East Asia and the Pacific

Macro Poverty Outlook

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

Annual Meetings 2023

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East Asia and the Pacific

Annual Meetings 2023

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

CAMBODIA

Table 1	2022
Population, million	16.8
GDP, current US$ billion	29.6
GDP per capita, current US$	1765.4
School enrollment, primary (% gross)[a]	102.9
Life expectancy at birth, years[a]	69.6
Total GHG emissions (mtCO2e)	75.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2021).

Despite external headwinds, economic growth is gaining momentum, underpinned by the post-COVID recovery of the services sector, especially the tourism sector. GDP growth is projected to pick up to 5.5 percent in 2023 and 6.1 percent in 2024, partially reversing the pandemic-related increase in poverty. Downside risks include weaker-than-expected global demand, a prolonged tightening of global financial conditions, or a renewed oil and food price shock. Domestically, the concentration of domestic credit in the construction sector remains a key risk to financial stability.

Key conditions and challenges

Cambodia's post-pandemic economic recovery has continued to gain steam despite weaker external conditions. International arrivals have risen strongly in 2023, leading a broader recovery in the services sector. While subdued external demand has dampened merchandise exports, goods imports have also moderated, driven largely by a decline in gold imports. Overall, the current account deficit has narrowed, easing pressure on the exchange rate and foreign exchange reserves. Meanwhile, inflation has eased as food and oil prices moderated.

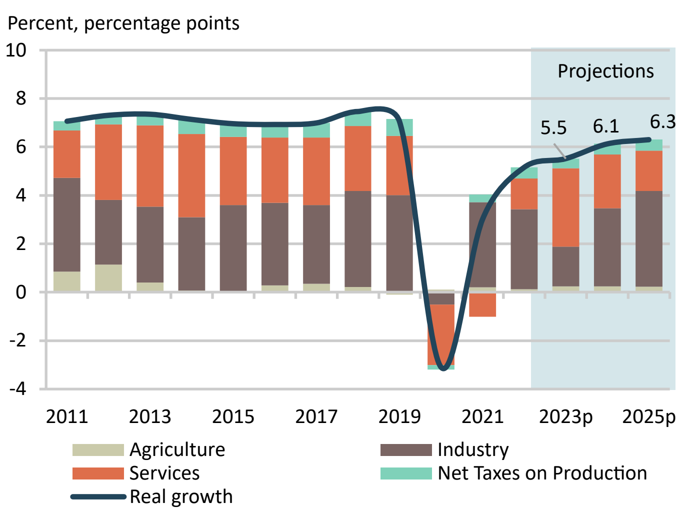
There are signs of renewed appetite for investment in the construction and real estate sector with the value of approved construction permits growing for the first time since mid-2020. However, tight global financial conditions and subdued external demand have dampened investment in the tradeable sectors where the value of approved investment projects has declined. Moreover, the ongoing concentration of domestic credit in the construction, real estate, and mortgage sectors which accounted for 35 percent of the total remains an important risk to financial stability. To this end, the nonperforming loan ratios for the banking and microfinance sectors which marginally increased to 4 percent and 3.1 percent, respectively in the second quarter of 2023 need close monitoring.

The baseline economic outlook remains positive, driven mainly by the recovery of the services sector, especially tourism and improvements in agricultural production. Relatively strong economic growth, in conjunction with a significant scale-up of social assistance programs, should translate into a decline in poverty, reversing part of the likely increase in 2020 and 2021.

Recent developments

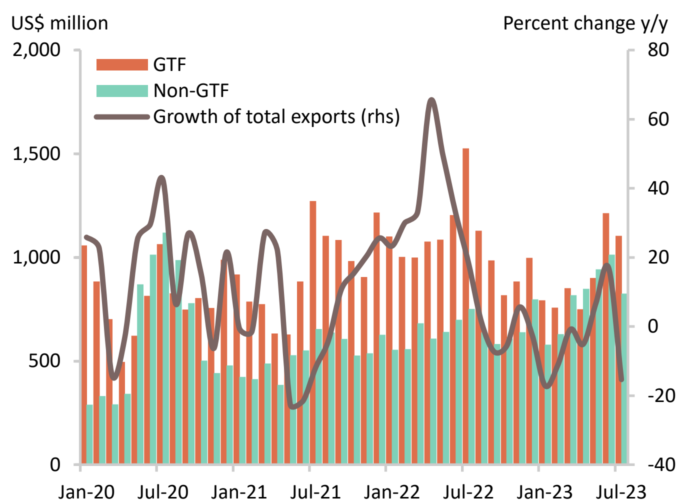
While merchandise exports have declined in response to weaker external demand, services exports have recovered strongly. During the first seven months of 2023, international arrivals reached 3.0 million, up from 0.7 million during the same period in 2022. Indicating a relatively rapid recovery of the tourism sector, during the first seven months of 2023, Cambodia's international arrivals reached 80 percent of the arrival number recorded during the same period in 2019, compared to 66.6 percent and 58.5 percent for Thailand and Vietnam, respectively. Despite less favorable weather conditions with erratic rainfall, as of July 2023, agricultural cultivation improved, reaching 1.5 million hectares or 24.5 percent y/y increase. On the other hand, Cambodia's merchandise exports have weakened, with increased volatility. During the first seven months of 2023, goods exports shrank by 3.7 percent. Merchandise imports have also moderated as gold imports plummeted, narrowing the current account deficit. This in turn has eased

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



Sources: Cambodian authorities and World Bank staff projections.
Notes: e = estimate; p = projection.

FIGURE 2 Cambodia / Merchandise exports, levels and growth rate (y/y)



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

pressure on the exchange rate which remained broadly stable during the first seven months of 2023, hovering at around 4,100 Cambodian riel per US dollar. Gross international reserves rose to US$18.4 billion in June 2023, up from US$17.7 billion at the end of 2022, covering about 7 months of imports.

Moderating food and oil prices eased inflation further, with CPI inflation reaching 1.9 percent y/y in July 2023, down from 2.8 percent at end-2022. Nevertheless, the central bank has started to tighten monetary policy to maintain the resilience of the banking and financial sector. The foreign currency reserve requirement ratio for banks and financial institutions has been raised to 9 percent since January 2023, up from 7 percent. Broad money marginally expanded, growing at 9.2 percent in June 2023, up from 8.2 percent at the end of 2022 as foreign currency deposit growth picked up. During the same period, domestic credit to the private sector decelerated further to 10.8 percent y/y, down from 18.9 percent as borrowing costs increased.

After a rapid recovery in 2022, in part reflecting gains from revenue administration improvements, growth in government revenue collection has slowed. During the first half of 2023, central government domestic revenue plateaued, growing at 1.7 percent y/y. Excises and duties on imports declined with softening imports. Central government expenditure, however, accelerated, rising at 10.6 percent y/y, driven by civil servant wage increases, election-related spending, and a continued capital spending boost.

Since its launch in June 2020, the COVID-19 cash transfer program has been the largest component of the government's fiscal intervention, having disbursed US$1.1 billion as of July 2023. Moreover, the government has doubled its conditional cash transfer program to approximately US$380 for each pregnant woman bearing one child up to the age of two with IDPoor cards from August 2023. This assistance program has also expanded its coverage to include female workers who are members of the National Social Security Fund, female civil servants, and intern and contract government officials. The increase in cash aid and their coverage expansion serves to further alleviate the negative impacts experienced by poor and vulnerable households. The incidence of poverty under the national poverty line was 17.8 percent in 2019/20, but poverty is expected to have worsened in 2021 due to the economic impacts of the pandemic and associated lockdowns.

Outlook

The economy is projected to pick up to 5.5 percent in 2023, thanks mainly to the revival of the services sector and improvements in agricultural production. In 2024, the economy is expected to improve further, growing at 6.1 percent as goods exports are projected to also improve and gradually diversify, while FDI inflows will likely be boosted by the new Law on Investment.

Given the relatively fast pace of growth, the pace of poverty reduction is expected to accelerate. Downside risks include weaker-than-expected global demand, a protracted period of tighter global financial conditions, and/or a renewed oil and food price shock.

Over the medium term, the economy is expected to trend back to potential, growing at 7 percent. The tourism and hospitality industries are likely to accelerate further, with a projected increase in international arrivals, while exports and FDI inflows are expected to be strengthened by the newly ratified free trade agreements, a substantial increase in private and public investment in key physical infrastructure, and structural and sectoral reforms.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.1	3.0	5.2	5.5	6.1	6.3
Private consumption	-4.0	-0.7	33.0	-16.1	10.1	7.3
Government consumption	12.5	-28.3	23.3	12.8	6.9	4.0
Gross fixed capital investment	-2.7	6.8	52.2	-33.1	-24.8	1.8
Exports, goods and services	-11.3	13.5	20.7	6.9	10.3	14.3
Imports, goods and services	-8.9	23.1	40.3	-12.4	3.8	12.4
Real GDP growth, at constant factor prices	-3.1	2.9	5.1	5.5	7.5	6.5
Agriculture	0.6	1.2	0.7	1.5	1.5	1.5
Industry	-1.4	9.4	8.3	4.0	8.0	9.6
Services	-6.3	-2.7	3.5	9.2	9.5	5.1
Inflation (consumer price index)	2.9	2.8	5.5	2.5	2.5	2.0
Current account balance (% of GDP)	-12.4	-42.6	-24.4	-13.4	-11.5	-9.6
Net foreign direct investment inflow (% of GDP)	13.5	12.6	12.6	11.4	12.2	12.6
Fiscal balance (% of GDP)	-4.9	-7.2	-4.8	-6.9	-4.9	-4.0
Revenues (% of GDP)	23.8	22.0	23.2	22.7	23.8	24.5
Debt (% of GDP)	36.1	36.3	36.7	36.8	36.4	36.4
Primary balance (% of GDP)	-4.3	-6.5	-4.2	-6.3	-4.3	-3.5
GHG emissions growth (mtCO2e)	0.6	1.6	3.4	4.2	5.8	7.5
Energy related GHG emissions (% of total)	20.5	22.4	25.0	28.1	32.1	36.6

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	**2022**
Population, million	
Kiribati	0.13
Nauru	0.01
Tuvalu	0.01
GDP, current US$, billion	
Kiribati	0.22
Nauru	0.15
Tuvalu	0.06
GDP per capita, current US$	
Kiribati	1702
Nauru	11914
Tuvalu	5335

Sources: WDI, World Bank staff estimates.

The economies of Kiribati and Tuvalu are recovering in 2023 after borders reopened in 2022. In Nauru, however, growth will moderate in the coming years due to changes to its Regional Processing Centre. All countries remain highly exposed to the risks of global inflation and slowing global growth. In the longer term, the key challenges for economic growth and poverty reduction are narrow economic bases and vulnerability to climate change.

Key conditions and challenges

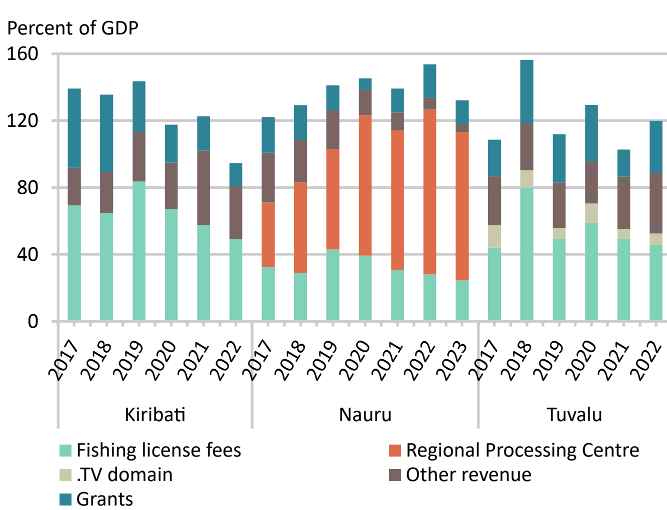
The Central Pacific faces major development challenges due to exogenous factors like climate change, small size, and remoteness; and endogenous forces like concentrated, import-reliant, and volatile economies. All three countries have trust funds to stabilize volatile revenues and provide long-term development financing. However, they all must diversify their fiscal revenues to reduce volatility and effectively fund high recurrent spending.

Over the past five decades, steady urban migration in **Kiribati** to the capital, South Tarawa has contributed to overcrowding, reliance on imported foods, and higher non-communicable diseases (NCDs). Recent years have seen a rapid expansion in recurrent spending, particularly on social protection and the copra subsidy. This introduces significant fiscal vulnerabilities, given Kiribati's dependence on volatile fishing revenues. The most recent IMF-World Bank LIC-DSA report from September 2023 ranks Kiribati's external debt, which stands at 15 percent of GDP, as sustainable but at high risk of debt distress. To address these challenges, Kiribati must curtail recurrent spending, foster private enterprise, and increase the production of nutritious crops to mitigate NCDs.

Nauru must adapt to diminishing fiscal revenues and identify new sources of growth in the medium term. Public revenues, economic growth, and employment have historically relied on phosphate mining, fishing, and operating Australia's Regional Processing Centre (RPC) for asylum-seekers. However, phosphate deposits are heavily depleted, fishing revenues are volatile, and the RPC transitioned to an ongoing standby setting on July 1, 2023. In FY23, income from the RPC and associated activities constituted 64 percent of fiscal revenues and 92 percent of GDP. With RPC earnings slated to end in FY27, the imperative to generate alternative sources of growth is paramount. The latest assessment from the IMF's DSA in February 2022 found Nauru's public debt, accounting for 27.1 percent of GDP, to be sustainable. Significant strides have been taken in recent years to reduce domestic and external liabilities. Nauru grapples with environmental challenges from climate change and the legacy of phosphate mining. A persistent effort to rehabilitate extensive former mine sites at the center of the island remains a priority.

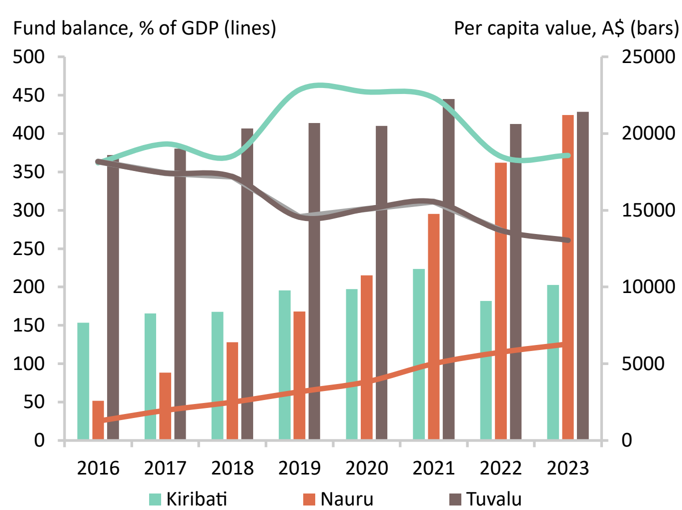
The public sector in **Tuvalu** dominates the economy and private sector development is restricted by inadequate infrastructure and limited economies of scale. As a large net importer, rising international commodity prices are a concern as they erode real household incomes. Although no recent data on poverty is available, in 2010 an estimated 26 percent of the population lived below the national poverty line. Structural reforms are critical to promote resilience, sustain growth, and help diversify the economy. The 2023 IMF-World Bank DSA assesses Tuvalu at high risk of debt distress, but debt is deemed sustainable.

FIGURE 1 Central Pacific Islands / Selected fiscal revenues



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

FIGURE 2 Central Pacific Islands / Trust Fund balances



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

Recent developments

In **Kiribati**, growth fell to 1.2 percent in 2022 due to COVID-19 restrictions. In June 2023, inflation was 11.2 percent (y/y), due to higher food, beverage, transportation, and recreation prices. Growth is estimated to have reduced poverty to 18.3 percent in 2022 (US$3.65 lower-middle-income line), below 19.5 percent in 2019. Domestic demand continues to be supported by high recurrent spending on social protection and the copra subsidy. In 2022 this, alongside weak fishing revenues, led to a fiscal deficit of approximately 10 percent of GDP after budget support and Revenue Equalization Reserve Fund (RERF) drawdowns. The RERF was worth 370 percent of GDP in June 2023, down from 480 percent in 2021 due to weak investment returns and GDP growth.

Nauru's economy is estimated to have grown by 2.0 percent in FY23 (ending June 2023). Inflation was 3.4 percent, lifted in part by global factors including the War in Ukraine. Fiscal performance was better than expected due to resilience to COVID-19 and the extension of the RPC to June 2023. This allowed the Government to pass four supplementary budgets to provide extra support to SOEs and public services, build cash buffers, and invest in community housing. The Government also made prepayments into the Intergenerational Trust Fund which was 126 percent of GDP in March 2023, up from 115 percent in June 2022.

The **Tuvalu** economy recovered moderately in 2020-21 with an average growth rate of 1.3 percent, mainly driven by the services sector (supply side), and government consumption and public investment (demand side). In 2022, inflation spiked to 12 percent due to global supply disruptions, the depreciation of the Australian dollar (legal tender), and domestic supply shortage from a drought. There was a current account surplus in 2022 with robust grants and fishing revenue offsetting the large trade deficit. The fiscal surplus of 8.8 percent of GDP in 2022 was due to delayed disbursement of budget support originally expected in 2021 and large development partner grants. Public debt declined from 12.2 percent of GDP in 2020 to 10.1 percent in 2022 as no external loans were signed. The total value of Tuvalu's sovereign wealth funds decreased to 274 percent of GDP at end-2022. This decline from the 311 percent recorded in 2021 was influenced by developments in the global financial markets.

