed investment and service delivery spending. Protests and ongoing civil disturbances have disrupted trade and food distribution channels, including blockades of some national trade routes. This has stalled growth. The country faces a dilemma of either raising prices and potentially exacerbating unrest or increasing subsidies, and returning to monetization of a larger fiscal deficit at the risk of serious macroeconomic destabilization. Reforms are need to stimulate growth and contain inflation. Sudan plans to reach HIPC completion point in the coming years and has remained current on its debt servicing to the IMF and World Bank. Failure to reach domestic political consensus is a key downside risk; the economy remains highly vulnerable to external shocks amidst limited policy buffers.

Recent developments

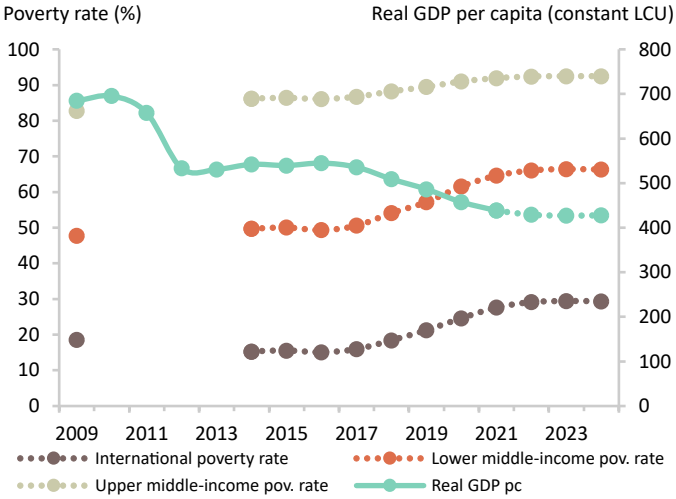
The October 2021 military takeover coupled with the pause in donor support led to an estimated 2 percent growth contraction in 2021. Economic activity continued to stall during 2022H1, largely due to reduced mobility and disruption of critical business services, including logistics and telecommunications. But increased public spending on wages and goods and services, coupled with higher exports of gold and live animals, provided some support to the economy. Although declining, inflation remains extremely high at 150 percent in June 2022, following a significant reduction in commodity subsidies in 2021, and more recently due to higher global food and fuel prices arising from the Ukraine war. Following a shift to a freely floating exchange rate in early March 2022, the Pound depreciated from SDG600 to SDG800 to the dollar in one week. However, following a reversion to a managed float in late March, it appreciated back to SDG680 on the parallel market and SDG585 on the formal market. In 2022Q1,

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



Sources: National Bureau of Statistics and World Bank's Staff Calculations.

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



Source: World Bank. Notes: see Table 2.

following a US$46.47 million drawdown, reserves are roughly US$1.6 billion (or 2.1 months of imports).

In the wake of the political impasse and pause in grants, the authorities significantly cut subsidies on fuel, wheat, and medicines and reduced capital spending, narrowing the fiscal deficit in 2021. With lower spending, overall public debt declined to 215.6 percent of GDP in 2021 (from 249.1 percent in 2020). A portion of the savings financed higher spending on wages, social transfers, and electricity subsidies in 2022H1. Between H12021 and H12022, the deficit declined from SDG45.8 million to SDG 37.1 million, driven by higher nontax revenues, goods and services taxes, and direct taxes.

Based on the latest household survey (2014) and GDP growth projections, poverty continued to increase from 18.4 percent in 2018 to 29.1 percent in 2022, at a line of $2.15/day (in 2017 PPPs). The protracted economic crises, compounded by COVID-19, the military takeover in October 2021, the Ukraine war, food insecurity, and climate shocks are expected to have contributed to nearly 10 percentage points increase in extreme poverty. Cash and food transfer programs could help assist at-risk populations.

Outlook

Growth is expected to average around 2 percent over 2023-2024, driven by agriculture, especially exports of livestock, as well as mining and a recovery of services. Inflation is expected to decline but remain high, following the government's commitment to contain the fiscal deficit and limit monetization.

>Balance of payment pressures on the exchange rate will continue into 2023, mainly due to the fallout from the Ukraine crisis. Sudan will need to import a substantial amount of food and wheat at much higher prices. Higher fuel prices will not adversely affect the balance of payments because higher inflows from crude exports and transit fees from South Sudan almost exactly offset higher payments for petroleum and fuel imports. However, pressures could ease somewhat if the political impasse is resolved in the coming months, prior to the start of 2023, and Sudan reengages with the international community.

The fiscal deficit is projected to average around 2 percent over 2023-2024. In the absence of grants to finance increased wages and transfers, the authorities are expected to delay capital spending and rely on trade receipts and revenues from exports of gold and animal products. Total expenditures are expected to average 12.4 percent of GDP, while total revenues as a share of GDP are expected to average 10.2 percent of GDP. With the authorities expected to limit the contraction of additional debt and maintain its debt service obligations, the debt-to-GDP should decline further; even so, debt ratios are expected to remain elevated with delays in reaching HIPC completion point.

Substantial efforts are needed to curb the poverty trend. Projections suggest that extreme poverty will continue to increase until 2023. Even though extreme poverty is expected to stagnate in 2024, poverty rates measured by all poverty lines are still higher than the pre-Russia-Ukraine conflict levels in 2024.

TABLE 2 Sudan / 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	-3.6	-1.9	0.3	2.0	2.5
Private Consumption	-0.6	-3.4	-0.8	0.3	2.1	2.7
Government Consumption	-6.5	-8.8	-9.8	2.5	2.7	3.3
Gross Fixed Capital Investment	-0.2	-2.0	-2.1	-1.8	2.0	3.0
Exports, Goods and Services	7.0	5.2	2.0	3.5	4.0	5.2
Imports, Goods and Services	13.8	-9.0	-0.5	4.8	5.0	6.7
Real GDP growth, at constant factor prices	-2.2	-3.6	-1.9	0.2	1.9	2.5
Agriculture	-1.5	-2.5	-0.6	0.5	2.0	2.9
Industry	-0.7	-5.7	-0.7	1.0	2.0	3.1
Services	-3.8	-3.0	-3.9	-0.6	1.9	1.8
Inflation (Consumer Price Index)	51.0	163.3	359.7	190.0	105.0	47.0
Current Account Balance (% of GDP)	-15.6	-17.5	-5.9	-6.6	-7.0	-6.6
Net Foreign Direct Investment Inflow (% of GDP)	-2.9	-2.7	-1.6	-1.6	-1.8	-2.3
Fiscal Balance (% of GDP)	-10.9	-5.9	-0.3	-2.7	-2.3	-1.6
Debt (% of GDP)[a]	200.3	249.1	215.6	183.8	168.5	157.7
Primary Balance (% of GDP)	-10.7	-5.9	-0.3	-2.4	-1.9	-1.2
International poverty rate ($2.15 in 2017 PPP)[b,c]	21.3	24.6	27.6	29.1	29.4	29.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	57.2	61.6	64.6	66.1	66.4	66.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	89.5	91.0	92.0	92.4	92.5	92.5
GHG emissions growth (mtCO2e)	-0.3	-1.3	-1.1	-0.7	-0.4	-0.1
Energy related GHG emissions (% of total)	20.8	19.8	19.1	18.5	17.8	17.1

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/ Debt projections do not include any restructuring achieved during the HIPC process.
b/ Calculations based on 2014-NBHS. Actual data: 2014. Nowcast: 2015-2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2014) with pass-through = 1 (High (1)) based on GDP per capita in constant LCU.