Outlook

In **Kiribati**, growth is expected to rebound to 2.5 percent in 2023 as donor-led investment resumes with the border reopening. Fishing revenues are expected to gradually return to historical averages, and government services are likely to continue supporting growth. RERF withdrawals are projected to be modest but highly uncertain in the coming years due to the volatile withdrawal rule. While the rule is an important fiscal anchor, a more stable version such as withdrawing a fixed share of assets would make budgeting easier. To boost growth and remove distortions that inhibit private sector activity, Kiribati should redirect copra subsidies towards targeted social protection and human capital investment. Any further increases in untargeted fiscal transfers could jeopardize the Government's fiscal responsibility rules.

In FY24, **Nauru**'s GDP growth is projected to fall to 1.5 percent due to the gradual wind-down of the RPC. This is expected to reduce government revenues by 10 percent of GDP, so spending must tighten commensurately to achieve a balanced budget and meet fiscal responsibility ratios. The Government plans to reduce spending on travel, subsidies and donations, operations, investment, and social benefits. Donor-financed development of a solar farm, airport upgrades, and a new port have supported activity. However, many inputs have been imported and the port faces heavy delays and cost overruns. Looking forward, Nauru must diversify its economic base, for example through tourism, labor mobility schemes, or expanding fishing revenues. The installation of the East Micronesian Internet Cable in 2026 offers the opportunity to exploit its favorable time zone between Asia and the Americas, English language, and widespread literacy, by providing online services.

Tuvalu's economy is expected to grow by 3.9 percent in 2023, before moderating to 2.2 percent by 2026 as dividends from border re-opening and capital investment normalize. Inflation is expected to moderate to 3.2 percent by 2026 as global inflation pressures and supply chain disruptions dissipate. Persistent current account deficits are projected over the medium term as major revenue streams such as development grants and fishing license fees gradually decline. Following moderate surpluses in 2023-24, the Government is expected to incur fiscal deficits over the medium term. Public debt is sustainable, but the risk of debt distress is high. Total sovereign wealth funds to GDP are projected to decline over the medium term.

Risks to the Central Pacific outlook are substantial and include high global inflation and slowing global growth; 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)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices						
Kiribati	-1.4	7.9	1.2	2.5	2.4	2.3
Nauru	0.7	3.4	2.9	2.0	1.5	1.0
Tuvalu	-4.3	1.8	0.7	3.9	3.5	2.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]						
Kiribati	21.3	17.9	18.3	17.8	17.2	16.6

Sources: World Bank and IMF.
e = estimate; f = forecast.
Notes: 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	2022
Population, million	1412.2
GDP, current US$ billion	17915.6
GDP per capita, current US$	12686.5
International poverty rate ($2.15)[a]	0.1
Lower middle-income poverty rate ($3.65)[a]	2.0
Upper middle-income poverty rate ($6.85)[a]	24.7
Gini index[a]	37.1
School enrollment, primary (% gross)[b]	104.1
Life expectancy at birth, years[b]	78.2
Total GHG emissions (mtCO2e)	14105.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2021).

China's growth has slowed substantially since April. Domestic demand has weakened, reflecting subdued consumer and business confidence, an incomplete labor market recovery, and persistent property market turmoil. Slowing global growth, meanwhile, has tempered external demand. From a low base in 2022, growth is forecast at 5.1 percent in 2023, before returning to a trend of structural deceleration thereafter. Poverty reduction is expected to pick up in 2023, but slow in 2024 in line with more moderate growth.

Key conditions and challenges

China's post-COVID recovery started strong in the first quarter of 2023, led by a rebound in consumer spending, but economic activity has slowed since April. The drivers that could sustain the growth momentum—further improvements in the labor market and household incomes, a recovery in business confidence and private investment, and a turnaround in the housing market—are yet to gain traction. In addition, the global environment has become less favorable, characterized by slower growth, tighter financial conditions, and heightened geo-economic tensions.

Over the medium term, China is confronted with declining growth potential that reflects its maturing economy, as well as structural challenges such as slowing productivity growth and a shrinking working-age population. Furthermore, high debt and diminishing returns to physical capital accumulation constrain the space for investment-driven growth in the future. Geopolitical tensions and rising protectionism have disrupted global value chains, foreign investment flows, and access to some technologies.

Recent developments

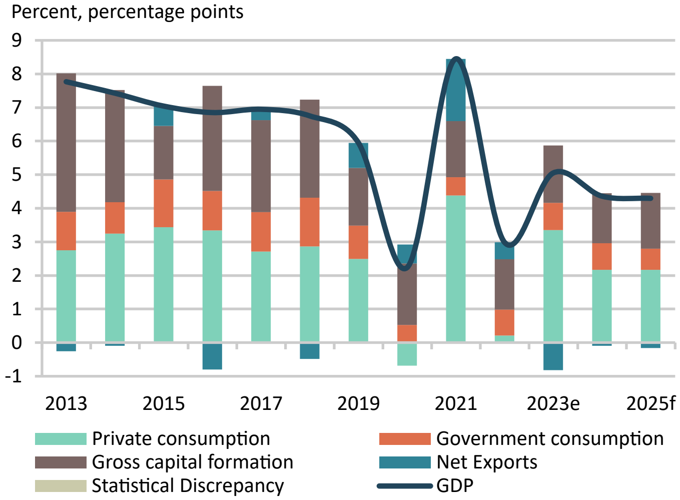
The economy has slowed substantially since April, with growth decelerating to 0.8 percent q/q sa in Q2, from 2.2 percent in Q1. Private consumption has weakened amid lackluster consumer confidence. Real disposable income per capita growth in the first half of 2023 remained below its pre-pandemic rate, held back by slower wage and property income growth, and lower social assistance. Secondary market housing prices in lower-tier cities have fallen more than 20 percent below the 2021 peak, hurting household wealth of which property is a key component. While real estate investment continued to contract, investment in infrastructure and manufacturing held up. Aided by policy, state-owned enterprise capital spending and public infrastructure investment have supported growth since the start of 2023.

On the external side, exports declined in the first seven months with softening external demand, while imports declined faster, alongside weak domestic demand and falling international commodity prices. China's outbound tourism surged by 64.5 percent y/y to US$ 87.6 billion in the first half of 2023, following the easing of travel restrictions.

To address the faltering growth, the authorities have moderately eased monetary policy. The People's Bank of China lowered the key policy rates by 25 basis points year-to-date. However, high-interest rates in other major economies and the risk of capital outflows constrain the room for further monetary easing.

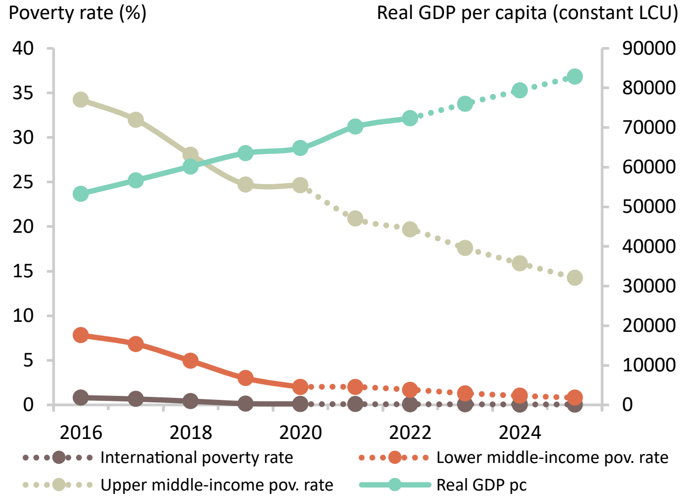
Fiscal policy, however, has been less accommodative than in the same period last year due to financing and execution constraints of local governments. Funding pressures for local governments, due to the

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.

sharp decline in land sales, and a limited pipeline of new infrastructure projects have raised the risk of budget under-execution. Overall, the consolidated deficit narrowed to 2.7 percent of GDP in the first half of 2023, from 4.2 percent in the same period last year.

Policy support has also, so far, failed to stabilize the property sector. The authorities lowered mortgage rates, offered tax breaks, and introduced a moratorium on developer loans. However, depressed housing demand, weak developer balance sheets, and excess capacity in lower-tier cities remain unaddressed and constrain the recovery.

Recognizing the weakness in consumer and business confidence, the authorities have issued guidance to deepen reforms and support consumption, private firms, small businesses, and foreign investment. The challenge now rests on translating the guidance into specific policies and implementing them effectively.

Modest growth in 2022 resulted in 17 million people being lifted out of poverty at the upper middle-income country line ($6.85/day in 2017 PPP), compared to around 50 million per year in 2018 and 2019. The poverty rate at the upper middle-income country line is estimated at 19.7 percent in 2022. Mobility restrictions and a relatively weak labor market limited welfare gains in 2022. Urban households reduced consumption despite a slight increase in their disposable income, while rural households were affected to a lesser extent with average consumption increasing in 2022. The weakness in consumer and business confidence has also transmitted to the labor market, with rising youth unemployment based on the latest available data.

Outlook

Growth is projected at 5.1 percent in 2023, from a low base of 3.0 percent in 2022. This moderate post-COVID recovery is driven by persistent weakness in consumer sentiment and below-trend income growth and job creation. Weak housing demand and debt distress among property developers are expected to continue to constrain real estate investment, while investment in infrastructure will be buoyed by policy support. Exports are expected to weigh on growth due to softer external demand. Some policy support has been announced but the impact on growth is expected to be muted. Following this year's recovery, growth is expected to return to a path of structural deceleration. Growth is projected to slow to 4.4 percent in 2024 and 4.3 percent in 2025.

Risks to the outlook are tilted to the downside. The property market turmoil and the possibility of prolonged weakness in sentiment, private consumption and investment, and hiring decisions could weigh on domestic demand. Externally, risks emanate from a sharper-than-expected tightening in global financial conditions and heightened geopolitical tensions that can further suppress exports and investment growth.

Poverty reduction is expected to pick up pace in 2023, following higher growth this year, but slow down again in 2024 in line with more moderate growth expectations. The poverty rate at the upper middle-income country line is expected to fall to 17.6 percent in 2023 and 15.9 percent in 2024. Continued urbanization means that the share of the poor residing in urban areas is projected to continue to grow, reaching 41 and 42 percent in 2023 and 2024, respectively. If access to public services is extended to all migrants in urban areas, it can boost private consumption as a driver of growth and reduce urban-rural inequalities.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	2.2	8.4	3.0	5.1	4.4	4.3
Private consumption	-1.7	11.7	0.5	9.4	5.4	5.3
Government consumption	3.1	3.3	4.8	2.7	3.4	2.9
Gross fixed capital investment	3.2	3.1	3.3	3.3	4.5	4.4
Exports, goods and services	1.7	18.4	-2.3	-0.1	2.2	2.0
Imports, goods and services	-1.4	10.3	-6.0	1.5	2.5	2.3
Real GDP growth, at constant factor prices	2.2	8.4	3.0	5.1	4.4	4.3
Agriculture	3.1	7.1	4.1	2.9	3.0	3.0
Industry	2.5	8.7	3.8	3.7	3.4	3.2
Services	1.9	8.5	2.3	6.4	5.3	5.3
Inflation (consumer price index)	2.5	0.9	2.0	0.5	1.6	2.1
Current account balance (% of GDP)	1.7	2.0	2.2	1.6	1.2	0.8
Net foreign direct investment inflow (% of GDP)	0.7	0.9	0.2	-0.6	-0.3	0.1
Fiscal Balance (% of GDP)[a]	-8.5	-4.0	-6.4	-6.4	-4.5	-4.0
Revenues (% of GDP)	34.8	35.2	32.3	32.1	31.7	31.4
Debt (% of GDP)	45.4	46.9	50.5	54.9	56.3	57.0
Primary balance (% of GDP)	-7.5	-3.0	-5.3	-5.1	-3.1	-2.5
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]	2.0	2.0	1.7	1.3	1.0	0.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	24.7	20.9	19.7	17.6	15.9	14.3
GHG emissions growth (mtCO2e)	1.7	8.2	6.0	5.7	3.1	2.4
Energy related GHG emissions (% of total)	82.9	82.9	83.3	83.5	83.4	83.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ 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 2020 provided by NBS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
c/ Projection using neutral distribution (2020) with pass-through = 0.85 based on GDP per capita in constant LCU.

FIJI

Table 1	2022
Population, million	0.9
GDP, current US$ billion	4.9
GDP per capita, current US$	5321.5
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
Gini index[a]	30.7
School enrollment, primary (% gross)[b]	113.7
Life expectancy at birth, years[b]	67.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ Most recent WDI value (2021).

Border reopening in late 2021 has led to a V-shaped growth rebound. Full output recovery to pre-pandemic level is expected by the end of 2023. Tourism will continue to be a key sectoral driver of growth over the medium term. Risks to the outlook include tropical cyclones and high international commodity prices. Structural reforms are critical to enhance growth and raise living standards, while macro stability hinges on fiscal consolidation.

Key conditions and challenges

Fiji is a small island nation in the South Pacific Ocean. Most of the 870,000 population live on the two large islands. It is the second largest economy in the Pacific, most industrially advanced, and the center for re-exports. Tourism is the main engine of growth contributing about 40 percent of GDP and a key source of foreign exchange earnings. Remoteness, size, vulnerability to natural disasters, and strong dependency on imports and tourism are binding constraints to growth. Improving climate resilience, structural reforms, fiscal sustainability, and the investment environment would help unlock economic potential.

After nearly a decade of consecutive growth, averaging 3.7 percent in 2010-18, the economy contracted in 2019 owing to domestic fiscal and monetary policy tightening and a downswing in global trade. A combined impact of COVID-19 and three tropical cyclones deepened the contraction to 22.1 percent (cumulative) during 2020-21 and exacerbated pre-pandemic fiscal vulnerabilities. The reopening of international borders in December 2021 has spurred economic recovery and employment.

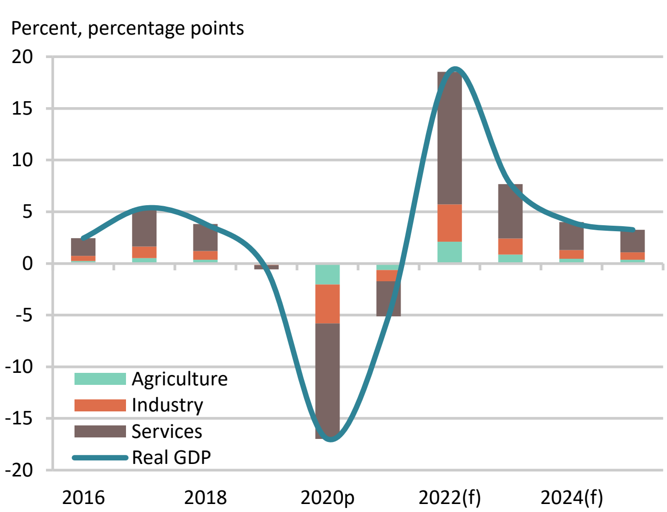
Prior to the COVID-19 pandemic, Fiji had a poverty rate of 24.1 percent in 2019/2020 as defined by the national standards of living. The 2019-20 Household Income and Expenditure Survey (HIES) estimated the incidence of extreme poverty at 1.3 percent, which is on par with other Upper Middle-Income Countries (UMICs). Although extreme poverty is low in Fiji, the country trails behind its UMIC peers in delivering higher living standards to its population. The upper middle-income poverty rate stands at 52.6 percent, nearly double the UMICs' average of 23.5 percent in the same period.

Recent developments

The economy is estimated to have a V-shaped growth, expanding by 18.6 percent in 2022. This is driven by a 71 percent resurgence in total tourist arrivals compared to 2019 levels, particularly from Australia, New Zealand, and the US. By the end of July 2023, arrivals had reached 101 percent of July 2019. This growth is accompanied by an increase in investment and consumption activities, as evidenced by the rise in new consumption loans and remittances. The double-digit recovery is primarily driven by services-related sectors, including accommodation, transportation, wholesale trade, and finance. Economic recovery is estimated to have reduced poverty by UMIC standards (US$6.85 in 2017 PPP) from 67.3 percent to 59.2 percent in the same period.

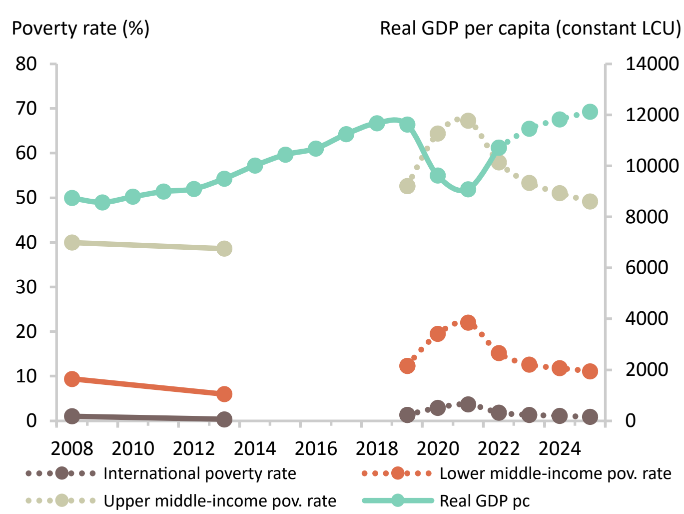
Annual inflation was 3.1 percent in 2022 (y/y) due to low prices of alcoholic beverages and food items and decreased to 0.3 percent in July 2023 (y/y) on account of lower fuel and kava prices. The inflation

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

mitigation measures outlined in the FY23 Budget have played a role in stabilizing the effects of price increases. Monetary policy remains accommodative to support recovery with the overnight policy rate maintained at 0.25 percent since 2020. The current account deficit increased to 17.3 percent of GDP in 2022 as imports rebounded. Foreign reserves were at a comfortable level at 6.9 months of import cover as of end-2022 and stood at 6.3 months by July 2023.