TANZANIA

Table 1	2021
Population, million	61.7
GDP, current US$ billion	65.8
GDP per capita, current US$	1066.0
International poverty rate ($2.15)[a]	44.9
Lower middle-income poverty rate ($3.65)[a]	74.3
Upper middle-income poverty rate ($6.85)[a]	92.3
Gini index[a]	40.5
School enrollment, primary (% gross)[b]	96.9
Life expectancy at birth, years[b]	65.8
Total GHG emissions (mtCO2e)	158.6

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

The Tanzanian economy continues to expand but below its potential. GDP grew by 4.3 percent in 2021, up from 2.0 percent in 2020. Poverty is estimated to have dropped somewhat in 2021 but remains above pre-pandemic levels. Continued recovery hinges on strengthened implementation of supportive private sector policies, but faces risks from an uncertain external environment. Policy priorities should be to strengthen pandemic response while laying the groundwork for inclusive private-sector-led growth.

Key conditions and challenges

Tanzania remains a lower middle-income country despite the global pandemic-induced contraction of GDP per capita in 2020. Thanks to a sustained long period of high GDP growth and macroeconomic stability, Tanzania graduated to LMIC status in July 2020. Over the period of two decades to 2020, GDP growth averaged 6.5 percent per annum and inflation remained low while both current account and fiscal deficits were manageable. Private investment was a key driver of growth. However, in recent years, a combination of lower extractives FDI and difficult business environment (excessive bureaucracy, high taxes, inadequate infrastructure, and skills shortages) have resulted in a slower growth of private investment. Moreover, with the global pandemic and Russia-Ukraine crisis, the macroeconomic framework faces challenges, including BoP and inflation pressures.

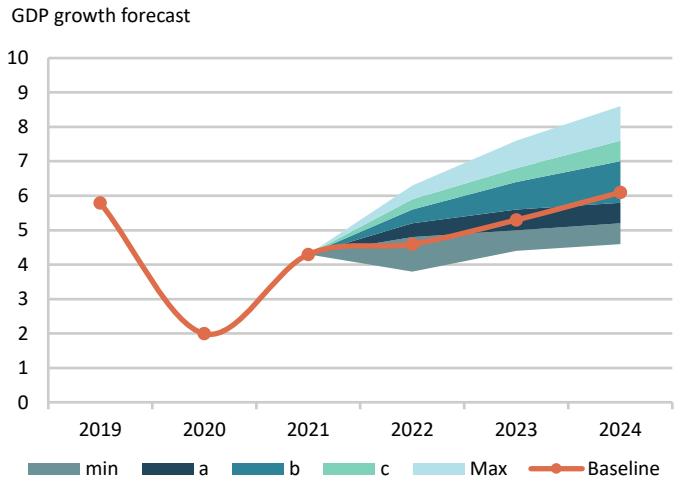
The pace of poverty reduction in Tanzania has been slow in recent years. During 2011-2018, it fell less than 2 percentage points from 28.2 to 26.4 and based on the international poverty line it remained unchanged. High population growth and limited wage job creation, among other factors, have hindered the inclusiveness of growth. The COVID-19 pandemic and changing rainfall patterns have further exacerbated these challenges.

Strengthening the pandemic response and supporting private sector-led inclusive growth will remain priorities over the medium term. Priority policy actions should focus on saving lives, protecting poor and vulnerable households, attracting new foreign and domestic investment, supporting an employment-intensive and resilient growth, including in the agricultural sector, and expanding the available fiscal space while maintaining debt sustainability. Achieving Tanzania's development vision of successful transition to a middle-income country with shared prosperity for the population will require the government to revise, strengthen, and expand its existing efforts to support struggling firms while implementing structural reforms to address longstanding constraints on private investment and women's access to economic opportunities as well as addressing the skills challenge.

Recent developments

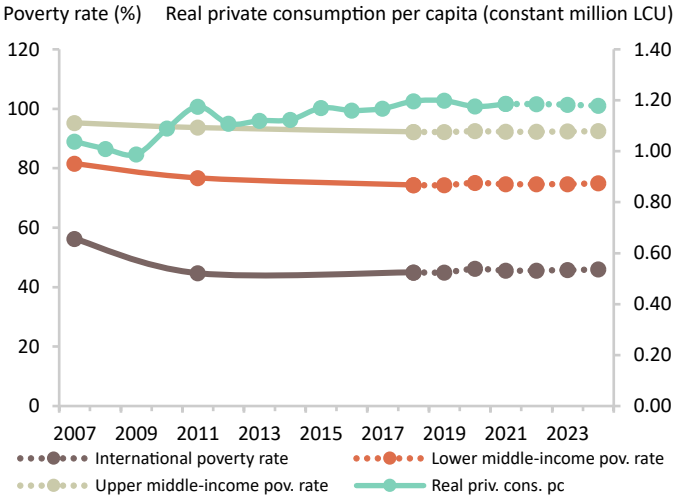
Tanzania's economic activities are recovering, with real GDP growth estimated at 4.3 percent in 2021, up from 2.0 percent in 2020. The accommodation and restaurants, mining, ICT, transport, and electricity sectors drove the recovery. While economic activities were expanding, they have not reached pre-pandemic levels. Leading indicators such as cement production, electricity generation, private-sector credit, goods and services exports, nonfuel goods imports, telecommunications, and tourist arrivals have continued to increase by June

FIGURE 1 Tanzania / Real GDP growth forecasts under alternative scenarios



Sources: World Bank Staff Estimates and Projections (2018-2024).

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



Sources: World Bank. Notes: see Table 2.

2022. Driven by higher energy and food prices, inflation has increased but remains manageable at 4.6 percent in August 2022.

The current-account deficit widened to 5.3 percent of GDP in the year ending in June 2022, as the cost of imports grew faster than exports earnings. A combination of high value of oil and other industrial supplies (+45 percent y-o-y), lower value of gold exports (-11 percent) more than offset the increased earnings from tourism and manufactured goods export (+30 percent). The current-account deficit was funded largely by external loans and foreign reserves. The Tanzanian shilling remains relatively stable against the currencies of major trading partners. To partly finance the BOP, the gross official reserves declined to US$ 5.2 billion by end-June 2022 from US$6.7 billion at end-October 2021.

Due to increased expenditures associated partly with implementation of the fuel subsidy program, the fiscal deficit is estimated at 3.5 percent of GDP in 2021/22. Both foreign and domestic loans funded the deficit. Public and publicly guaranteed debt remained relatively low at US$27.6 billion (39.5 percent of GDP) in June 2022 with interest payment consuming about 12 percent of domestic revenue. The latest joint IMF-World Bank Debt Sustainability Analysis, conducted in July 2022, concluded that Tanzania's risk of external debt distress remains moderate.