The fiscal deficit declined to 10.2 percent in 2022 owing to tax policy reforms and reduced capital transfers. It was financed through external concessional and domestic borrowing. Public debt to GDP dropped to 86.1 percent in 2022 because of declining primary balance and higher economic growth. In June 2023, the IMF categorized Fiji's overall risk of sovereign stress as moderate in its Debt Sustainability Analysis. This assessment considers Fiji's exposure to significant macroeconomic shocks, including those related to natural disasters and contingent liabilities.

Outlook

In 2023, GDP is projected to grow by 7.7 percent and is expected to surpass its pre-pandemic level if tourist arrivals reach 95 percent of the 2019 level. It is expected to remain above 3 percent over the medium term, assuming a complete recovery in tourism. Downside risks to the outlook are related to natural disasters and international commodity price shocks. Headline inflation is expected to grow from August 2023 onwards reflecting the VAT rate increase announced in the FY24 Budget and is forecast to peak at 4.7 percent (y/y) in 2023 before gradually falling to below 3 percent over the medium term.

The growth outlook is expected to reduce poverty to below pre-pandemic levels, reaching 51.4 percent in 2024 (compared to 52.6 percent in 2019). The revival of the tourism sector and remittances is expected to have a positive impact on the poorest 40 percent.

The current account deficit is projected to decline over the medium term from 9.7 percent of GDP in 2023 to 7.3 percent in 2026 on account of higher tourism earnings and remittances. The imbalance will be largely financed through borrowing. Foreign reserves are projected to remain adequate over the medium term.

The fiscal deficit is projected to decrease to 5.8 percent of GDP in 2023, and further over the medium term, as dividends from revenue reforms initiated through the FY24 Budget materialize. Public debt to GDP is projected to fall to 83.3 percent in 2023, and further to 80.2 percent by 2026. The new Government is supportive of fiscal consolidation and has already begun preparing a new national development plan, set to be finalized before the FY25 Budget. In the medium term, the Government is expected to maintain a prudent fiscal policy, improve public financial management, and implement growth-enhancing reforms.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-17.0	-5.1	18.6	7.7	4.0	3.3
Real GDP growth, at constant factor prices	-13.4	-3.7	13.2	7.7	4.0	3.3
Agriculture	3.3	0.5	2.3	4.9	5.2	5.6
Industry	-10.6	-8.3	4.6	13.2	7.3	5.0
Services	-16.8	-2.9	18.0	6.6	2.8	2.3
Inflation (consumer price index)	-2.8	3.0	3.1	4.7	3.5	2.9
Current account balance (% of GDP)	-13.6	-15.2	-17.3	-9.7	-9.3	-8.0
Fiscal balance (% of GDP)	-12.8	-11.7	-10.2	-5.8	-4.5	-3.4
International poverty rate ($2.15 in 2017 PPP)[a,b]	2.9	3.7	1.9	1.3	1.1	0.9
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	19.5	22.0	15.2	12.6	11.8	11.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	64.4	67.3	58.0	53.4	51.1	49.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
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	2022
Population, million	279.1
GDP, current US$ billion	1319.1
GDP per capita, current US$	4725.7
International poverty rate ($2.15)[a]	2.5
Lower middle-income poverty rate ($3.65)[a]	20.3
Upper middle-income poverty rate ($6.85)[a]	60.5
Gini index[a]	37.9
School enrollment, primary (% gross)[b]	90.1
Life expectancy at birth, years[b]	67.6
Total GHG emissions (mtCO2e)	1986.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

Despite global uncertainty, Indonesia's growth remains robust, supported by the release of pent-up demand and favorable terms of trade. This has contributed to accelerated poverty reduction. Inflation is rapidly abating, twin deficits remain modest, and adequate forex reserves provide an external shock buffer. Implementing competitiveness-enhancing reforms and strengthening social safety nets remain Indonesia's primary challenges. These actions are critical for reversing declining productivity, maintaining economic security, and boosting growth potential.

Key conditions and challenges

Indonesia's growth remains robust amidst an uncertain global outlook. Inflation has subsided and poverty rates are back to pre-COVID levels. However, signs of moderating demand are appearing. Slowing exports, softening consumer confidence, and moderating private credit growth present challenges to sustaining the momentum.

Indonesia's fiscal stance—with small deficits and low debt—is well-positioned to mitigate the potential impact of global shocks. However, achieving stronger long-run growth will require increased and improved expenditures, necessitating continuous efforts to improve revenue collection.

Indonesia will soon be entering a prolonged election cycle which could slow the pace of structural reform and hinder improvements in economic productivity. This is concerning as estimates indicate that productivity growth has declined over the past decade and requires continuous policy focus.

Recent developments

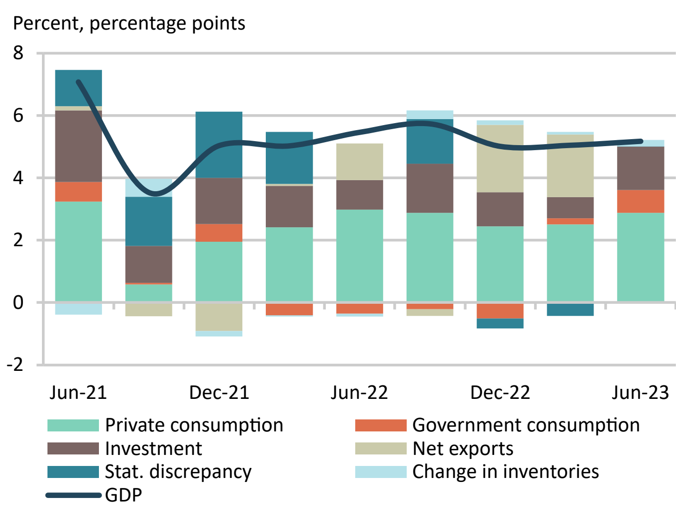
Growth remains resilient in 2023, prolonging Indonesia's post-pandemic recovery. GDP grew 5.1 percent (y/y) in 2023H1 after expanding 5.4 percent in 2022H2. Private consumption took the lead, contributing 2.7 percentage points, as it benefitted from increased household purchasing power resulting from both declining inflation and currency appreciation. Investment and exports contributed 1.0 percentage points each, despite declining global commodities prices.

Poverty reduction has accelerated underpinned by the economic rebound in 2022. The headline poverty rate fell from 22.4 percent in 2021 to 20.3 percent in 2022, when measured using the poverty line for Lower-Middle Income Countries. Growth in the services sector has boosted job creation. The unemployment rate dropped and had nearly returned to its pre-pandemic level by February 2023.

Inflation is easing faster than anticipated and has already returned within Bank Indonesia's (BI) target range. Headline inflation declined to 3.1 percent (y/y) in July 2023 largely because of a decline in global oil prices, a better harvest, and government interventions at the sub-regional level to alleviate food supply bottlenecks. Headline and core inflation have been converging as inflation becomes more broad-based. This reflects an overall increase in demand for goods and services while other short-term inflation drivers subside.

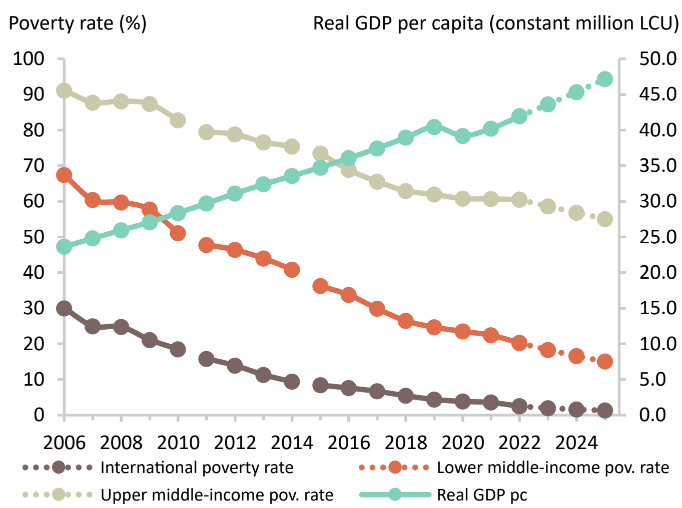
The current account surplus decreased to only 0.1 percent of GDP in 2023H1 on account of worsening terms of trade given weakening demand in major trading partners and declining prices of key export commodities. Both exports and imports experienced contractions (4.4 percent and 2.8 percent, respectively). Despite tightening global financing conditions, Indonesia's macroeconomic stability provided some support to portfolio inflows and foreign

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.

direct investment in 2023H1. This has shored up forex reserves which, as of July, were equivalent to 6.2 months of imports.

The fiscal stance remained prudent in 2023H1. Revenues rose 5.3 percent (y/y) supported by robust sales taxes and non-oil and gas revenue sources. This was partially offset by softening commodity windfalls as export taxes on crude palm oil were set to zero in July 2022 and oil and gas revenues declined. Total spending rose only slightly over the same period (0.9 percent). Strong growth in outlays on personnel and interest payments was largely offset by a decline in subsidy spending. Setting aside energy subsidies, spending grew 5.8 percent. Overall, the fiscal balance recorded a surplus of 0.7 percent of GDP in 2023H1 and public debt declined to 36.4 percent of GDP.

Outlook

The economy is projected to grow by 5.0 percent in 2023, before easing slightly to 4.9 percent in both 2024 and 2025 reflecting the impact of softer terms of trade. Inflation will continue moderating, with global energy prices trending downward, while inflation expectations remain well-anchored within BI's target band.

The current account is expected to record a small deficit in 2023 and expand to -1.0 percent of GDP by 2025, as lower commodity prices and weaker global growth hamper exports. Foreign direct investment is expected to remain the largest source of external financing as recent competitiveness reforms yield results. BI's monetary stance will continue to be favorable for attracting capital inflows. Consequently, foreign currency reserves will remain adequate and above 6 months of imports.

Sustained growth, combined with the government's commitment to boost social assistance programs, is expected to accelerate poverty reduction. As a result, the poverty rate is expected to decline by 1.7 percentage points per year, on average, until 2025. Strengthening social safety nets and early warning systems to foresee and prepare for shocks will also be crucial to maintaining economic security.

The fiscal stance is projected to remain conservative with an average deficit of 2.3 percent over 2023-25. Lower commodity prices will weigh on revenue performance, while public spending is expected to remain around 15 percent of GDP. With a diminishing energy subsidy bill, a transition towards medium-term priorities, including health, social assistance, and infrastructure investment, is anticipated. Nevertheless, concerns regarding the quality of spending and constraints in disbursement persist. The government is expected to comfortably meet its gross fiscal financing needs (averaging 4.6 percent of GDP in 2023-25) given ample domestic liquidity.

The outlook is subject to several downside risks. Sustained global monetary tightening could slow growth, weigh on Indonesia's exports, elevate financing costs, and tighten access to external financing. Deteriorating global conditions could also induce a sharper decline in the terms of trade, resulting in lower revenues and a tighter fiscal position. Downside risks to poverty reduction are strongly linked to vulnerability to shocks, including climate change. Nonetheless, Indonesia's small twin deficits, low debt levels, adequate forex reserves, stable external financing, and growth performance should provide robust buffers.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-2.1	3.7	5.3	5.0	4.9	4.9
Private consumption	-2.7	2.0	4.9	4.8	4.9	4.8
Government consumption	2.1	4.2	-4.5	4.2	3.1	3.5
Gross fixed capital investment	-5.0	3.8	3.9	4.4	4.6	4.9
Exports, goods and services	-8.4	18.0	16.3	3.3	4.0	4.0
Imports, goods and services	-17.6	24.9	14.7	1.8	2.4	2.5
Real GDP growth, at constant factor prices	-1.6	3.3	4.9	4.9	4.9	4.9
Agriculture	1.8	1.9	2.3	3.8	3.5	3.0
Industry	-2.8	3.4	4.1	4.1	4.1	4.1
Services	-1.5	3.5	6.5	6.0	6.0	6.1
Inflation (consumer price index)	2.0	1.6	4.2	3.9	3.3	3.0
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.5	-1.0
Net foreign direct investment inflow (% of GDP)	1.3	1.5	1.1	1.0	1.3	1.5
Fiscal balance (% of GDP)	-6.1	-4.6	-2.4	-2.2	-2.3	-2.3
Revenues (% of GDP)	10.7	11.8	13.5	12.6	12.4	12.6
Debt (% of GDP)	39.3	40.7	39.5	39.1	39.0	38.4
Primary balance (% of GDP)	-4.1	-2.5	-0.4	-0.1	-0.2	-0.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	3.8	3.6	2.5	2.0	1.6	1.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	23.5	22.4	20.3	18.3	16.6	15.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	60.8	60.7	60.5	58.6	56.8	55.1
GHG emissions growth (mtCO2e)	-0.4	1.1	0.7	1.2	1.1	0.9
Energy related GHG emissions (% of total)	30.1	30.7	30.9	31.5	32.2	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.
a/ Calculations based on EAPPOV harmonization, using 2011-SUSENAS and 2022-SUSENAS. Actual data: 2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2011-2022) with pass-through = 1 based on GDP per capita in constant LCU.

LAO PDR

Table 1	2022
Population, million	7.5
GDP, current US$ billion	15.2
GDP per capita, current US$	2012.5
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]	98.5
Life expectancy at birth, years[b]	68.1
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 (2021).

Macroeconomic instability has persisted in the first half of 2023, amid a lack of critical structural reforms and a debt restructuring agreement. The Lao kip continues to depreciate, while inflation remains in the double digits. Economic growth has been downgraded to 3.7 percent in 2023, owing to extreme weather events, labour shortages, persistent depreciation and inflation, and growing difficulties in meeting financing needs. The poverty rate, measured at the lower-middle-income poverty line, is estimated at 31.7 percent in 2023.

Key conditions and challenges

Macroeconomic instability remained the key challenge in the first half of 2023, despite tighter macroeconomic policies and measures to strengthen foreign exchange management. The Lao kip continued to depreciate against most foreign currencies, while consumer price inflation remained high. A weaker kip has further amplified pressures on external public debt servicing, which constrains fiscal space and exacerbates financial sector vulnerabilities. Pressures would have been insurmountable in the absence of sizeable debt service deferrals since 2020 (cumulatively equivalent to 8 percent of GDP). Public and publicly guaranteed debt (PPG) reached 112 percent of GDP at the end of 2022, mostly due to the large currency depreciation. This value rises to over 120 percent of GDP if expenditure arrears are included, some of which are expected to be settled through domestic bond issuances. Average annual external debt repayment obligations remain at $1.3 billion over the medium term. Debt distress is weighing on economic growth prospects. A positive outcome from ongoing debt renegotiations with large bilateral creditors – coupled with structural and fiscal reforms – is crucial to restoring debt sustainability and accelerating growth.

Recent developments

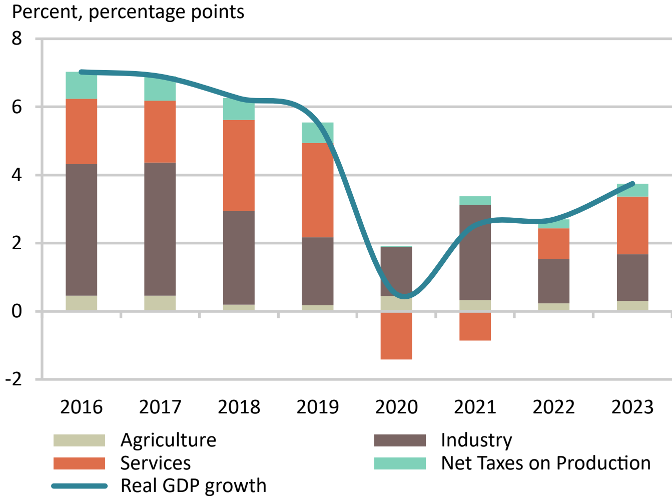
Economic activity benefited from a recovery in the services sector, despite macroeconomic instability. Increased tourism, transport, and logistics services, and foreign investment supported economic growth in the first half of 2023. However, merchandise export growth has been muted, while labour shortages are affecting construction and manufacturing.

Depreciation pressures have persisted in 2023, albeit more moderate than in 2022. In early 2023, the central bank issued kip savings bonds and raised the policy interest rate and reserve requirement ratios. Despite these measures, the Lao kip still depreciated by 12 percent against the US dollar between January and July 2023. The weakening of the kip reflects considerable foreign exchange liquidity constraints. A recent government bond issuance in the Thai market was significantly undersubscribed.

Inflation remained high at 28 percent in July 2023. Food and transport price increases were the key drivers.

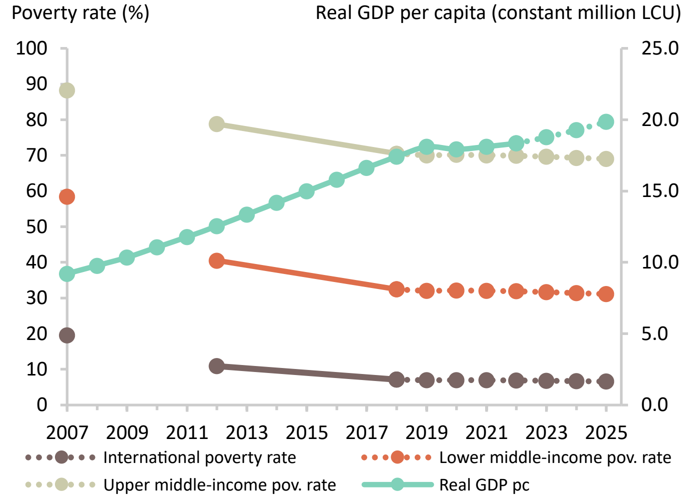
The fiscal balance improved in the first half of 2023, owing to stronger revenue collection and containment of public spending. Total revenue recovered to 7.2 percent of GDP in H1-2023, mostly supported by higher import duties, natural resource taxes, and fees. Consumption taxes were stagnant as a ratio to GDP, with higher prices and a recovery in economic activity offsetting the lower fuel excise and VAT rates introduced in 2022.

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



Sources: Lao Statistics Bureau and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

On the other hand, public spending remained tight. Total expenditure was contained at 5.5 percent of GDP in H1-2023.

The current account balance improved in the first half of 2023, supported by a recovery in tourism and lower primary income outflows. Foreign investment appears to be recovering. Foreign reserves were reported at $1.5 billion in June 2023.

Overall, employment improved in the first half of 2023, but non-farm employment declined compared to the previous year. High inflation and sharp currency depreciation have disproportionately affected wage employment and non-farm businesses, incentivizing workers to switch to farming and agricultural business activities. More than half of households saw their income stagnate or decline in May 2023 compared to the previous year and therefore were severely hit by the rising cost of living. Food inflation hit 43 percent in June 2023 (year-on-year), forcing households to reduce food consumption and switch to cheaper food. Progress in poverty reduction stalled, with the poverty rate (measured at the lower-middle-income poverty line of $3.65 a day 2017 PPP) estimated at around 31.9 percent in 2022.

Outlook

GDP is projected to grow by 3.7 percent in 2023, led by a continued recovery in the services sector. This outlook assumes the continuation of debt service deferrals by large creditors during the forecast period. Inflation is expected to remain in the double digits in 2023. Macroeconomic stability is contingent on critical fiscal reforms and a successful conclusion of ongoing debt negotiations.

High debt levels will continue to constrain fiscal space. Revenue is expected to gradually increase with economic activity and tax administration improvements, but high-interest payment obligations will crowd out other expenditures. The outlook assumes a primary surplus in the next few years, but the fiscal deficit is expected to increase, reflecting a growing debt service burden. External debt service obligations average $1.3 billion per year during 2023-2026, keeping total public financing needs high.

The current account deficit is expected to remain at around 3 percent of GDP, as improvements in tourism, transport services, and remittances are offset by higher import demand and interest payment obligations. Despite the requirement for exporters to remit export receipts, reserve adequacy is expected to remain thin (covering less than two months of imports).

The outlook is subject to significant domestic and external uncertainty. In the near term, the recovery will likely benefit from a rebound in the services sector, natural resource exports, and workers' remittances. However, structural imbalances associated with limited foreign reserves, high public debt, and higher import demand will continue to put pressure on the kip and inflation, undermining household consumption and investments in human capital. Subdued global and regional economic growth would weaken external demand. Further interest rate increases in advanced economies could add to depreciation pressures and thus domestic inflation. Domestic risks include challenges with refinancing external debt (particularly given the limited access to international capital markets), slow progress with structural reforms, and deteriorating bank balance sheets.

Macroeconomic instability, coupled with recent extreme weather events, undermines the poverty outlook, with the poverty rate expected to be around 31.7 percent in 2023. Recent droughts, followed by floods, highlight the country's vulnerability to climate change and are expected to weigh on households' farm income and consumption. Growing migration to Thailand could provide partial support to household income (through workers' remittances), but it will also cause labour shortages and undermine the recovery prospects for labour-intensive sectors. High inflation will continue to affect real household income, especially wages, which have consistently failed to keep pace with the rising cost of living. Meanwhile, a contraction in human capital spending will likely compromise prospects for poverty reduction in the long term.

Addressing macroeconomic instability requires five critical reforms: (i) restoring the VAT rate to 10 percent and curbing tax exemptions to raise domestic revenue; (ii) improving the governance of public and public-private investments; (iii) finalizing ongoing debt negotiations; (iv) strengthening financial sector stability; and (v) improving the business environment.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	0.5	2.5	2.7	3.7	4.1	4.3
Real GDP growth, at constant factor prices	0.5	2.5	2.7	3.7	4.1	4.3
Agriculture	3.2	2.3	1.6	2.2	2.4	2.8
Industry	4.0	7.6	3.3	3.5	3.5	3.7
Services	-3.5	-2.2	2.5	4.6	5.2	5.5
Inflation (consumer price index)	5.1	3.8	22.7	31.4	15.2	8.5
Current account balance (% of GDP)	-5.9	-2.9	-1.7	-3.4	-3.9	-4.0
Fiscal balance (% of GDP)	-5.2	-1.3	-0.2	-1.7	-1.6	-1.8
Revenues (% of GDP)	12.7	14.9	14.7	14.9	15.0	15.3
Debt (% of GDP)	62.3	77.9	95.9	95.4	94.8	94.7
Primary balance (% of GDP)	-3.7	0.0	1.5	1.4	1.4	1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	7.0	7.0	6.9	6.8	6.7	6.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	32.2	32.0	31.9	31.7	31.4	31.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	70.2	70.0	69.9	69.6	69.3	69.0
GHG emissions growth (mtCO2e)	4.4	11.2	-3.8	-6.5	0.1	1.0
Energy related GHG emissions (% of total)	46.8	51.1	48.2	43.7	42.7	42.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2012-LECS and 2018-LECS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2012-2018) with pass-through = 0.5 based on GDP per capita in constant LCU.

MALAYSIA

Table 1	2022
Population, million	33.9
GDP, current US$ billion	407.0
GDP per capita, current US$	11993.2
Upper middle-income poverty rate ($6.85)[a]	3.4
Gini index[a]	41.2
School enrollment, primary (% gross)[b]	103.9
Life expectancy at birth, years[b]	74.9
Total GHG emissions (mtCO2e)	436.8

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

Growth is expected to slow to 3.9 percent in 2023 amid a substantial deceleration in external demand. Nevertheless, domestic demand will continue to support economic resilience. A limited fiscal space remains a key challenge for the economy. Meanwhile, nearly 490,000 Malaysian households continue to live below the national poverty line and exhibit slower recovery from the pandemic. This underscores the urgency of strengthening social safety nets and restoring fiscal buffers.

Key conditions and challenges

Against the backdrop of decelerating global growth and persistent uncertainties, Malaysia's economic growth is expected to moderate in 2023. On the domestic front, several key challenges persist. The narrowing fiscal space remains a concern, as government tax revenue keeps declining, while rigid expenditures on salaries, pensions, and interest payments continue to rise. This is exacerbated by various spending inefficiencies, including broad-based fuel subsidies and distortionary price controls. The government has recently introduced its medium-term economic plan, the 'Madani Economy,' which aims to reduce the fiscal deficit to 3 percent of GDP or below. In October 2023, when presenting its Budget for 2024, the government is anticipated to reveal additional details about the subsidy reform plans.

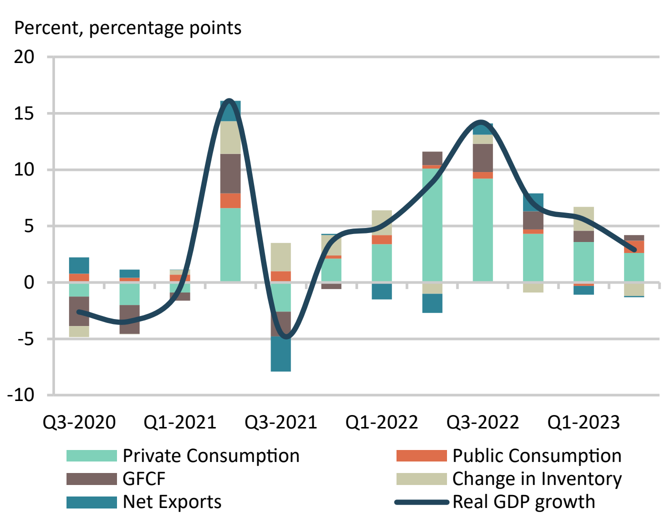
Despite the post-pandemic recovery, Malaysia's poverty rate has not returned to its pre-pandemic level. According to the latest government estimates, the absolute poverty rate stood at 6.2 percent in 2022. This marks a decline from the pandemic peak of 8.4 percent in 2020 but is above the pre-pandemic rate of 5.6 percent in 2019. All states, except the Federal Territories of Putrajaya and Labuan, reported an increase in absolute poverty. While absolute poverty rose in urban areas, it decreased in rural regions. Malaysia has experienced some flattening in income inequality. Official statistics reported that the Gini index, which measures household gross income inequality, remained largely unchanged at 40.4 percent in 2022, compared to 40.7 in 2019. The trend, however, varies across states, with Kelantan, Pulau Pinang, and the Federal Territory of Kuala Lumpur, for example, experiencing growing income inequality.

Recent developments

Economic growth moderated to 2.9 percent in 2023Q2 compared to 5.6 percent in 2023Q1, primarily because of a deceleration in external demand. The slowdown also reflected reduced output in the E&E and commodities sectors and the high base effects from 2022. Nonetheless, the economy continued to receive support from domestic demand. Household spending remained resilient, driven by improvements in the labor market. Private consumption expanded by 4.3 percent in 2023Q2. Furthermore, the continued advancement of multi-year infrastructure projects provided support to investment activity, which grew by 5.1 percent. Higher tourist arrivals also contributed positively to tourism-related activities.

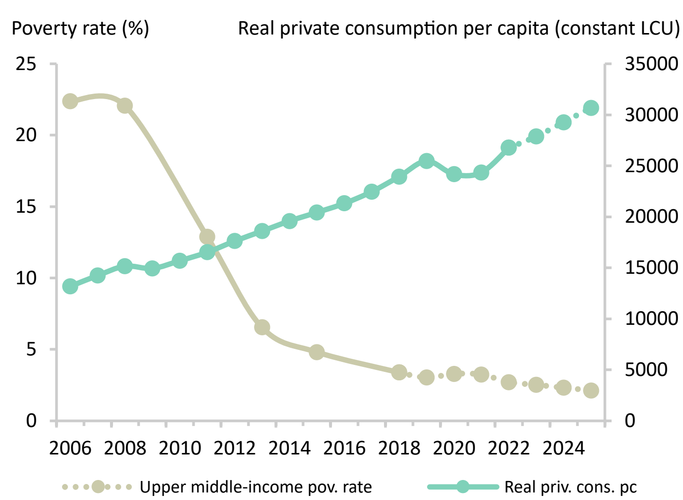
The weaker external environment contributed to an overall slowdown in international trade. Both gross exports and imports experienced an approximately 9.4 percent contraction in 2023Q2; the decline in imports was primarily related to weakening intermediate imports. The growth of the manufacturing sector declined to

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 rate and real private consumption per capita



Source: World Bank. Notes: see Table 2.

0.1 percent in 2023Q2, in contrast to the 3.2 percent expansion observed in 2023Q1. This deceleration was primarily attributed to sluggish global semiconductor sales. The current account surplus widened to 2.1 percent of GDP in 2023Q1 on higher proceeds from travel receipts and investment income from abroad, which helped offset a reduced goods surplus.

Labor market conditions continued to improve, with the unemployment rate declining further to 3.4 percent in June 2023. Additionally, the labor force participation rate increased to 70.0 percent. Growth in private sector wages slowed to a still robust 3.8 percent in 2023Q2.

Inflation eased to 2.0 percent in July 2023, the lowest level in nearly a year. Core inflation also moderated to 2.8 percent. The central bank anticipates that headline inflation will continue to ease in the coming months on lower cost factors. In the most recent monetary policy committee meeting in September, the overnight policy rate (OPR) was maintained at 3.0 percent, following a 25-basis point increase in May 2023. The central bank stated that the monetary policy stance remains supportive of the economy.

In the domestic financial markets, portfolio inflows into the bond market helped offset outflows from the equity market. Reflecting this, foreign holdings of debt securities and sukuk increased to 13.7 percent of the total value outstanding in June 2023 (December 2022: 13.2 percent). Concerns about weak global growth affected investor sentiment which partly contributed to the weakening of both the ringgit and the real effective exchange rate (REER). In the first eight months of 2023, the ringgit has experienced a 5.4 percent depreciation.

Outlook

Following a strong rebound of 8.7 percent in 2022, Malaysia's economic growth is projected to moderate to 3.9 percent in 2023. The main driver of growth is expected to be domestic private sector spending. Private consumption is forecasted to expand at a relatively robust rate of 5.2 percent in 2023. This will be sustained by improvements in labor market conditions and the government's ongoing household income support initiatives. Gross exports are projected to contract by 5.8 percent, contrasting with a 14.5 percent growth in 2022, because of subdued global growth prospects and weakening international trade momentum.

Headline consumer price inflation is projected to moderate, falling within the range of 2.5 and 3.0 percent in 2023. This primarily reflects the relaxation of global supply constraints and the stabilization of commodity prices.

The economy is expected to face significant external risks. Deeper global growth shocks could potentially result in a more significant slowdown than anticipated. On the domestic front, key sources of downside risk are linked to uncertainties surrounding domestic inflation. Higher domestic inflation could weigh on the strength of consumption spending. An upside shock to inflation may also prompt further monetary tightening.

As the economy continues to grow, it is expected that poverty and income inequality will further decrease, provided it is accompanied by policies that enhance its inclusiveness. Meanwhile, around 490,000 Malaysian households remain vulnerable and are grappling with the aftermath of COVID-19. This underscores the importance of having effective and well-targeted social protection programs. The government's initiative to establish PADU (Pangkalan Data Utiliti Kebangsaan), the national household socioeconomic database, as a basis for identifying eligible beneficiaries, plays a critical role in ensuring broader coverage and enhanced protection.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-5.5	3.3	8.7	3.9	4.3	4.2
Private consumption	-3.9	1.9	11.2	5.2	6.1	5.9
Government consumption	4.1	6.4	4.5	0.9	0.8	0.8
Gross fixed capital investment	-14.4	-0.8	6.8	5.1	3.6	3.5
Exports, goods and services	-8.6	18.5	14.5	-5.8	3.7	3.1
Imports, goods and services	-7.9	21.2	15.9	-6.3	4.3	3.7
Real GDP growth, at constant factor prices	-5.5	3.3	8.7	4.0	4.3	4.2
Agriculture	-2.4	-0.1	0.1	0.4	1.9	1.8
Industry	-6.1	5.8	6.5	2.4	3.5	3.4
Services	-5.4	2.1	11.3	5.5	5.1	5.0
Inflation (consumer price index)	-1.1	2.5	3.3	2.6	2.6	2.5
Current account balance (% of GDP)	4.2	3.9	3.1	2.6	2.6	2.5
Net foreign direct investment inflow (% of GDP)	0.2	2.0	0.9	1.7	1.6	1.5
Fiscal balance (% of GDP)	-6.2	-6.4	-5.6	-5.0	-4.0	-3.5
Revenues (% of GDP)	15.9	15.1	16.4	15.4	15.3	15.3
Debt (% of GDP)	62.0	63.3	60.3	62.1	63.2	63.8
Primary balance (% of GDP)	-3.8	-3.9	-3.2	-2.5	-1.5	-1.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	3.3	3.2	2.7	2.5	2.3	2.1
GHG emissions growth (mtCO2e)	-2.0	5.6	6.6	2.1	3.4	3.2
Energy related GHG emissions (% of total)	59.6	61.5	63.4	63.7	64.5	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.
a/ Calculations based on EAPPOV harmonization, using 2014-HIS and 2019-HIESBA. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2013-2018) with pass-through = 0.7 based on private consumption per capita in constant LCU.

MONGOLIA

Table 1	2022
Population, million	3.4
GDP, current US$ billion	17.2
GDP per capita, current US$	5073.6
Lower middle-income poverty rate ($3.65)[a]	7.5
Upper middle-income poverty rate ($6.85)[a]	37.7
Gini index[a]	32.3
School enrollment, primary (% gross)[b]	102.4
Life expectancy at birth, years[b]	71.0
Total GHG emissions (mtCO2e)	60.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2021).

Following a strong rebound in mineral exports, Mongolia's GDP growth is forecast to reach 5.1 percent in 2023 and the poverty rate, measured at the lower-middle-income poverty line, is projected to fall to pre-pandemic levels by the end of 2023 (6.3 percent). However, significant risks and challenges lie ahead including high inflation stymieing poverty reduction, persistent high debt and increasing fiscal risks, and continuous balance of payment pressures.

Key conditions and challenges

A sharp increase in coal exports in H1 2023, following the resolution of pandemic-related trade disruptions at the Chinese border supported robust economic growth and improved fiscal and external balances while simultaneously underscoring Mongolia's high dependency on volatile mining revenues.