Poverty based on the international poverty line of US$ 2.15 per person per day (PPP 2017) is estimated to have risen by 1.3 percentage point in 2020, due to the economic slow-down that particularly affected household businesses. Poverty dropped somewhat in 2021 but remains above pre-pandemic levels.

Outlook

Tanzania's real GDP is projected to grow at 4.6 percent in 2022. A delayed recovery to potential GDP is based on worsening global environment following the Russia-Ukraine crisis. So, only a modest improvement in GDP growth is projected for 2022 and then a pick-up to 5.3 percent in 2023 as the global environment moderates and improved private sector policies deliver a private investment response. The current-account deficit is projected to widen to 4.4 percent of GDP in 2022 due to rising imports bill, which will more than offset an expected increase in exports earnings. The fiscal deficit is projected to narrow slightly to 2.9 percent of GDP in 2022, driven by increased domestic revenues from expanding economic activities.

Uncertainty of the macroeconomic outlook remains high, with real GDP growth ranging between 3.5 – 5.5 percent under alternative scenarios, below its long-run potential growth rate of about 6 percent. Tanzania's vulnerability to the global pandemic remains high amid the relatively low vaccination rates. Moreover, Tanzania remains vulnerable to a protracted Russia-Ukraine crisis, reduced capital flows, persistent inflationary pressures, elevated debt levels, and supply bottlenecks.

No significant reduction in the poverty rate is foreseen for 2022 as per capita private consumption is projected to stagnate. Year-on-year food price inflation reached 6.5 percent in July 2022, which particularly affects the poor, given the relatively high share of food in their total consumption pattern. Rising food price inflation is the top concern of Tanzanian citizens according to a nationally representative telephone survey released by Twaweza (an NGO) in August 2022. Poor rainfall in the recent long rainy season has put food production under pressure, further compounding the challenges faced by poor households and those living just above the poverty line. Boosting poverty reduction requires strengthening human capital, raising the resilience and agricultural productivity of smallholders, including through strengthening linkages to input and output markets, and the creation of quality jobs.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.8	2.0	4.3	4.6	5.3	6.1
Private Consumption	3.1	1.0	4.3	3.6	3.4	3.0
Government Consumption	2.3	7.4	14.9	9.0	2.6	2.9
Gross Fixed Capital Investment	8.0	2.4	6.8	8.4	8.6	9.0
Exports, Goods and Services	19.0	-8.6	8.7	8.3	10.6	11.8
Imports, Goods and Services	-1.4	-7.6	20.3	15.3	9.6	7.2
Real GDP growth, at constant factor prices	5.8	2.0	4.3	4.6	5.3	6.1
Agriculture	3.5	3.1	3.5	3.7	4.1	4.3
Industry	10.3	2.5	4.5	4.8	5.2	6.4
Services	4.2	0.9	4.7	5.1	6.3	7.0
Inflation (Consumer Price Index)	3.5	3.4	3.4	5.2	4.5	4.0
Current Account Balance (% of GDP)	-1.6	-1.3	-3.1	-4.4	-4.2	-3.3
Net Foreign Direct Investment Inflow (% of GDP)	2.0	1.1	1.6	1.8	2.1	2.6
Fiscal Balance (% of GDP)	-3.0	-2.3	-3.4	-2.9	-2.9	-2.6
Debt (% of GDP)	38.3	38.7	39.8	40.7	39.4	38.3
Primary Balance (% of GDP)	-0.5	-0.3	-1.6	-1.2	-1.1	-0.9
International poverty rate ($2.15 in 2017 PPP)[a,b]	44.9	46.2	45.5	45.6	45.7	46.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	74.3	75.1	74.6	74.6	74.7	75.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	92.2	92.5	92.3	92.3	92.4	92.5
GHG emissions growth (mtCO2e)	1.9	1.7	0.7	2.6	2.9	2.1
Energy related GHG emissions (% of total)	10.4	10.7	10.0	10.8	11.9	12.4

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/ Calculations based on 2018-HBS. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.

TOGO

Table 1	2021
Population, million	8.5
GDP, current US$ billion	8.4
GDP per capita, current US$	992.4
International poverty rate ($2.15)[a]	28.1
Lower middle-income poverty rate ($3.65)[a]	56.8
Upper middle-income poverty rate ($6.85)[a]	84.0
Gini index[a]	42.4
School enrollment, primary (% gross)[b]	126.3
Life expectancy at birth, years[b]	61.3
Total GHG emissions (mtCO2e)	9.4

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

Disruptions associated with the conflict in Ukraine, with rising inflation, slowing external demand and tightening financing conditions, are expected to result in growth moderating to 4.8 percent in 2022, before recovering to a weaker-than-expected 5.6 percent in 2023 as the impact of these shocks gradually wane. The poverty rate is projected to decline modestly in 2022, and more significantly in 2023, as food price inflation moderates and agriculture production strengthens.

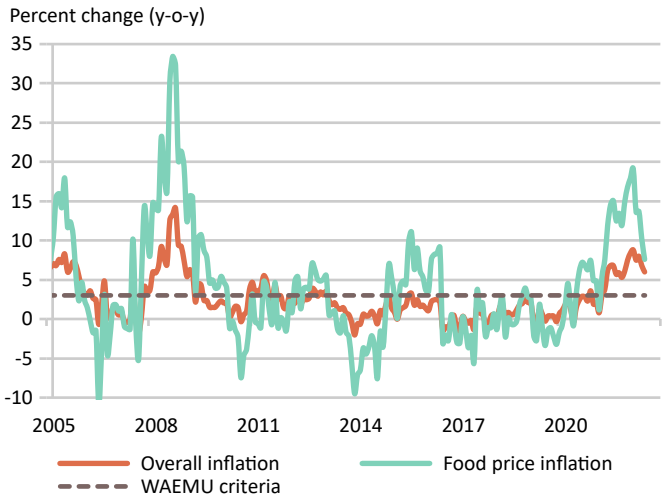
Key conditions and challenges

Togo was able to maintain relatively robust growth in recent years, but fiscal space has declined after stimulus measures since the onset of the COVID crisis. A successful period of fiscal consolidation prior to the global pandemic lowered public debt to 52.4 percent of GDP in 2019, from 60.1 percent in 2016, while a reform-induced pickup in private investment helped maintain real GDP growth at an average of 5.1 percent (2.5 percent in per capita terms) over that period. Since 2020, a sharp increase in public spending helped cushion the COVID-related slowdown and contributed to the recovery in 2021, but raised public debt to a 15-year high of 63.6 percent of GDP. The extreme poverty rate (percent of the population living below the new international poverty line of US$2.15 per capita per day, 2017 PPP) is estimated to have dropped to 26.6 percent in 2021, about 0.8 percentage points below pre-pandemic levels. The fallout from the conflict in Ukraine, slowing external demand and rising inflation are expected to restrain growth in 2022, while tighter financing conditions combined with higher-than-expected budget deficits hasten the need for fiscal consolidation. The outlook is subject to significant global risks, including escalating geopolitical tensions, recessions among major trading partners, and financial market turmoil which could impact Togo through volatile commodity prices, decelerating export demand, and debt refinancing pressures. At the regional and domestic level, persistent low precipitation and a greater frequency of extreme weather events could intensify food insecurity and exacerbate regional instability and social strife. These challenges will require reforms aimed at accelerating structural transformation and job creation, increasing resilience to shocks, and restoring fiscal space.