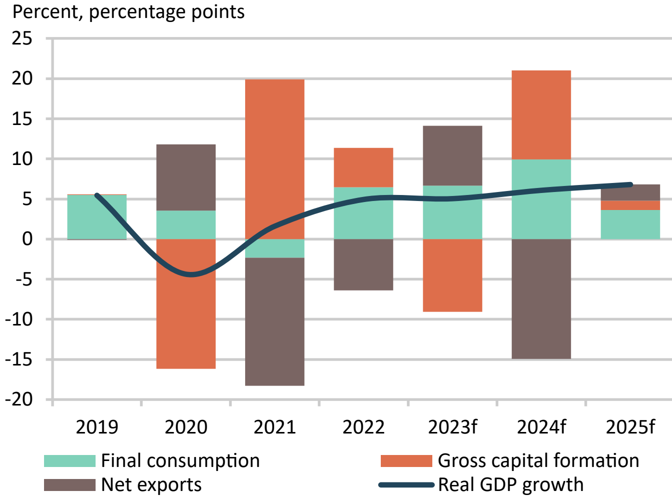
Significant fiscal structural challenges persist despite the recent cyclical improvement in public finances. Following higher-than-expected revenues coming from mining, the government passed budget amendments that reversed recent reforms to enhance the targeting of the Child Money Program (CMP) – the country's largest social assistance program with fiscal expenditure of 2.7 percent GDP- returning the program to universal coverage. At the same time, the government also increased public sector wages, pensions, and investment. Overall, these amendments added total expenditures equivalent to 3.1 percent of GDP. Meanwhile, Mongolia's debt and fiscal risks remain high. Although immediate external financing pressures eased somewhat due to the export recovery, the rollover of some external bonds in H1 2023, and the recent extension of the financing agreement with the People Bank of China (PBOC, extended to 2026), the level of international reserves remains low (US$3.9 billion or 3.6 months of import coverage as of August 2023).

Recent developments

Economic growth accelerated to 6.2 percent in the first half of 2023 (up from 5.0 percent in 2022) driven by coal exports which exceeded pre-pandemic levels in H1 by about 60 percent. Public consumption also supported the economy, while the recovery of private consumption (at 2.7 percent y-o-y in H1) was dampened by high inflation and by the slow recovery in the labor market with the labor participation rate still below pre-pandemic levels. Private investment also remained weak, dragged down by banks' reluctance to increase riskier loans (e.g., business loans). From the production side, nearly 90 percent of growth was explained by mining and transportation activities (mostly linked to mineral exports), with the underground project of Oyu Tolgoi (OT), which commenced in March 2023, supporting the mining sector's output. In contrast, the growth of non-mining industries was feeble, and agricultural production contracted amid harsh weather conditions. While headline inflation dipped below 10 percent for the first time in two years, elevated prices continue to erode household purchasing power, limiting progress in poverty reduction and household welfare.

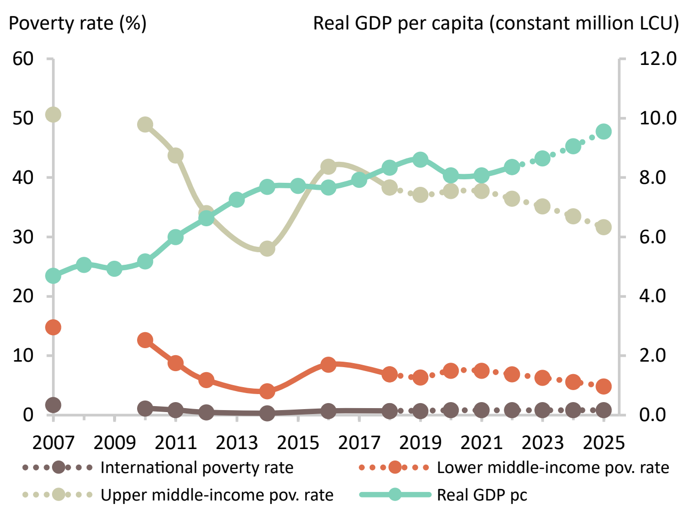
Despite the rapid increase in government spending with the recent budget amendment, the fiscal balance was in surplus (3.0 percent of GDP) as of July, due to an exceptionally strong revenue outturn resulting mainly from buoyant coal revenues.

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.

After a large deficit in H1 2022 (15.8 percent of GDP), the current account balance recorded a surplus in H1 2023 (1.5 percent of GDP) supported by coal exports (which reached 41 million tons in the first eight months of 2023, up from 25 million tons in the same period of 2019, a previous record), which were only partially offset by increased imports of investment goods and services (related to coal transportation and tourism). At the same time, net capital inflows (including foreign direct investments) remained weaker compared to pre-pandemic levels.

Outlook

The Mongolian economy is expected to grow by 5.1 percent in 2023, driven by the continued recovery in mining production and services, while agriculture production is anticipated to contract due to the harsh spring/winter. From the demand side, dynamic exports, a recovery in household consumption (on the back of increased pensions, social welfare, and wages), and large public investment (through the budget and quasi-fiscal activities) are expected to support growth. In contrast, private investment is forecast to remain weak, amid tight credit conditions and high production costs. With the rapid recovery in domestic demand, exacerbated by more expansionary fiscal policy, inflation is expected to remain elevated throughout 2023. Notwithstanding the expansion in government expenditures, solid mining revenue is anticipated to result in a narrow fiscal deficit in 2023. Despite a projected decline in the current account deficit, the balance of payments pressure is expected to remain significant in 2023, with sustained import growth, limited FDI inflows, and sizable bond payments due.

Sustained economic growth and rising real wages are predicted to contribute to improvements in household welfare and poverty reduction, although elevated inflation hinders further progress: poverty in 2023 is projected to fall to pre-pandemic levels (6.3 percent) under the lower-middle-income poverty line of $3.65 in 2017 PPP.

The medium-term growth outlook remains robust underpinned mostly by favorable prospects for mining output. Driven by the OT underground mine, mining production is expected to more than double compared to current levels by 2025, progressively increasing government revenues, reducing the balance of payment pressures, and boosting foreign reserves. However, the need for economic diversification persists to avoid large and repeated boom and bust cycles resulting from the country's mining dependency. The outlook is subject to downside risks, including a deterioration of external balances resulting from weaker external demand from China, more restrictive external credit conditions from further tightening of monetary policy in advanced economies, persistent risks associated with sizable contingent liabilities and large DBM's bonds payments, and uncertainties related to existing large (and confidential) offtake coal export agreements.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-4.4	1.6	5.0	5.1	6.1	6.8
Private consumption	2.1	-5.9	8.1	5.7	12.0	2.5
Government consumption	14.6	9.2	6.9	14.7	9.4	8.4
Gross fixed capital investment	-21.1	17.7	13.2	6.0	15.4	1.7
Exports, goods and services	-5.3	-14.6	32.3	40.3	3.6	23.1
Imports, goods and services	-15.5	13.6	29.1	16.8	18.4	13.4
Real GDP growth, at constant factor prices	-3.9	0.4	4.2	5.1	6.1	6.9
Agriculture	5.8	-5.5	12.0	-6.0	12.5	2.0
Industry	-4.4	-2.2	-4.5	11.1	4.2	12.5
Services	-6.5	3.9	6.9	5.3	5.3	5.2
Inflation (consumer price index)	3.7	7.1	15.2	10.2	7.1	7.0
Current account balance (% of GDP)	-5.0	-13.4	-13.4	-4.2	-14.1	-5.9
Net foreign direct investment inflow (% of GDP)	12.6	13.1	14.1	8.1	9.2	8.8
Fiscal balance (% of GDP)	-9.1	-3.0	0.7	-0.9	-0.7	0.0
Revenues (% of GDP)	27.6	32.0	33.8	34.5	34.7	35.5
Debt (% of GDP)[a]	79.0	64.5	62.2	54.7	52.3	50.6
Primary balance (% of GDP)	-6.7	-1.1	2.1	0.9	0.7	1.3
International poverty rate ($2.15 in 2017 PPP)[b,c]	0.8	0.8	0.8	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	7.5	7.5	6.9	6.3	5.6	4.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	37.7	37.7	36.5	35.2	33.5	31.7
GHG emissions growth (mtCO2e)	-0.3	-1.1	3.6	1.6	3.6	4.0
Energy related GHG emissions (% of total)	36.7	37.7	36.8	37.6	38.1	38.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Debt excludes contingent liabilities and the BOM's liability under the PBOC swap line (11% of GDP) by 2022.
b/ Calculations based on EAPPOV harmonization, using 2016-HSES and 2018-HSES. Actual data: 2018, 2020. Nowcast: 2019, 2021, 2022. Forecasts are from 2023 to 2025.
c/ Projection using annualized elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

MYANMAR

Table 1	2022
Population, million	54.2
GDP, current US$ billion	59.4
GDP per capita, current US$	1095.7
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]	65.7
Total GHG emissions (mtCO2e)	245.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Last official estimate based on 2017 Myanmar Living Conditions Survey, 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2021).

Myanmar's economy showed signs of stabilization in the first half of 2023, but the recovery was constrained and uneven. The business environment remains challenging due to frequent power outages, restrictive trade and financial policies, logistics constraints, and ongoing conflict. In early 2023, almost half of all households reported experiencing income losses over the previous year. Lately, weaker exports, restrictions on cross-border payments by correspondent banks, and the imposition of sanctions have triggered renewed external pressures.

Key conditions and challenges

Myanmar's economy showed signs of improvement in early 2023, but the recovery has been fragile and uneven across sectors. The exchange rate remained relatively stable between January and May, and prices stabilized, albeit at high levels. But power outages became more frequent and prolonged, with 42 percent of firms surveyed by the World Bank in March citing electricity shortages as their biggest constraint. The business environment weakened further with the expansion of trade and foreign exchange restrictions. Conflict continues to spur displacement and labor shortages in affected areas while increasing logistics costs. More recently, external sector weaknesses have resurfaced, with renewed downward pressure on the kyat exchange rate since the end of June.

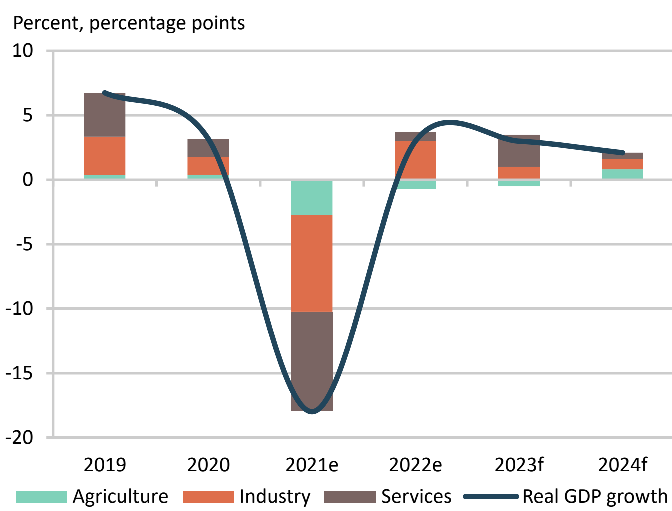
Labor market conditions remain precarious and inequalities in household welfare have worsened. In the Myanmar Subnational Phone Survey (MSPS) conducted at the end of 2022 and early 2023, about half of surveyed households reported a decrease in incomes over the past year, while only 15 percent reported an increase. High inflation and declining labor productivity have resulted in a 15 percent drop in real wages over the five years to end-2022, with significant impacts on food security. Myanmar faces risks of a generational loss in human capital with the share of 6 to 22-year-olds enrolled in schools and tertiary institutions declining from 69.2 percent in 2017 to 56.8 percent in 2023.

Cyclone Mocha hit Myanmar in May causing severe damage to livelihoods and the economy in Rakhine state and the Sagaing region. The cyclone is reported to have affected about 1.2 million people, resulting in damage to buildings, agriculture assets, and public infrastructure estimated at around US$2.24 billion (or 3.4 percent of GDP).

Recent developments

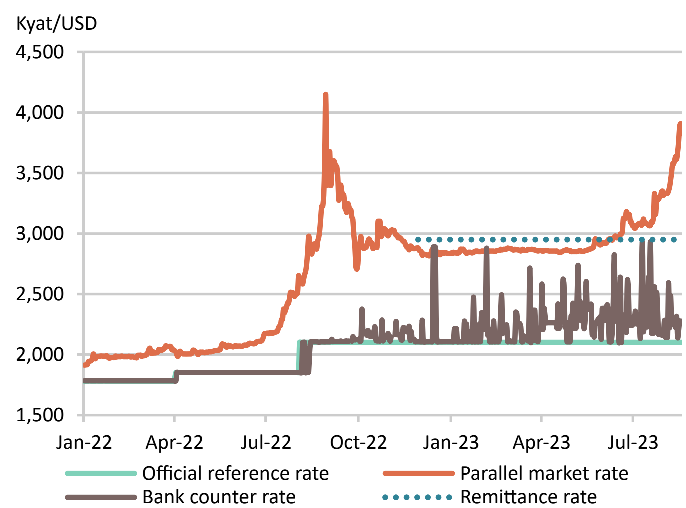
Key indicators of economic performance slowly trended upwards in the first half of 2023 but remained consistent with an economy still well below pre-pandemic levels. Firms surveyed by the World Bank reported operating at 75 percent of their capacity on average in March 2023, 9 percentage points higher than a year earlier, with particularly large improvements among firms in the services sector. As of August, the manufacturing Purchasing Managers Index (PMI) had expanded for seven consecutive months, reflecting rising output and new orders as consumer demand increased, especially for locally produced items. Retail sales improved with fewer firms reporting challenges from a lack of sales, also suggesting a gradual boost in consumer demand. While agricultural production is estimated to have weakened, high farmgate prices and declines in some input costs supported an increase in profitability.

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 / Official, parallel-market, bank-counter, and remittance exchange rates



Sources: Central Bank of Myanmar and Money changers.

Inflationary pressures persist. Consumer price inflation eased to 27.5 percent (yoy) in the March quarter, but prices remain at high levels. Inflation peaked at 35 percent in December 2022 reflecting increases in fuel and food prices and the lagged impacts of a sharp kyat depreciation between July and September 2022.

Exports fell by 16 percent in the six months to March 2023 while imports remained broadly stable, resulting in a widening of the trade and current account deficit. Agriculture and manufactured exports (including garments and natural gas) declined by 7 and 11 percent, respectively, reflecting weaker external demand, constrained domestic production as well as the ongoing impact of foreign exchange surrender requirements, onerous trade license requirements, and a substantially overvalued official exchange rate.

While the parallel market exchange rate remained broadly stable in the first half of 2023, it depreciated by around a quarter against the US dollar over the three months to August. The depreciation coincided with the announcement of U.S. sanctions on two large state-owned banks, the imposition of restrictions on cross-border payments by international banks, and the launch of a higher denomination 20,000 kyat banknote which fueled renewed inflation and devaluation expectations.

The fiscal deficit widened to 5.4 percent of GDP in the year to March 2023 from 4.7 percent of GDP in the six months to March 2022, driven by a combination of increased spending and a slight decline in revenue. While recurrent spending continues to drive overall expenditure, there has been a substantial fall in spending on health and education. Public debt is estimated at 63 percent of GDP in 2023. Public debt to GDP is estimated to have increased by more than 20 percentage points since 2019, driven by relatively large fiscal deficits, a significant contraction in GDP, and exchange rate valuation effects.

Outlook

GDP is expected to grow by 3 percent in the year ending September 2023, with growth slowing to 2 percent in the following year. Recent exchange rate volatility is likely to lead to renewed pressure on inflation, particularly in the cost of imported inputs, adding to constraints in the business environment. Trade and financial flows have the potential to be disrupted following restrictions on cross-border payments to and from Myanmar. The expansion in the manufacturing sector is expected to moderate as export demand softens, compounded by the exit of major global brands such as H&M and Primark from Myanmar's garments sector. High farmgate prices and easing pressure on input prices are expected to boost agriculture production during the 2023/24 planting seasons but ongoing conflict and weather shocks remain major constraints.

The outlook is subject to significant downside risks and longer-term scarring to Myanmar's development prospects is likely. A worsening of conflict, an additional slump in electricity supply, sharper than expected inflationary pressure, exacerbation of financial sector vulnerabilities, or a further deterioration in the trade and business environment could result in lower growth. Longer-term prospects for living standards remain dim due to broad-based declines in productivity and wages, and the ongoing erosion of human capital, with the education sector remaining at a standstill and children continuing to drop out of schools.

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

	2019	2020	2021e	2022e	2023f	2024f
Real GDP growth, at constant factor prices	6.8	3.2	-18.0	3.0	3.0	2.0
Agriculture	1.6	1.7	-12.5	-3.0	-2.0	4.0
Industry	8.4	3.8	-20.6	8.6	5.5	2.0
Services	8.3	3.4	-18.7	1.7	3.4	1.1
Inflation (consumer price index)	8.5	5.8	3.6	18.3	24.0	12.0
Current account balance (% of GDP)	-0.2	-2.0	-1.4	-3.3	-5.7	-6.5
Fiscal Balance (% of GDP)[a]	-3.2	-7.0	-9.2	-4.7	-5.4	-6.4
Public Sector Debt (% of GDP)[a]	38.7	42.2	60.0	61.5	63.0	64.4
Primary Balance (% of GDP)[a]	-1.6	-5.3	-6.6	-2.0	-2.7	-3.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
a/ Fiscal estimates and projections are for years ended March. All other estimates and projections are for years ended September.

NORTH PACIFIC ISLANDS

Table 1	2022
Population, million	
Federated States of Micronesia	0.11
Republic of the Marshall Islands	0.04
Palau	0.02
GDP, US$, billion	
Federated States of Micronesia	0.39
Republic of the Marshall Islands	0.21
Palau	0.22
GDP per capita, current US$	
Federated States of Micronesia	3586
Republic of the Marshall Islands	5277
Palau	11065

Sources: WDI, World Bank staff estimates.

Following recessions in FY22, economic activity is projected to gain momentum in FY23 in the Federated States of Micronesia (FSM), Republic of the Marshall Islands (RMI), and Palau. Modest fiscal surpluses are projected in RMI and Palau, in contrast to large deficits in FSM. Although an agreement was reached with the United States on the renewal of Compact-related fiscal transfers, structural reforms are needed to boost long-term growth and achieve fiscal sustainability.

Key conditions and challenges

COVID-19 outbreaks in FY22 stalled economic activity in the North Pacific by delaying border reopening plans in FSM and RMI and halting the recovery of tourism in Palau. Economic activity is expected to gain momentum in FY23, but downside risks to the outlook remain high. In the short term, the key challenges facing the North Pacific include (1) monetary policy tightening in major markets, (2) slow recovery of tourist arrivals (particularly in Palau), and (3) fiscal risks.

Although all three countries have come to an agreement with the U.S. on a new fiscal chapter of the Compact, the agreement has yet to be approved by the U.S. Congress. In addition, several challenges persist that could hinder long-term fiscal sustainability. First, details of the new fiscal chapters are not yet public, so it is unclear if the shortcomings of the previous agreement have been addressed. Second, the fiscal chapter is not in perpetuity and will expire again, subject to negotiations. Third, the new agreement can reduce incentives to enact meaningful fiscal reforms, especially in FSM and RMI, where the reform agenda has progressed slowly.

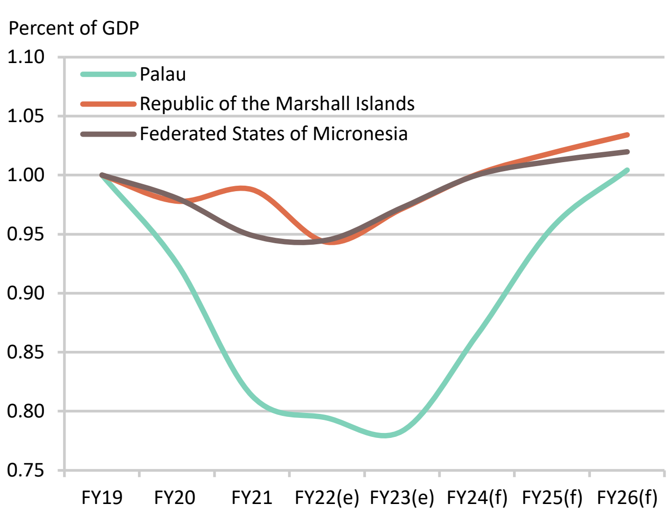
Even with the renewal of the fiscal chapter of the Compact, implementing reform-based fiscal adjustments, such as domestic revenue mobilization and expenditure rationalization, remains crucial to enhancing fiscal sustainability. Natural disasters and climate change continue to pose a threat to economic activity and livelihoods. Finally, structural reforms are needed to ensure a sustainable economic recovery that supports the livelihood of the bottom 40 percent of households. The lack of recent household data presents a challenge in monitoring development progress and assessing the effects of shocks, which also limits the potential for evidence-based policymaking.

Recent developments

The pandemic drove **FSM** into the third consecutive year of recession in FY22, with a further contraction of 0.6 percent. In **RMI**, output also declined significantly in FY22 by 4.5 percent due to a decrease in fish production. Inflation increased to 4.4 percent in RMI and 5 percent in FSM in FY22 driven by rising global commodity prices due to the war in Ukraine. FSM and RMI registered fiscal surpluses of 1.6 percent and 0.7 percent of GDP in FY22, respectively. Government debt declined to 22 percent of GDP in RMI and to 14 percent in FSM. Debt remains sustainable but the overall risk of debt distress is high in both countries.

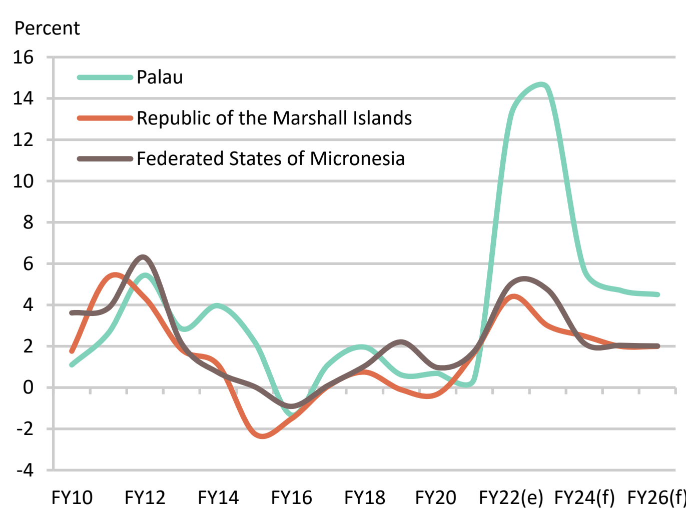
In **Palau**, output contracted by 2.3 percent in FY22, due to a lack of tourism activity while inflation surged to 13.2 percent due to higher food and fuel import prices driven by the war in Ukraine. The fiscal deficit remained sizeable at 3.1 percent of GDP in FY22. The deficit has been financed by concessional external borrowing, causing general government debt to rise to 90 percent of GDP. Despite rising levels, debt

FIGURE 1 North Pacific Islands / Real GDP, relative to 2019 GDP



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

FIGURE 2 North Pacific Islands / Consumer price inflation



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

remains sustainable due to the concessional nature of new debt.

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. In Palau, the disruption in tourism activities likely led to increased vulnerability of households employed in the sector. In FSM and RMI, many households rely on annual remittance inflows that are estimated to have dropped in FY21. In RMI, poverty is estimated to have fallen in FY21, and then risen in FY22, with a reduction projected in FY23. A decline in poverty is also expected in FSM from FY23, given the projected return to economic growth.

Outlook

In FY23, FSM's economy is projected to expand by 2.8 percent, supported by positive spillovers from the reopening of borders, a pick-up in construction activity, and increased capital expenditure. Similarly, RMI's economy is expected to grow by 3 percent mainly driven by a recovery in the fishery sector. However, GDP in both RMI and FSM is only expected to reach pre-pandemic levels in FY24. In line with easing global food and energy prices, inflation in FY23 is expected to subside to 4.7 percent in FSM and to 3 percent in RMI, before further declining in FY24. Despite a recovery in tourism, the Palauan economy is expected to contract by 1.4 percent in FY23. GDP is projected to remain on a lower trajectory until tourist arrivals reach pre-pandemic levels in FY26. Inflation in Palau is expected to remain high at 14.5 percent in FY23, partly due to the introduction of new consumption taxes. It is then projected to decline starting from FY24.

A fiscal surplus of 0.1 percent of GDP is projected for FY23 in RMI, with small surpluses expected from FY24 onwards. In FSM, following a surplus of 1.4 percent of GDP in FY23, a deficit of 5.9 percent of GDP is projected in FY24, further widening to reach 7 percent of GDP by FY26 predicated on the expiration of the compact in 2023. In Palau, the deficit is projected to decline to -0.5 percent of GDP in FY23, as non-grant revenues remain below pre-crisis levels. Modest fiscal surpluses are expected from FY24 onwards due to an increase in tourism receipts and full implementation of the tax reform bill.

The outlook is subject to significant downside risks. Interest rates are expected to remain high globally and may create adverse spillover effects. If growth in advanced economies is slower than anticipated, projected recovery in tourism may fail to materialize and weaken growth prospects in Palau. The region's vulnerability to natural disasters and climate change remains an important underlying adverse risk to economic growth.

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

	2021e	2022e	2023f	2024f	2025f	2026f
Real GDP growth, at constant market prices						
Federated States of Micronesia	-3.2	-0.6	2.8	2.8	1.3	0.8
Republic of the Marshall Islands	1.0	-4.5	3.0	3.0	1.8	1.5
Palau	-12.1	-2.3	-1.4	10.4	10.5	5.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b,c]						
Republic of the Marshall Islands	30.0	32.1	30.6	28.8	27.1	25.9

Sources: ECONMAP, IMF, and Worldbank.
e = estimate; f = forecast.
Notes: 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.
c/ For 2022-2025 projections, no change in population is assumed due to a lack of updated population projections.

PAPUA NEW GUINEA

Table 1	2022
Population, million	10.1
GDP, current US$ billion	31.6
GDP per capita, current US$	3112.0
International poverty rate ($2.15)[a]	39.7
Lower middle-income poverty rate ($3.65)[a]	67.7
Upper middle-income poverty rate ($6.85)[a]	90.2
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	116.0
Life expectancy at birth, years[b]	65.4
Total GHG emissions (mtCO2e)	64.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2009), 2017 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2021).

After reaching pre-COVID level in 2022, the economy has maintained growth momentum in 2023, supported by the non-extractive sector. High commodity prices boosted fiscal revenue, helping fiscal consolidation. Reducing debt risk remains vital. Inflation has decelerated, but the risk of renewed price pressures remains elevated. Enhancing real incomes for poorer households requires sustained lower inflation and faster and more inclusive economic growth.

Key conditions and challenges

Since gaining independence in 1975, the economy has more than tripled. However, real GDP per capita has only seen an annual increase of 0.9 percent—a sluggish rate compared to other lower middle-income resource-exporting nations. The economy's growth trajectory has been marked by pronounced fluctuations, reflecting its high susceptibility to shifts in international commodity prices. The inclusiveness of this growth has been limited by the resource sector's heavy reliance on capital and the underperformance of the non-resource sector. The COVID-19 crisis has exacerbated existing structural economic challenges.

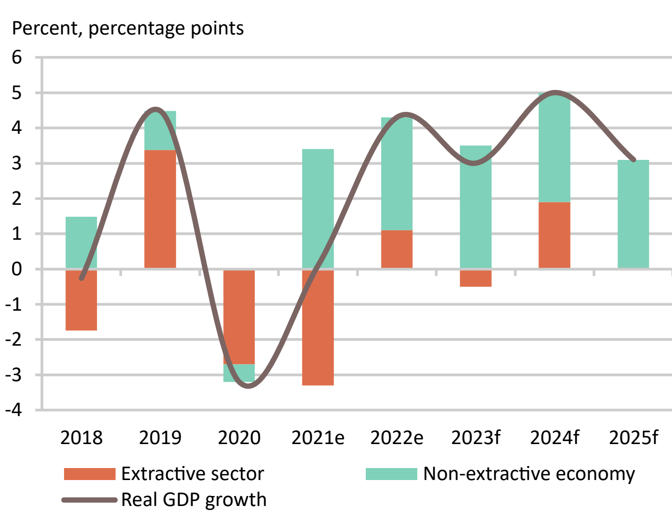
Weak human development outcomes present missed opportunities for faster and more inclusive economic growth. Papua New Guinea (PNG) has one of the highest stunting rates in the world, affecting almost half of all children under the age of five. Furthermore, a significant portion of the country's youth—nearly two million individuals—find themselves outside of training, education, and employment. Weak governance compounds the difficulties in effectively addressing these challenges, with external shocks compounding fragility-related risks.

Large segments of the population continue to lag in socio-economic development. The most recent Household Income and Expenditure Survey, from 2009, revealed that around 39.7 percent of the population lived below the poverty line of US$2.15 per day (2017 PPP terms), and a staggering 74.2 percent are considered to be multidimensionally poor. Access to basic services remains limited, with only 19 percent of the population having access to safe drinking water, and a mere 15 percent of households having access to electricity, according to the 2022 Socio-Demographic and Economic Survey.

Recent developments

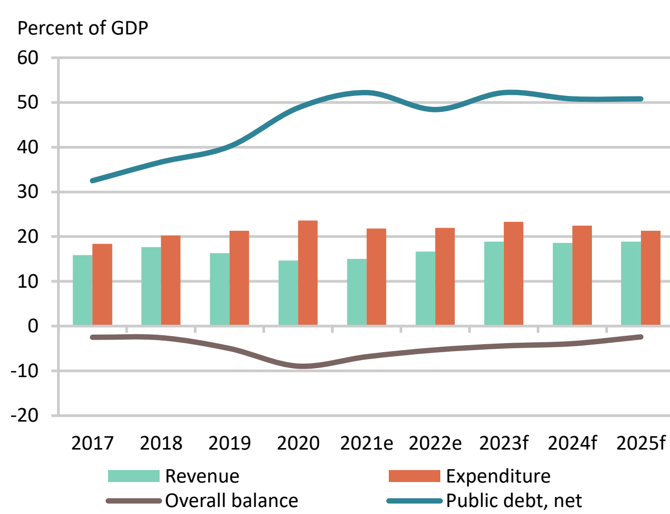
Buoyed by high commodity prices and the removal of COVID-19 restrictions, the economy underwent a robust recovery in 2022, a momentum that has extended into 2023. The ongoing growth of the non-resource sector is apparent in the strong fiscal revenue generation and a noteworthy 5.3 percent expansion in formal employment growth in 2023Q1. By contrast, the resource sector growth seems to be lagging, following its strong rebound in 2022. The government continued with fiscal consolidation to safeguard macroeconomic stability. The fiscal deficit is estimated to have narrowed to 5.4 percent of GDP in 2022 after reaching a peak of 8.8 percent in 2020. Most of the improvement can be attributed to resource revenue. By contrast, the non-resource primary balance, which provides a more accurate measure of the underlying fiscal position, has barely improved. In 2023, the mid-year data indicate that tax revenue, including from corporate and personal income taxes, has exceeded

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.

expectations. This is a testament to the strengthened non-resource economy. 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 and conservative financing strategies, PNG's external and overall debt is judged as sustainable.

Headline inflation decelerated to 1.7 percent in 2023Q1, but the core inflation remained around 5 percent, close to historic averages. The Bank of PNG has kept the policy rate at 3.5 percent since early 2023, after a cumulative increase of 50 basis points in 2022 to contain inflationary pressures. Driven by high commodity prices, particularly oil and natural liquified gas (NLG), the external current account achieved a historic surplus in 2022. By the end of 2022, international reserves covered about nine months of imports. However, the current account surplus is expected to ease in 2023.

Data from a series of phone surveys conducted by the World Bank indicate that by 2022Q3 employment had rebounded from the COVID-related restrictions imposed by the government. However, 40 percent of households reported income reductions, while over a third of households experienced moderate food insecurity. Preliminary results from survey data collected in 2023Q2 suggest that household incomes remain under pressure and food insecurity continues to be a widespread problem. In addition, most households reported being worried about their finances in the months ahead.

Outlook

Growth is projected to slow to 3 percent in 2023, primarily attributed to reduced global demand and domestic supply constraints stemming from scheduled maintenance in extractive facilities along with the delayed reopening of the Porgera gold mine. The non-extractive economy is expected to post robust growth. In 2024, growth is projected to accelerate to 5 percent, largely owing to the full-year impact of the Porgera reopening. The medium-term growth is expected to settle at 3 percent.

The baseline projection does not account for potential new resource mega-projects, like Papua LNG. Thus, the final investment decision and the initiation of construction could present an upside risk to the outlook. Meanwhile, significant downside risks persist because of the fragile state of the global economy. Slower-than-expected economic growth could materialize through lower demand for PNG's exports and a more pronounced decline in commodity prices. Additionally, the impact of droughts and other climate-related events on agricultural output could have adverse effects on poor and vulnerable households.

Although the recent fiscal performance is promising, achieving deeper fiscal consolidation would require the implementation of more reforms. Resource revenue is not projected to experience a significant increase from commodity prices in 2024-25, in contrast to the boost seen in 2022. Meanwhile, containing the growth of expenditures becomes increasingly difficult, considering the substantial requirements for investments in human capital and infrastructure. Therefore, it is recommended that the government prioritizes domestic revenue mobilization, including increased dividend collection from state-owned entities within the resource sector.

Enhancing the real incomes of poor and near-poor households requires a sustained fall in inflation accompanied by faster and more inclusive economic growth. Global experience from resource-rich countries demonstrates that enduring enhancements in livelihoods stem from rechanneling a considerable portion of resource extraction earnings into both physical and human capital investments.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.2	0.1	4.3	3.0	5.0	3.1
Real GDP growth, at constant factor prices	-2.9	0.1	4.3	3.0	5.0	3.1
Agriculture	4.7	4.5	4.9	3.6	4.1	3.3
Industry	-7.5	-7.8	5.6	-0.6	5.9	2.9
Services	-1.3	5.5	3.0	5.7	4.7	3.2
Inflation (consumer price index)	4.9	4.5	5.3	5.0	4.9	4.8
Current account balance (% of GDP)	19.4	21.9	33.0	22.9	23.0	22.0
Net foreign direct investment inflow (% of GDP)	-3.5	-1.4	-1.2	-1.1	-1.2	-1.2
Fiscal balance (% of GDP)	-8.9	-6.8	-5.3	-4.4	-3.9	-2.4
Revenues (% of GDP)	14.7	15.0	16.7	18.9	18.6	18.9
Debt (% of GDP)	48.8	52.2	48.4	52.2	50.9	50.7
Primary balance (% of GDP)	-6.2	-4.3	-2.8	-1.8	-1.4	0.0
GHG emissions growth (mtCO2e)	0.4	0.5	0.6	0.6	0.7	0.7
Energy related GHG emissions (% of total)	11.9	11.8	11.7	11.5	11.3	11.0

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	2022
Population, million	115.6
GDP, current US$ billion	404.3
GDP per capita, current US$	3498.5
International poverty rate ($2.15)[a]	3.0
Lower middle-income poverty rate ($3.65)[a]	17.8
Upper middle-income poverty rate ($6.85)[a]	55.3
Gini index[a]	40.7
School enrollment, primary (% gross)[b]	92.4
Life expectancy at birth, years[b]	69.3
Total GHG emissions (mtCO2e)	274.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

Recovery momentum decelerated in the first half of 2023 driven by a moderation in domestic activity amidst persistent weakness in external demand. Growth is expected to average 5.7 percent annually between 2023-2025, as domestic demand improves helped by a robust labor market, decelerating inflation, and the effects of recent investment policy reforms. Poverty is expected to gradually decline alongside economic recovery and labor market improvements.