Recent developments

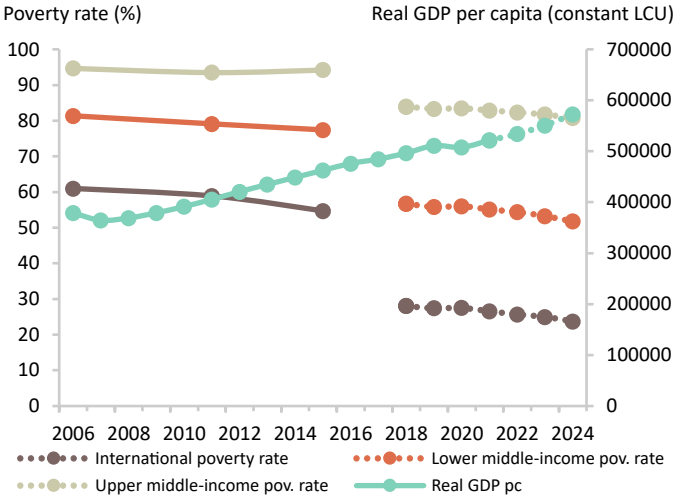
Following a robust recovery in 2021, growth lost momentum in the first half of 2022. Whereas the recovery in 2021 was largely driven by a rebound in manufacturing activity, amid booming external demand, activity deteriorated significantly in 2022, with industrial production expanding by only 0.9 percent year-on-year in May 2022, down from 10.6 percent in December 2021. This slowdown reflected weakening demand from major trading partners, global supply chain disruptions, and a significant rise in energy prices adversely affecting both supply and demand conditions. The agriculture sector also faced challenges in 2022, as reduced rainfall and rising fertilizer and energy prices contributed to slowing production and higher food prices.

FIGURE 1 **Togo** / Inflation



Source: Central Bank of West African States (BCEAO).

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



Source: World Bank. Notes: see Table 2.

Rural populations who disproportionately rely on agriculture for own food consumption and income are at a greater risk of falling into poverty due to recent shocks, but real income in the agriculture sector is still expected to slightly outpace rural population growth this year. Weakening external demand and rising import prices for crude oil, wheat, and rice have contributed to a growing trade deficit in the first half of 2022, but this was partially offset by a sharp uptick in the price of phosphate and cotton boosting export revenues.

Togo's inflation rate was significantly above expectations in the first half of 2022 but appears to have peaked at 8.8 percent in March, hovering around 7 percent since then. While domestic food prices have been the most important driver of inflationary pressures, the rising cost of imported goods played an increasing role during the first semester of 2022. External price pressures are expected to taper off towards the end of the year as global commodity prices have started to retrench, but second-round effects on domestic value chains are expected maintain headline inflation above 6 percent throughout 2022. To alleviate adverse effects on the population, the government has implemented significant fiscal support measures, including large subsidies for fertilizers and fuel prices, higher public sector wages and pensions, and grants for education and transport expenses, which are expected to contribute to the budget deficit increasing to 6.4 percent of GDP in 2022, up from 4.8 percent in 2021.

Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO). Its reserves declined to 5.2 months of imports in June 2022, from 5.5 months in 2021, due to higher energy and food import bills caused by the Ukraine crisis. To counter inflation pressures, the BCEAO raised rates for liquidity calls (2 percent to 2.5 percent) and the marginal lending window (4 percent to 4.5 percent) in June and September 2022.

Outlook

Growth is projected to pick up in 2023, but at a slower pace than previously expected, while inflation and budget deficit projections were revised up. Following a temporary dip to 4.8 percent in 2022, growth is projected to reach 5.6 in 2023, about 0.2 percentage points below previous expectations. The growth pickup in 2023 will be driven by public investment, notably associated with the extension of the rural road network and the rehabilitation of the Lomé-Kpalimé and Lomé-Aného roads, the unwinding of international supply chain disruptions and declining energy and food prices. However, the recovery will be constrained by persistent inflationary pressures, tighter financing conditions and slowing external demand.

The trade and current account deficit will remain elevated, at respectively 12.3 percent of GDP and 4.6 percent of GDP in 2023, despite terms of trade improving amid lower international energy prices.

TABLE 2 **Togo** / 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	1.8	5.3	4.8	5.6	6.4
Private Consumption	2.7	-0.5	5.3	4.0	5.6	6.3
Government Consumption	-2.9	2.0	6.4	4.4	1.7	0.7
Gross Fixed Capital Investment	20.4	15.0	8.9	10.1	8.7	9.1
Exports, Goods and Services	2.1	-4.7	12.0	4.3	5.7	6.6
Imports, Goods and Services	1.4	0.8	13.8	5.9	6.3	6.3
Real GDP growth, at constant factor prices	4.4	2.0	5.1	4.8	5.6	6.4
Agriculture	1.9	1.3	6.0	4.0	4.5	5.7
Industry	6.5	5.3	6.8	3.8	5.4	7.5
Services	4.5	0.9	4.0	5.6	6.1	6.2
Inflation (Consumer Price Index)	0.7	1.8	4.5	7.1	4.7	2.9
Current Account Balance (% of GDP)	-0.8	-0.3	-1.3	-4.9	-4.5	-3.7
Net Foreign Direct Investment Inflow (% of GDP)	4.2	0.7	-1.1	0.5	0.6	0.6
Fiscal Balance (% of GDP)	-0.9	-6.9	-4.8	-6.4	-5.8	-3.9
Debt (% of GDP)	52.4	60.4	63.6	63.4	62.9	61.5
Primary Balance (% of GDP)	1.2	-4.6	-2.3	-4.0	-3.2	-1.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	27.4	27.5	26.6	25.7	25.0	23.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	55.8	56.0	55.1	54.4	53.3	51.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	83.3	83.5	82.9	82.4	81.7	80.8
GHG emissions growth (mtCO2e)	3.3	2.9	4.9	3.1	2.3	4.2
Energy related GHG emissions (% of total)	23.2	22.9	23.3	22.3	21.4	21.0

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 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.

UGANDA

Table 1	2021
Population, million	47.1
GDP, current US$ billion	34.6
GDP per capita, current US$	733.9
International poverty rate ($2.15)[a]	42.2
Gini index[a]	42.7
School enrollment, primary (% gross)[b]	102.7
Life expectancy at birth, years[b]	63.7
Total GHG emissions (mtCO2e)	63.1

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

Uganda's real GDP grew by 4.6 percent in FY22, following the reopening of the country in January 2022. Relentless upward pressure on prices induced monetary tightening. After shedding more than two percentage points in FY22, the fiscal deficit is expected to decline further in line with the fiscal consolidation effort. Nonetheless, sustained recovery in private investment and consumption will raise real GDP growth close to 6 percent in FY23 and FY24. Poverty is expected to inch down, though the pace of poverty reduction may be affected by increasing prices.

Key conditions and challenges

The pace of economic growth, poverty reduction, and policy reform in Uganda has slowed. Real GDP per capita grew by only 1.0 percent per year between 2011 and 2021 in a context of rapid population growth, drought and other external shocks, a less supportive external environment, and reduced reform momentum. Although poverty declined in the pre-COVID period, most households rely heavily on agriculture and are vulnerable to climate change and weather shocks.

Structural transformation is essential to reinvigorate economic activity and reduce poverty. Services constitute a large share of GDP but many jobs in the sector are informal and low-skilled. Furthermore, approximately two thirds of the Ugandan workforce is occupied in agriculture, which produces less than a quarter of the GDP. To unlock its growth potential as Uganda moves towards oil production, a more productive employment of this labor is fundamental. In addition, given Uganda's small domestic market and distortions, trade will be important in boosting economic growth and development.

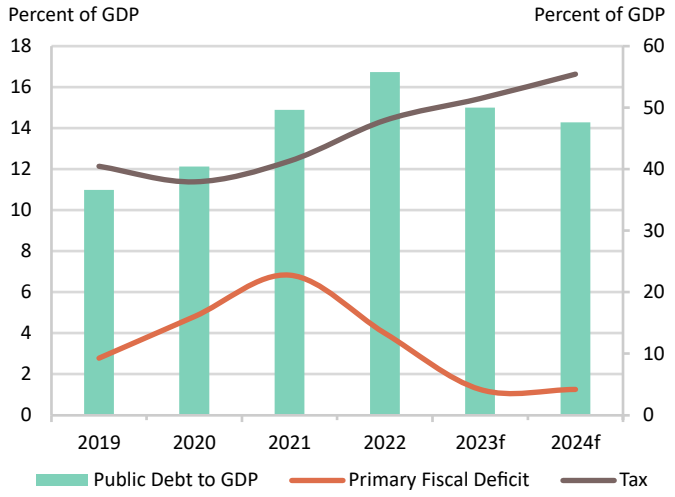
The private sector must drive growth. Uganda's growth model of debt-financed public spending – which emphasizes infrastructure and has crowded out private sector borrowing – is not sustainable. The state should instead support the economy through investments in human capital, regulations that facilitate investment and job creation, and measures to reduce inequality and strengthen resilience. The prospects for the shift to a private sector led growth model will also rely on maintaining macroeconomic stability; better supporting the vulnerable, farmers, and small enterprises; increasing the uptake of digital technologies; and more effective use of public resources.

Recent developments

The Ugandan economy grew at 4.6 percent during FY22, faster than had been anticipated, due to the up-tick of activities after the economy reopened in January 2022. On the supply side, the services sector and industry were the main drivers of economic growth for the fiscal year. There was a strong recovery in wholesale and retail trade, real estate activities and education services, while industry rebounded through construction and manufacturing. On the demand side, private investment and private consumption recovered towards pre-COVID levels. The current account deficit widened to over 9 percent of GDP in FY22 primarily reflecting a deterioration in the terms of trade and widened trade deficit.

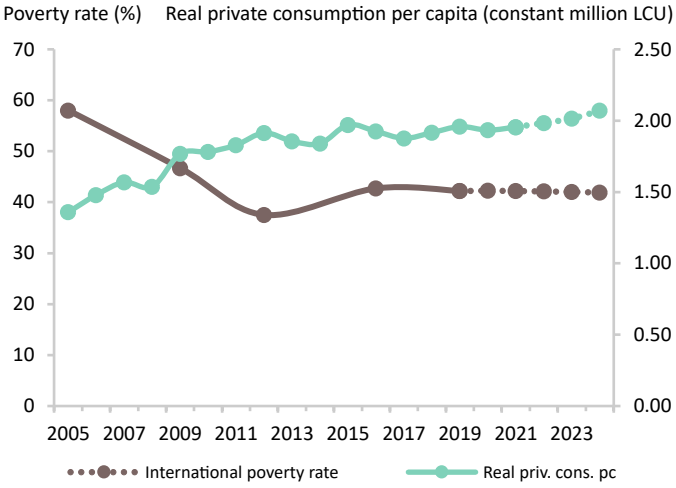
According to the high-frequency phone survey, employment rate fell from 91 percent in March/April 2021 to 79 percent in October/November 2021 and remained at this level in June/July 2022. Half of the population was moderately food insecure in June/July 2022. Households, in particular

FIGURE 1 Uganda / Fiscal adjustment



Sources: Ministry of Finance, Planning and Economic Development, and World Bank calculations.

FIGURE 2 Uganda / Actual and projected poverty rate and real private consumption per capita



Source: World Bank. Notes: see Table 2.

the poorest ones, are being negatively affected by increased prices, either through being unable to access food products or to buy the desired amounts.

Inflationary pressures increased in 2022, leading the Bank of Uganda to tighten monetary policy. Driven by the spike in commodity prices, which government allowed to pass through to consumers, and pandemic-related disruptions in global supply chains — both heightened by the war on Ukraine, the annual headline and core inflation reached 6.8 percent and 5.5 percent, respectively in June 2022, from 2.0 percent and 2.7 percent in June 2021. The central bank raised its policy rate by 1 percentage point in June 2022 to 7.5 percent. It adjusted the rate by an additional 1 percentage point in July and 0.5 percentage points in August.

The government has initiated a revenue-driven fiscal consolidation. In FY22, it was able to reduce the fiscal deficit to 7.3 percent of GDP (Table 2), despite increases in wages, the interest bill (primarily domestic borrowing) and use of goods and services driven by the reopening of schools and health sector supplies. Revenues benefitted from the increase in excise duty by UShs. 100 per liter of petrol and diesel, and increased collection of tax arrears. Notwithstanding the improvement in the fiscal balance, public debt rose to 56 percent of GDP, well above the path under the Charter of Fiscal Responsibility.

Outlook

Uganda's economic growth is expected to accelerate to about 6 percent in the medium-term, despite sustained commodity price driven inflation pressures, gradual fiscal consolidation, and tighter monetary policy. This will be bolstered by investments and exports of oil, and dividends from government's promotion efforts for tourism, export diversification, and agro-industrialization. Outside of the oil sector, the slowdown of global growth and heightened tightening of the global financial conditions constrain capital inflows.

Accelerated growth may slightly reduce the poverty rate from 42.1 percent in 2022 to 41.9 percent by 2024, but this projection is subject to several downside risks: The path of COVID-19, the evolution of the war in Ukraine, the pace of food inflation, and any environmental shocks that adversely affect households due to their limited adaptive capacity.

Inflation is projected to peak in 2023 due to lingering passthrough effects of commodity prices and a weaker shilling due to capital outflows as advanced economies raise interest rates further. In addition, drought conditions will exert pressure on food prices. The BoU is expected to maintain a 'tight' monetary policy stance to contain inflation around the policy target of 5 percent.