Key conditions and challenges

High inflation, tight fiscal and monetary policies, budget execution delays, and subdued global growth dampened the Philippines' growth momentum. In the near term, essential factors for boosting growth include containing price pressures and improving budget utilization. Given agriculture's susceptibility to extreme weather events, an enhanced and rapid food importation system will bolster domestic food supply. This will enable price stability despite recent increases in wages, transportation fares, and the price of imported rice. Implementing the government's medium-term fiscal consolidation strategy will help strengthen the country's fiscal sustainability.

To improve long-term growth potential, it is imperative to address structural challenges, including underinvestment in physical and human capital, and low productivity. Effective implementation of pro-investment reforms in renewable energy and sectors like trade, transport, and telecommunications will generate economy-wide productivity gains. In addition, implementing reforms that encourage private sector participation in physical and human capital investments will enhance growth potential even within the constraints of limited fiscal space. Effective public spending in agriculture will boost productivity and enhance local food supply, thereby reducing the impact of food price shocks that disproportionately affect the poor. Furthermore, implementing reforms that strengthen the resilience of education, human settlements, and healthcare systems will mitigate the effects of climate change, public health crises, and natural disasters in both the short and long term.

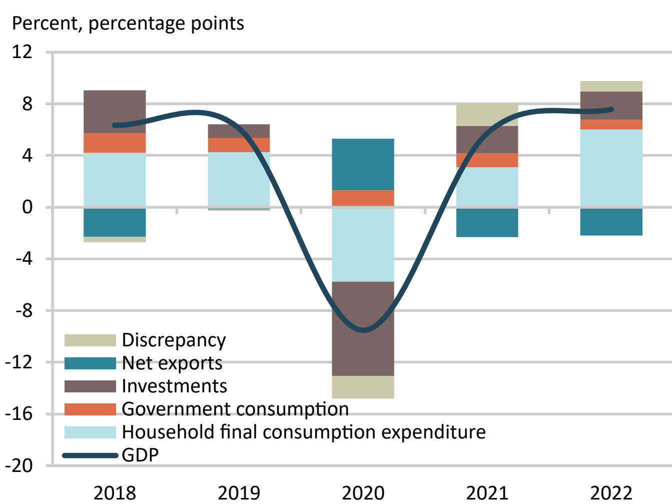
Recent developments

GDP growth decelerated to 5.3 percent (y/y) in 2023 from 7.8 percent in 2022. The slowdown was driven by a simultaneous easing in private consumption and investment growth, dampened by increased inflation, elevated borrowing costs, and dissipating pent-up demand. Despite the rebound in tourism, services growth moderated. The manufacturing and mining sectors also experienced a slowdown in response to weakening external demand, contributing to an overall dampening of industry growth.

Headline inflation dropped to 4.7 percent (y/y) in July from its peak of 8.7 percent in January amid improved domestic food production and importation, and a decline in fuel prices. Core inflation remained elevated at 6.7 percent in July, although it was below its peak of 8.0 percent in March reflecting easing demand-side pressures. Decelerating inflation allowed the central bank to pause its monetary policy tightening.

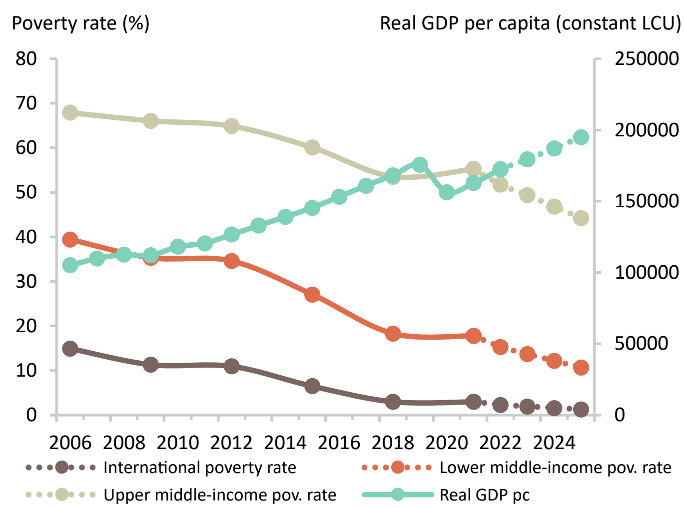
The balance of payments position reversed to a surplus in the first seven months of 2023 supported by a steady inflow of remittances, net foreign borrowings by the government, and a narrower

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



Source: Philippines Statistics Authority.

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



Source: World Bank. Notes: see Table 2.

trade gap owing to weaker imports and the recovery in services exports. Meanwhile, reserves remained consistently stable, equivalent to 7.5 months' worth of imports during the first half of 2023.

The fiscal deficit declined to 4.8 percent of GDP in 2023, owing to continuous fiscal consolidation efforts and underspending. The reduced deficit was in part driven by a rise in tax revenues, with the government surpassing its collection target. Although the central government debt ratio inched up to 61.0 percent of GDP in 2023, the debt composition remains favorable, characterized by long-term, domestic, and peso-denominated debt obligations.

The financial system remains resilient, as banks are generally well-capitalized and maintain ample capital and liquidity buffers. Nonetheless, the expansion of total outstanding loans in June was affected by elevated interest rates, primarily affecting the loan growth for production activities.

The labor market continues to show steady improvement. Employment rose from 46.6 million in June 2022 to 48.8 million in June 2023, propelled by the recovery of the hospitality industry. Robust job creation in services contributed to a decline in the unemployment rate from 6.0 to 4.5 percent. Despite these gains, positions in elementary occupations, which are often linked to lower wages, accounted for the largest share of workers at 30.3 percent as of June 2023.

Outlook

Growth is projected to average 5.7 percent in 2023-25. Economic activity will be supported by domestic demand, led by private consumption and the expectation that recent reforms will buoy investment. However, growth is projected to moderate to 5.6 percent in 2023 due to high inflation, tight financial conditions, and a weak external environment. Inflation will increase marginally in 2023 due to the materialization of risks to food inflation, before returning to within the target range in 2024 amid improvements in food supply and lower global commodity prices. The global growth slowdown will exert pressure on both goods exports and manufacturing output.

The fiscal deficit is expected to fall to 4.1 percent of GDP by 2025. Efforts to reduce public spending will continue until 2026, led by the decline in recurrent spending. The government is expected to strengthen tax collections beginning in 2024 through the introduction of several new tax measures and reforms focused on broadening the tax base.

Despite improvements in the labor market, elevated inflation will dampen the growth of household incomes in real terms. The escalation of climate shocks could further erode income growth, particularly affecting poor households that rely heavily on agriculture. These factors could contribute to the slower pace of poverty reduction. The poverty incidence, measured using the World Bank's poverty line for lower-middle income countries of $3.65/day, 2017 PPP, is projected to decrease from 17.8 percent in 2021 to 13.7 percent in 2023, and subsequently decrease further to 10.7 percent in 2025.

The outlook is subject to significant external risks. Persistently high global inflation owing to tight labor markets and lingering geopolitical uncertainty could result in a prolonged period of high global policy rates. In addition, a weaker-than-anticipated recovery in China could further dampen trade. Domestically, El Niño and additional shocks from natural disasters could potentially reverse the current inflation trajectory and weaken domestic demand. Finally, delays in the execution of the government's catch-up spending program could have adverse effects on short-term growth prospects.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-9.5	5.7	7.6	5.6	5.8	5.8
Private consumption	-8.0	4.2	8.3	5.9	6.2	6.2
Government consumption	10.5	7.2	4.9	2.1	5.7	6.1
Gross fixed capital investment	-27.3	9.8	9.7	6.0	7.1	9.5
Exports, goods and services	-16.1	8.0	10.9	3.8	7.6	7.7
Imports, goods and services	-21.6	12.8	13.9	3.7	8.6	10.1
Real GDP growth, at constant factor prices	-9.5	5.7	7.6	5.6	5.8	5.8
Agriculture	-0.2	-0.3	0.5	0.5	1.1	1.2
Industry	-13.1	8.5	6.5	4.2	5.9	6.0
Services	-9.1	5.4	9.2	7.1	6.3	6.4
Inflation (consumer price index)	2.4	3.9	5.8	5.9	3.6	3.0
Current account balance (% of GDP)	3.2	-1.5	-4.4	-3.6	-3.3	-3.1
Net foreign direct investment inflow (% of GDP)	1.9	3.0	2.3	2.5	2.7	2.8
Fiscal balance (% of GDP)	-7.6	-8.6	-7.3	-6.0	-5.1	-4.1
Revenues (% of GDP)	15.9	15.5	16.1	15.7	15.8	15.9
National Government Debt (% of GDP)	54.6	60.4	60.9	61.1	61.4	60.9
Primary balance (% of GDP)	-5.5	-6.4	-5.0	-3.3	-2.5	-1.3
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	3.0	2.3	1.9	1.6	1.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	17.8	15.3	13.7	12.2	10.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	55.3	51.8	49.4	46.8	44.3
GHG emissions growth (mtCO2e)	-1.8	9.7	7.6	5.3	5.3	5.4
Energy related GHG emissions (% of total)	58.6	61.0	62.6	62.9	63.6	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.
a/ Calculations based on EAPPOV harmonization, using 2021-FIES. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projection using neutral distribution (2021) with pass-through = 1 (High (1)) based on GDP per capita in constant LCU.

SOLOMON ISLANDS

Table 1	2022
Population, million	0.7
GDP, current US$ billion	1.6
GDP per capita, current US$	2210.5
International poverty rate ($2.15)[a]	26.6
Lower middle-income poverty rate ($3.65)[a]	61.0
Upper middle-income poverty rate ($6.85)[a]	88.5
Gini index[a]	37.1
School enrollment, primary (% gross)[b]	104.3
Life expectancy at birth, years[b]	70.3
Total GHG emissions (mtCO2e)	46.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2021).

The Solomon Islands economy is returning to growth – 1.8 percent in 2023 – driven by the hosting of the Pacific Games, election preparations, and several large infrastructure projects in the energy and transport sectors. In the medium term, growth is expected to average 2.5 percent of GDP, while the fiscal deficit is projected to average 3.9 percent of GDP. State fragility and an uncertain global environment pose risks to the outlook and the rate of recovery.

Key conditions and challenges

Solomon Islands is a small archipelago of 721,000 people spread across 90 inhabited islands. Geographical dispersion, isolation from global markets, and susceptibility to natural disasters all pose significant challenges to the nation's economy. Limited state capacity and political economy dynamics tend to constrain the design and implementation of effective public policies. Major growth obstacles include poor infrastructure, high unemployment, and a small private sector. The Solomon Islands is also susceptible to natural disasters like earthquakes, cyclones, and tsunamis that can inflict substantial economic harm.

Challenges to the development of the country have been further complicated by the multiple shocks that occurred in the past three years, which caused a sharp economic contraction. The recovery is slow, thus continuously affecting livelihoods. Data from a series of phone surveys conducted by the World Bank indicate that by the second half of 2022, employment had recovered from COVID-related restrictions. However, 40 percent of households reported income reductions, while over a third experienced moderate food insecurity. Preliminary results from the survey data collected in the first half of 2023 suggest that household incomes remain under pressure and food insecurity continues to be a widespread problem. In addition, most households reported being worried about their finances in the month ahead. According to the 2012/13 Household Income and Expenditure Survey (HIES), 61 percent of the population was considered poor based on the lower-middle-income poverty line of $3.65 (2017 PPP USD per person per day).

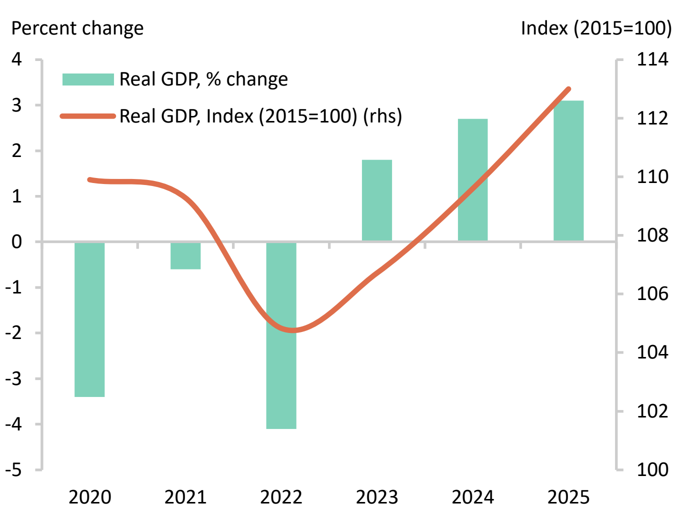
Recent developments

The economy has been impacted by three shocks: the COVID-19 pandemic, the 2021 civil unrest, and Russia's invasion of Ukraine. These events have led to a 4.1 percent growth contraction in 2022, the third year of economic decline in a row. However, the Solomon Islands is returning to growth in 2023, driven by the hosting of the Pacific Games, election preparations, and several large infrastructure projects in the energy and transport sectors.

After a deflationary period in 2021 reflecting subdued domestic activity, inflation more than doubled from 4.3 percent in June 2022 to 9.1 percent in December 2022, reflecting higher import prices and the incipient economic recovery. In response to rising inflationary pressures, the Central Bank of Solomon Islands tightened its monetary policy stance in March 2023 and raised the cash reserves ratio from 5 percent to 6 percent.

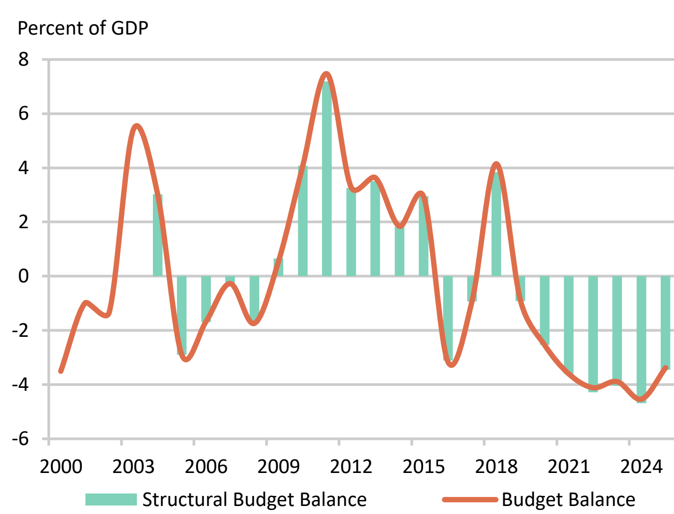
The current account deficit reached 13.3 percent of GDP in 2022, due to a decline in exports of logging and agricultural products. Foreign reserves

FIGURE 1 Solomon Islands / Real GDP



Sources: IMF and World Bank staff calculations.

FIGURE 2 Solomon Islands / Fiscal balance



Sources: IMF and World Bank staff calculations.

fell from 11.5 months of imports in 2021 to 9.5 months of imports by the end of 2022. The increase in the current account deficit has been financed through external concessional borrowing and FDI inflows.

The fiscal deficit is estimated at 4.1 percent of GDP in 2022. Total revenues expanded slightly to reach 32.6 percent of GDP in 2022. The government managed to contain expenditure growth, despite facing substantial spending demands. Expenditure increased to 36.8 percent in 2022, owing to the increase in development expenditure on the Pacific Games and to a lesser extent recurrent expenditure.

Public debt increased to 16.9 percent of GDP in 2022, up from 15.4 percent of GDP in 2021. This was due to a rising primary fiscal deficit and lagging nominal GDP growth. As part of the COVID-19 response, the government issued domestic development bonds during 2020-22, close to doubling the stock of development bonds from 2.8 percent of GDP at the end of 2020 to 4.9 percent of GDP at the end of 2021.

Outlook

The economy is expected to recover in the medium term with an average growth rate of 2.5 percent over the period 2023-25, boosted by the Pacific games and a large infrastructure project pipeline. An uptick in the labor mobility program is expected to also contribute to economic activity through the remittance channel. Whilst inflation is projected to average 3.9 percent during 2023-25 amid cooling energy and food prices, the forecast is well above the average inflation experienced during the past five years (2.7 percent).

The current account deficit is projected to remain large, averaging 10.9 percent of GDP over the period of 2023-25. This is primarily driven by strong import increases associated with infrastructure projects and an anticipated reduction in logging exports. International reserves are projected to decline to 7 months of imports but remain within the reserve adequacy range over the medium term.

The fiscal deficit is projected to decline averaging 3.9 percent of GDP over the period 2023-25 due to reforms in tax policy, economic recovery, and the consolidation of recurrent spending after pandemic highs. Public debt is sustainable, and the risk of debt distress is moderate.