To sustain the fiscal consolidation into the medium-term, the planned reduction in recurrent spending is expected to be followed with improved efficiency in public investment projects and sustained revenue effort. A lower fiscal deficit is expected to ease pressure on debt, which combined with deliberate effort to minimize non-concessional borrowing should reduce fiscal risks. To avoid crowding out of the private sector, the government of Uganda plans to reduce domestic borrowing as a share of GDP to reach a debt to GDP ratio below 50 percent of GDP by FY26.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	6.4	3.0	3.4	4.6	5.5	6.1
Private Consumption	5.9	2.0	4.2	4.3	4.2	5.4
Government Consumption	6.9	7.9	6.1	-24.8	6.6	7.9
Gross Fixed Capital Investment	9.9	-0.1	5.1	30.0	6.7	7.1
Exports, Goods and Services	6.3	-1.2	2.6	-20.5	26.2	8.3
Imports, Goods and Services	8.6	-5.4	8.6	1.8	15.4	7.1
Real GDP growth, at constant factor prices	6.4	3.0	3.4	4.6	5.5	6.1
Agriculture	5.2	4.6	3.8	5.1	5.4	6.2
Industry	9.0	3.1	3.4	5.5	6.5	6.6
Services	5.6	2.2	3.3	3.8	4.9	5.8
Inflation (Consumer Price Index)	2.6	2.3	2.5	3.0	7.2	6.5
Current Account Balance (% of GDP)	-7.1	-6.7	-10.2	-9.2	-12.7	-12.0
Net Foreign Direct Investment Inflow (% of GDP)	3.5	2.6	2.1	2.7	2.3	2.7
Fiscal Balance (% of GDP)	-4.9	-7.1	-9.5	-7.3	-5.5	-4.5
Debt (% of GDP)	36.6	40.4	49.6	55.7	50.0	47.6
Primary Balance (% of GDP)	-2.8	-4.8	-6.8	-4.0	-1.3	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	42.2	42.3	42.2	42.1	42.1	41.9
GHG emissions growth (mtCO2e)	2.1	2.4	2.8	3.4	3.7	4.0
Energy related GHG emissions (% of total)	19.9	20.3	20.3	20.5	20.8	21.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2016-UNHS and 2019-UNHS. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using average elasticity (2016-2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.

ZAMBIA

Table 1	2021
Population, million	18.9
GDP, current US$ billion	19.3
GDP per capita, current US$	1019.1
International poverty rate ($2.15)[a]	61.4
Lower middle-income poverty rate ($3.65)[a]	77.5
Upper middle-income poverty rate ($6.85)[a]	90.7
Gini index[a]	57.1
School enrollment, primary (% gross)[b]	98.7
Life expectancy at birth, years[b]	64.2
Total GHG emissions (mtCO2e)	93.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2017); Life expectancy (2020).

Growth in 2022 is expected to ease at 3.3 percent, reflecting challenges in mining and agriculture despite strong momentum in services. A continuation of ongoing macro-fiscal and structural reforms should help restore macroeconomic stability and reinvigorate growth following multiple shocks—adverse weather, debt distress, COVID-19 pandemic, and the Russia-Ukraine war. Over the medium term, growth is expected to accelerate, despite a weaker global economy, but poverty will remain above the pre-pandemic level.

Key conditions and challenges

Zambia's economy is showing encouraging signs of stabilizing after a period of macroeconomic imbalances that weakened economic performance. Between 2015 and 2021, economic growth slowed down and averaged 2.5 percent per year, lower than the annual population growth rate of 2.9 percent. Poverty increased amid diminishing policy space and adverse weather shocks. Thus, the COVID-19 pandemic hit a struggling economy and the Russia-Ukraine war has weakened recovery. Consequently, Zambia slipped back into the low-income category in 2022 for the first time since attaining lower middle-income status in 2011.

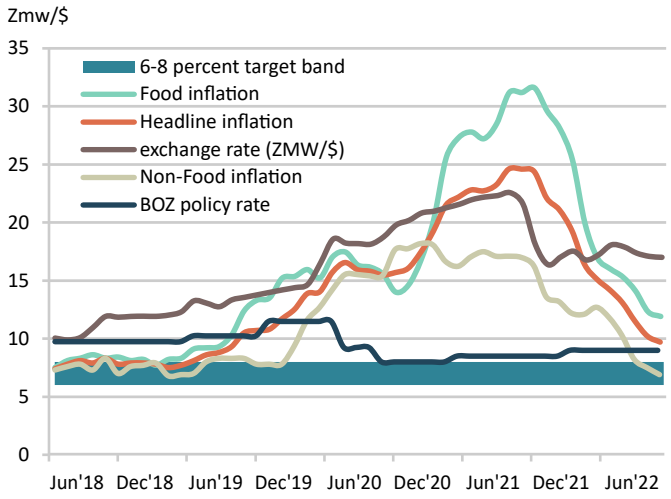
The key challenge for Zambia is to achieve sustained macroeconomic stability that lays the foundation for sustainable growth and to pursue structural reforms for an economic transformation that lifts more Zambians out of poverty. Implementation of the government's program, reflected in its 2023–25 medium-term budget framework and supported under the recently approved IMF Extended Credit Facility arrangement, combined with a deep and timely debt restructuring under the Common Framework, should help restore macroeconomic stability. Swift implementation of structural reforms to remove market distortions in such sectors as agriculture and energy, supported by structural fiscal reforms to improve public spending efficiency, budget credibility, and social spending, will be critical for economic transformation and sustainable job creation.

Recent developments

The momentum of Zambia's rebound from the pandemic eased in the first half (H1) of 2022. Real GDP growth moderated to 2.4 percent in Q1 2022, year-on-year, as agriculture and industry contracted. Copper output declined by 6.7 percent, year-on-year, in H1 2022 despite firmer copper prices, reflecting a prolonged rainy-season, lower ore grades, and management challenges at two notable mines. The Stanbic-Purchasing Managers' Index suggests that private sector business activity remained unchanged in Q2 2022, averaging 50.1 (same as in Q1 2022).

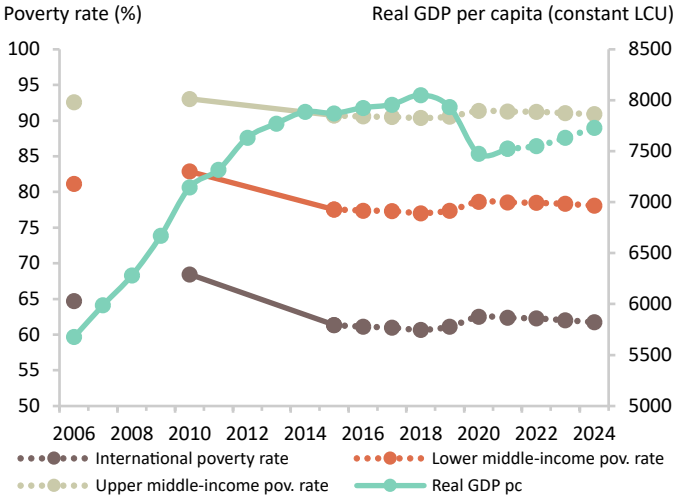
Fiscal revenues exceeded budgeted levels by 5.5 percent in H1 2022, supported by strong tax revenue and grants that offset lower-than-planned non-tax revenue. Expenditure fell below target by 14.7 percent, reflecting delayed recruitment and continued external debt service standstill. The current account balance remained positive in H1 2022, y/y, estimated at $700 million (about 3.4 percent of GDP) but the surplus moderated in Q2 affected by the decline in net exports as copper earnings reduced on account of declining prices. The exchange rate remained stable in H1 2022 with the appreciation in Q2 offsetting the depreciation in Q1 whereas international reserves increased by $0.2 billion to $3 billion, covering 3.6 months of imports in June,

FIGURE 1 Zambia / Inflation, exchange rate (ZMW/$) and Central Bank policy rate



Source: Zambian authorities.

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



Source: World Bank. Notes: see Table 2.

boosted by mining tax payments and inflows of project funds.

Fiscal and monetary policy restraint damped inflationary pressures (Figure 1). Inflation continued to decline throughout 2022, reaching single digits in June for the first time since mid-2019, and was at 9.8 percent in August, reflecting exchange rate appreciation, improved food supply, and high base effects from H1 2021. Improvement in fiscal consolidation has led to a drastic reduction in central bank lending to government that nearly halved on a year-to-date basis at the close of August. Zambia has made considerable progress towards debt restructuring under the G20 Common Framework. In July 2022, the Official Creditor Committee committed to negotiate debt restructuring for Zambia under the Common Framework.

Outlook

Zambia's economy is forecast to grow by 3.0 percent in 2022, 3.9 percent in 2023, and accelerating slightly to 4.1 percent in 2024, buoyed by improvement in the macroeconomic environment, stable and predictable mining policy, and improved electricity supply supported by new generation capacity at Kafue Gorge. The planned fiscal consolidation targets to achieve a positive primary balance by 2024 through the reduction of inefficient subsidies in agriculture, electricity, and petroleum products; cancellation of some public projects; rolling back of election-related spending; and improved revenue mobilization through various tax policy and revenue administration reforms. Although the planned fiscal adjustment is large—an adjustment of 8.5 percent of GDP since 2020—it is expected to have a muted impact on growth and poverty as it reflects cuts in waste and rents, while increasing social spending.

Poverty is projected to remain unchanged in the short term but will reduce over the medium term as economic reforms translate into higher per-capita growth and improved social spending. Since June 2020, urban food security improved only slightly while it worsened significantly among rural households. However, a World Bank Household Phone Survey, conducted in June 2022, shows that households' expectations are aligned with 60 percent of respondents indicating that they expect the general economic situation in the country to improve in 5 years' time, despite widespread food insecurity. The poverty rate is projected to remain at 62.3 percent in 2022, before marginally declining by a half percentage point by 2024.

Risks to the baseline outlook are firmly to the downside. A sustained downward trajectory in global copper prices will affect external stability and impact tax collections. Delays in concluding the debt restructuring process could dampen market confidence and perpetuate an uncertain economic environment whilst a worsening of Russia-Ukraine war could cause a resurgence in global fuel, fertilizer, and grain prices, which could in turn reverse the deceleration of domestic inflation in Zambia.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	1.4	-3.0	3.6	3.0	3.9	4.1
Private Consumption	2.3	3.1	3.6	4.5	4.5	4.5
Government Consumption	-10.1	10.8	5.6	-2.0	11.4	8.8
Gross Fixed Capital Investment	-14.1	-35.5	-9.5	31.5	11.5	-16.1
Exports, Goods and Services	-7.2	10.7	23.0	-2.0	7.0	17.5
Imports, Goods and Services	-13.7	-10.7	21.0	14.3	15.0	7.5
Real GDP growth, at constant factor prices	1.5	-2.5	3.6	3.0	3.9	4.1
Agriculture	7.7	17.2	-0.7	4.4	8.8	4.0
Industry	-3.3	0.6	4.2	3.3	3.5	3.9
Services	3.5	-6.2	3.8	2.6	3.5	4.2
Inflation (Consumer Price Index)	9.1	15.7	22.1	12.0	10.0	9.7
Current Account Balance (% of GDP)	0.6	12.8	8.7	2.0	0.5	4.1
Net Foreign Direct Investment Inflow (% of GDP)	-0.6	-1.0	2.1	3.4	3.4	3.4
Fiscal Balance (% of GDP)	-9.4	-13.2	-9.3	-9.4	-7.2	-6.3
Debt (% of GDP)	102.2	157.4	118.1	113.9	106.5	101.2
Primary Balance (% of GDP)	-2.5	-7.3	-2.9	-1.8	-0.1	0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	61.1	62.5	62.4	62.3	62.0	61.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	77.4	78.6	78.6	78.5	78.3	78.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	90.6	91.4	91.3	91.2	91.1	90.9
GHG emissions growth (mtCO2e)	1.4	0.5	1.4	1.1	1.0	1.2
Energy related GHG emissions (% of total)	8.3	7.8	8.0	8.0	8.1	8.5

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 2015-LCMS-VII. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2015) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

ZIMBABWE

Table 1	2021
Population, million	15.1
GDP, current US$ billion	29.1
GDP per capita, current US$	1929.1
International poverty rate ($2.15)[a]	39.8
Lower middle-income poverty rate ($3.65)[a]	64.5
Upper middle-income poverty rate ($6.85)[a]	85.0
Gini index[a]	50.4
School enrollment, primary (% gross)[b]	97.3
Life expectancy at birth, years[b]	61.7
Total GHG emissions (mtCO2e)	119.3

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

The economy is expected to grow in 2022, albeit at a slower pace, reflecting worsening agriculture conditions and price instability. Inflation has returned to triple digit levels while the local currency has depreciated by over 70 percent since January 2022, constraining demand. Allocated budgets are being eroded by inflation and currency depreciation, affecting service delivery. Although it has declined since its peak of 2020, the international poverty rate remains persistently high.

Key conditions and challenges

Zimbabwe's economic development continues to be hampered by price and exchange rate instability, misallocation of productive resources, low investment, and limited structural transformation. High inflation, multiple exchange rates, unsustainable debt levels, and ineffective control over government spending have increased the cost of production, reduced incentives for productivity-enhancing investment, and encouraged informality. Trade integration has declined, and foreign direct investment (FDI) remains low, limiting transfer of new technologies and investment in modernizing the economy.

Unsustainable debt levels and long-standing arrears to international financial institutions (IFIs) limit Zimbabwe's growth potential. External debt is estimated at 76 percent of GDP in 2022. Over 70 percent of the debt is in arrears, constraining access to concessional finance needed to support productive investment. The government has prepared an Arrears Clearance, Debt Relief and Restructuring Strategy and resumed token payments to IFIs and Paris Club creditors.

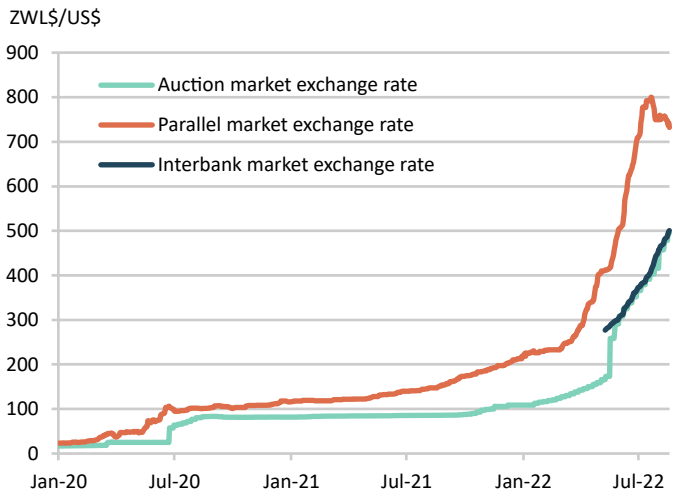
Although it has declined since 2021, the extreme poverty remains persistently high. Macroeconomic volatility, high dependence on low-productivity agriculture, slow pace of spatial and structural transformation, lack of creation of high-productivity jobs, and intermittent shocks such as droughts and pandemic have all contributed to increasing vulnerability in both urban and rural areas. However, Zimbabwe's social assistance programs have low coverage and may benefit from improved targeting.

Recent developments

Economic activity slowed in 2022, constrained by worsening agriculture conditions and price instability. Real GDP growth is projected to slow to 3.4 percent in 2022 from 5.8 percent in 2021. Mining, trade, and tourism took advantage of high commodity prices and relaxation of COVID-19 restrictions helping to drive growth in 2022. However, due to limited rains, agriculture production contracted after growing at double digits in 2021. Rising inflation, depreciation of the local currency, and higher interest rates have dampened consumption and investment. Strong remittance inflows mitigated to some extent the adverse impact on private consumption and together with higher gold exports have kept the external current account in surplus.

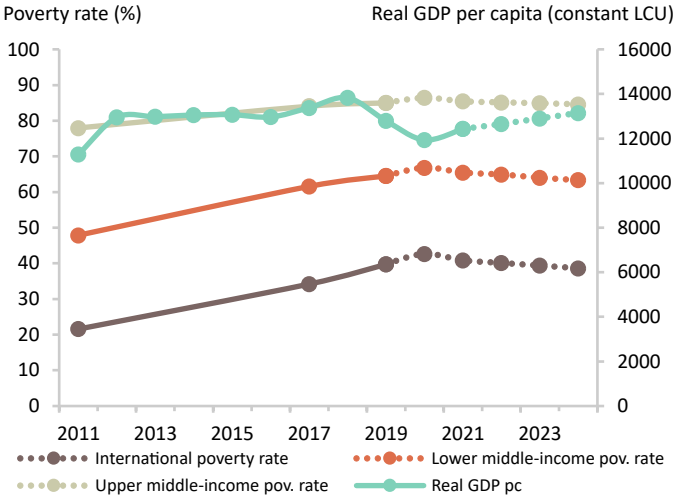
Annual inflation returned to triple digit levels, reaching 285 percent in August 2022, in response to further weakening of the local currency and surge in global prices due to the Russia-Ukraine war. Between January and August, the local currency depreciated by over 70 percent both on the parallel and official markets. To tame inflation, the Central Bank tightened monetary policy, raised the interest rates

FIGURE 1 Zimbabwe / Exchange rates



Sources: Zimstat and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

(from 80 percent to 200 percent), further liberalized the forex market, and issued gold coins as a store of value. These measures have stabilized the parallel market and narrowed the parallel market premium to below 35 percent in September 2022. Nevertheless, inflation is estimated to average 213 percent in 2022.

In a high inflationary environment, fiscal deficit was kept low during the first half of 2022 (2022H1) but fiscal pressures have built up. Fiscal deficit stood at 0.3 percent of GDP during 2022H1, well below the initial target. However, inflation eroded allocated budget, necessitating a large supplementary budget. The additional spending was allocated mainly for cost-of-living adjustments, public investment, procurement of grain, and social protection. Pressures for further wage adjustments and pre-election spending are expected to keep the fiscal deficit at 1.8 percent of GDP in 2022.

In line with the modest economic growth in 2022, poverty rate declined marginally. However, these modest gains are threatened by a looming food crisis and limited fiscal space to mitigate the impact on the poor. With most of the poor relying on subsistence agriculture, international poverty rate is expected to remain high at 40 percent.

Outlook

Economic growth is projected to be around its potential in the medium term but risks to the outlook are significant. Real GDP growth is expected to grow at 3.6 percent in 2023 and 2024 supported by better agriculture season, slowing inflation, and relaxation of pandemic requirements. Agriculture production is projected to return to growth as the rain levels normalize and fertilizer prices go down. Manufacturing and services are expected to benefit from subsiding global and domestic prices, as well as the pandemic. However, downside risks to the outlook are high reflecting global slowdown of growth, volatile commodity prices, climate change, and ability of the government to control inflation and forex market distortions in an election period. Inflation is projected to slow down as monetary stance remains tight and global prices go down. Nevertheless, inflation levels will remain elevated and still in triple digits in 2023.

Fiscal deficit is projected to widen during the election year of 2023. Continuing wage pressures, demands for higher spending on agriculture and support to loss-making state-owned enterprises remain key fiscal risks.

Poverty rate is expected to decline modestly in the medium term, but vulnerability due to climate shocks and inflationary pressure remains high. The shocks to agricultural output due to changing and more volatile climate, and economic shocks such as inflation, supply-chain disruptions will continue to strain household finances.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-6.1	-5.3	5.8	3.4	3.6	3.6
Private Consumption	-19.9	-4.3	11.3	3.3	3.4	3.2
Government Consumption	-1.7	-1.2	4.8	1.7	5.5	7.8
Gross Fixed Capital Investment	-9.0	-3.0	6.2	-2.9	4.6	3.2
Exports, Goods and Services	29.7	1.6	6.0	5.5	3.3	3.8
Imports, Goods and Services	-29.5	9.8	25.1	2.9	3.4	3.5
Real GDP growth, at constant factor prices	-7.5	-6.6	8.9	3.4	3.6	3.6
Agriculture	-17.8	4.2	17.3	-5.0	4.3	4.3
Industry	-11.1	0.0	6.4	3.5	3.2	3.2
Services	-2.1	-13.6	8.8	5.6	3.7	3.7
Inflation (Consumer Price Index)	255.3	557.2	98.5	212.7	105.5	50.5
Current Account Balance (% of GDP)	4.6	3.6	4.9	2.7	1.6	0.4
Net Foreign Direct Investment Inflow (% of GDP)	1.2	0.8	0.4	0.6	0.5	0.5
Fiscal Balance (% of GDP)	0.2	1.7	-1.7	-1.8	-2.1	-1.1
Debt (% of GDP)	94.8	109.7	79.6	78.9	78.8	76.3
Primary Balance (% of GDP)	0.4	1.8	-1.6	-1.7	-2.0	-1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	39.8	42.6	40.8	40.1	39.4	38.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	64.5	66.8	65.5	64.9	64.0	63.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	85.0	86.5	85.5	85.2	84.9	84.6
GHG emissions growth (mtCO2e)	-0.2	-1.3	2.4	1.7	1.5	1.6
Energy related GHG emissions (% of total)	11.8	10.8	10.9	11.2	11.4	11.6

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 2019-PICES. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

Macro Poverty Outlook

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