Subdued global economic conditions, climate shocks, low levels of cash buffers, and social instability pose downside risks. General elections in 2024 raise the potential of political instability and civil unrest, as well as economic uncertainty. The rate of recovery in the tourism industry and increasing participation in regional labor mobility programs may offer economic advantages, while additional infrastructure investment may stimulate a stronger recovery. Russia's invasion of Ukraine may continue to exert pressure on prices, which could affect vulnerable communities. Subdued global economic conditions may lower demand for commodity exports, particularly logs, with negative consequences for growth, the current account balance, and government finances.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-3.4	-0.6	-4.1	1.8	2.7	3.1
Private consumption	-2.3	12.1	-7.8	-8.7	3.8	8.4
Government consumption	-2.4	-26.6	-0.5	-11.5	1.5	3.4
Gross fixed capital investment	4.5	7.7	19.6	19.7	-6.8	-10.3
Exports, goods and services	-28.1	-13.2	-6.8	38.4	5.7	4.9
Imports, goods and services	-20.7	-8.7	2.2	17.4	0.1	2.8
Real GDP growth, at constant factor prices	-3.4	-0.6	-4.1	1.8	2.7	3.1
Agriculture	-3.8	-1.0	-11.8	0.0	1.5	2.0
Industry	-4.1	3.0	0.1	5.1	6.2	5.9
Services	-3.0	-1.2	-0.9	1.8	2.3	2.8
Inflation (consumer price index)	3.0	-0.1	5.5	4.7	3.7	3.3
Current account balance (% of GDP)	-1.6	-5.1	-13.3	-12.7	-10.3	-9.9
Net foreign direct investment inflow (% of GDP)	0.4	1.5	2.5	2.5	2.5	2.4
Fiscal balance (% of GDP)	-2.5	-3.6	-4.1	-3.9	-4.5	-3.4
Revenues (% of GDP)	33.4	31.2	32.6	28.8	31.1	31.7
Debt (% of GDP)	13.5	15.4	16.9	22.3	25.9	27.9
Primary balance (% of GDP)	-2.3	-3.4	-3.8	-3.4	-4.1	-2.7
GHG emissions growth (mtCO2e)	0.0	0.0	0.0	0.0	0.0	0.0
Energy related GHG emissions (% of total)	0.8	0.8	0.8	0.8	0.8	0.8

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	2022
Population, million	
Samoa	0.22
Tonga	0.11
Vanuatu	0.32
GDP, US$, billion	
Samoa	0.83
Tonga	0.50
Vanuatu	1.07
GDP per capita, current US$	
Samoa	3746
Tonga	4695
Vanuatu	3344

Sources: WDI, World Bank staff estimates.

The economies of Samoa, Tonga, and Vanuatu have been hit by multiple shocks, including natural disasters and the COVID-19 pandemic. While the economies are now recovering, uncertainties in the global environment pose risks to the outlook. To increase potential growth and achieve inclusive recovery, governments must embark on structural reforms and move towards targeted and adaptive social protection systems to support the most vulnerable.

Key conditions and challenges

External shocks and natural disasters constantly threaten livelihoods, economic growth, and fiscal sustainability in the South Pacific. Supply chain disruptions, including during the aftermath of natural disasters and spillovers from Russia's invasion of Ukraine continue to exert pressure on food and fuel prices. Making social protection systems more adaptive and targeted would help address the main immediate challenge of limiting harm to the most vulnerable households from rising inflation and future shocks. For Tonga and Vanuatu, the pace of reconstruction needs to be accelerated. The near-term challenge will be to lay the foundation for inclusive economic recovery in the face of competing pressures. Finally, increasing potential growth hinges on the pivotal role of the private sector in economic recovery, including in tourism and investment. This will require implementing structural reforms that create an enabling environment for private investors.

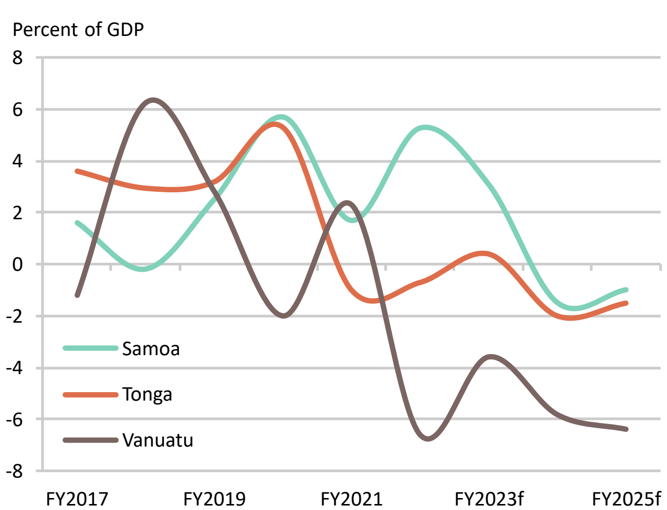
Recent developments

While economic recovery accelerated in Vanuatu, the economies of Samoa and Tonga contracted during FY22. Inflation has been rampant in all countries.

The economy of **Samoa** experienced its third consecutive year of economic contraction in FY22, declining by 5.3 percent. This marks a cumulative contraction of over 15 percent since FY20, primarily as a result of the impacts of COVID-19. Inflation surged to 8.8 percent on an annual average basis in FY22. The current account deficit narrowed to 11.6 percent of GDP in FY22 compared to 14.6 percent of GDP in FY21, primarily on account of robust remittances. A fiscal surplus persisted in FY22, supported by substantial grants, robust revenue collections, and under-execution of capital expenditure. In 2018, 22.7 percent of the population lived under the national poverty line defined by the "cost of basic needs".

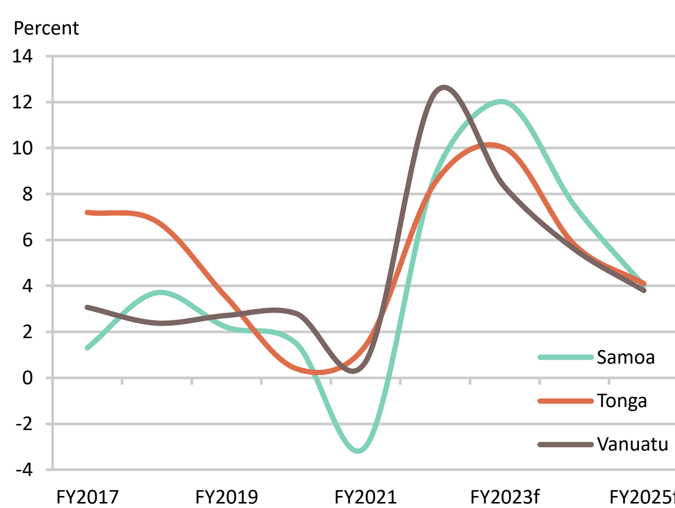
The economy of **Tonga** contracted by an estimated 2.0 percent in FY22. The volcanic eruption and subsequent tsunami in January 2022 led to a sharp fall in agricultural production, travel, and commercial services. Inflation surged to 8.5 percent in FY22, rising from 1.4 percent in FY21. The current account deficit widened to 6.3 percent in FY22, driven by an upsurge in food and building materials coupled with subdued exports. The fiscal balance remained in deficit at 0.7 percent of GDP on account of significantly higher reconstruction spending amid lower domestic revenue. According to a series of phone surveys conducted by the World Bank, employment has recovered to its pre-disaster level, though the increased jobs were mainly in the informal sector. Around 54 percent of adults were employed in the second quarter of 2023, a rise from 49 percent in

FIGURE 1 South Pacific Islands / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 South Pacific Islands / Inflation (annual average)



Sources: National sources and World Bank projections.

July/August 2022 and 53 percent in December 2021. A relatively large share of lower-income households still face severe food insecurity, with 10 percent facing such issues compared to 3 percent among high-income households.

In **Vanuatu**, economic recovery accelerated in 2022, reaching growth of 1.9 percent compared to 0.6 percent in 2021. The recovery was attributed to fiscal stimulus, increased industrial production, elevated agricultural output, and the reopening of borders. Inflation averaged 12.4 percent in 2022 compared to a marginal 0.7 percent in 2021. A current account deficit of 2.2 percent of GDP was reported, mainly due to weak tourism revenues and higher demand for imported industrial materials and transportation equipment. A fiscal deficit of 6.6 percent of GDP was recorded in 2022 due to a drop in revenue collection from 45.7 percent of GDP in 2021 to 38.1 percent in 2022. This drop was partly attributed to a weakness in revenues from the Economic Citizenship Program (ECP).

Outlook

The economies are projected to experience a gradual recovery. Projections suggest that Tonga and Vanuatu could attain pre-pandemic GDP levels by 2024, while Samoa is expected to reach this point a year later. The outlook is subject to multiple downside risks amid uncertainties in global commodity price movements, a deceleration in growth, and elevated inflation in key trading partners. Vulnerability to natural disasters and climate change further compound the risks. These factors could derail the recovery path and may hamper the translation of recovery into poverty reduction.

In **Samoa**, the economy is projected to grow by 6.0 percent in FY23, followed by an average growth of 3.6 percent in FY24 and FY25. The recovery in tourism and spillovers to other sectors combined with increased public investment are expected to drive growth. Inflation is estimated at 12 percent in FY23 and is expected to remain elevated in FY24 amid strong domestic demand. The current account deficit is expected to narrow to 3.0 percent of GDP over the medium term, supported by tourism recovery and continued remittance inflows. A fiscal surplus of 3.1 percent of GDP is estimated for FY23 as revenues continue to outperform expectations. However, a fiscal deficit of 1.5 percent of GDP is projected for FY24 as grants revenue normalizes and expenditure increases driven by the government's preparations to host the Commonwealth Heads of Government Meeting scheduled for October 2024. While the overall risk of debt distress is high, public debt is assessed as sustainable.

In **Tonga**, growth is projected to rebound to 2.6 percent in FY23, followed by an average growth of 2.4 percent in FY24 and FY25. However, should additional delays in reconstruction occur, this would subsequently impede the pace of economic recovery. Inflation will remain elevated in FY23 but is expected to ease from FY24 and reach below the Reserve Bank of Tonga's 5 percent reference rate in FY25. The current account deficit is projected to widen to 7.9 percent of GDP in FY23 and is expected to remain high in FY24 due to significant reconstruction needs amid modest exports. A fiscal surplus of 0.4 percent of GDP is estimated for FY23 owing to high level of grants and slower execution of reconstruction spending. However, fiscal deficits are projected for FY24-25 as reconstruction accelerates and grants gradually normalize. While the overall risk of debt distress is high and debt service is projected to increase sharply from FY24 onwards, public debt remains sustainable.

In **Vanuatu**, the economy is projected to grow by 1.5 percent in FY23. The impact of twin cyclones on tourism and agriculture has had a negative effect on the economy. Reconstruction efforts are expected to stimulate economic activity over the medium term. Inflation is projected to remain elevated in the near term, reaching 8.3 percent in FY23, and gradually stabilize within the Reserve Bank of Vanuatu's target range of 0 to 4 percent over the medium term. Vanuatu is projected to record twin deficits in the near term owing to additional spending for reconstruction and recovery. A current account deficit of 3.4 percent of GDP is projected for FY23, which partially offsets the modest recovery expected in tourism and other goods exports. A fiscal deficit of 3.6 percent of GDP is also projected for FY23, with an expectation for it to widen over the medium term. This widening is expected to be driven by higher spending, a decline in ECP revenues, and a slowdown in grants as cyclone-related assistance scales back. While the overall risk of debt distress is high, public debt is assessed as sustainable. The poverty rate, based on the lower-middle-income poverty line (US$3.65 per day in 2017 PPP terms), is projected to gradually decline starting in 2025, as GDP growth accelerates.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices						
Samoa	-3.1	-7.1	-5.3	6.0	4.0	3.2
Tonga	0.5	-2.7	-2.0	2.6	2.5	2.2
Vanuatu	-5.0	0.6	1.9	1.5	2.6	3.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]						
Vanuatu	39.7	41.1	42.0	43.4	44.1	44.1

Sources: World Bank and IMF.
e = estimate; f = forecast.
Notes: Financial years for Samoa and Tonga are July-June, for Vanuatu it is January-December. Samoa improved the methodology for GDP calculation and revised the historical data in March 2022 GDP release.
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	2022
Population, million	71.7
GDP, current US$ billion	495.4
GDP per capita, current US$	6910.0
Upper middle-income poverty rate ($6.85)[a]	12.2
Gini index[a]	35.1
School enrollment, primary (% gross)[b]	101.7
Life expectancy at birth, years[b]	78.7
Total GHG emissions (mtCO2e)	438.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Thailand's economic recovery continued to trail ASEAN peers, and the decrease in goods exports is adding to the challenge. In 2023, private consumption and gradual recovery in tourism will contribute to a pick-up in economic growth and poverty reduction. Falling inflation and energy subsidies will reduce the pressure on living costs and private consumption. The latter, however, will delay fiscal consolidation. Elevated household debt, climate impacts, and geopolitical tensions pose downside risks to the outlook.

Key conditions and challenges

The economic recovery faces major headwinds from the global trade slowdown. Contracting goods exports weigh on manufacturing activity and private investment. By contrast, a strong labor market and falling inflation support private consumption and, therefore, the recovery. Although inflation has fallen to a regional low, risks to inflation persist through the potential supply disruptions caused by El Niño and geopolitical tensions.

Fiscal response to high energy prices supported the recovery but slowed the path toward consolidation. The forthcoming formation of a government following the national elections in May 2023, would support the implementation of ongoing public investment projects and scaling up of social assistance transfers. The existing transfers have provided livelihood support to low-income households and played a significant role in reducing poverty. Nonetheless, the occurrence of additional shocks, such as a resurgence in energy prices, could increase inequality and further erode fiscal space, unless social assistance expenditure programs are better targeted.

In the medium term, Thailand faces structural challenges that limit its growth potential. These obstacles include aging, climate change, insufficient capital investment accumulation, declining export competitiveness, and sizable household debt. Financial stress related to debt overhang and the escalating impact of climate events on low-income and vulnerable households remain significant obstacles to achieving poverty reduction.

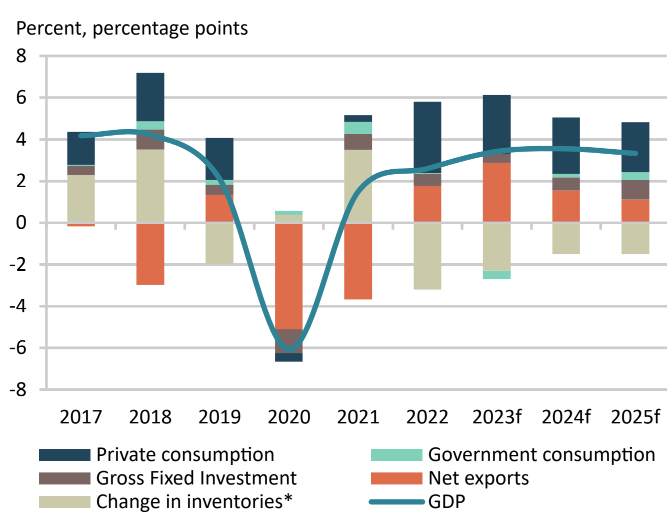
Recent developments

Growth decelerated more than expected to 1.8 percent (y/y) in 2023Q2, amid the global trade slowdown, but remained flat on a quarterly basis. Private consumption remained robust, buoyed by a strong labor market and the gradual tourism recovery. By June, tourism arrivals reached 80 percent of their pre-pandemic level helped by the reopening of China and matching that of ASEAN peers. Manufacturing production, however, contracted by 4.6 percent in the first half of 2023, mirroring the decline in goods exports, private investment, and global trade.

The current account registered a deficit of 1.5 percent of GDP in 2023Q2, reflecting net remittance outflows of profits and dividends and a reduced goods trade surplus. This negative trend, however, marked an improvement compared to the same period last year, helped by the recovery of tourism receipts. During 2023Q2, the Nominal Effective Exchange Rate (NEER) depreciated, aligning with the current account deficit and portfolio outflows amidst political uncertainty.

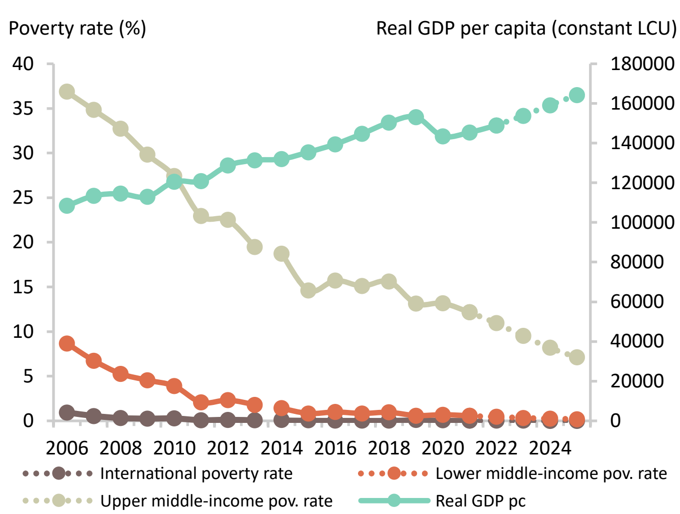
Headline inflation experienced the greatest decline among ASEAN countries, reaching a mere 0.4 percent (y/ y) in July, while monetary and fiscal measures sought to

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.

curb cost-of-living pressures. This drop was primarily driven by a fall in energy prices, with no significant upward pressure on other prices. Core inflation declined compared to last year but remained above its pre-pandemic level. In August, the Bank of Thailand continued its normalization efforts by raising its policy rate to 2.25 percent, citing inflationary risks linked to the El Niño impact on food prices. Nevertheless, the estimated real policy rate remained lower compared to those of ASEAN peers. The fiscal deficit of the central government narrowed in FY2023 owing to the expiration of emergency COVID-19-related expenditures. Nonetheless, the process of fiscal consolidation remained gradual due to subsidies aimed at alleviating the cost-of-living pressures.

Household spending accelerated in 2022, supported by economic growth and labor market recovery. The unemployment rate dropped to 1.1 percent in 2023Q1, down from 1.5 percent in 2022Q1. The average wage for private sector jobs increased by 1.9 percent, with most gains registered in the agricultural and service sectors. Per capita household consumption grew by 8.1 percent between 2021 and 2022, with the bottom 40 percent experiencing a more rapid growth rate. The poverty headcount rate, at the 6.85 dollars a day (2017 PPP) poverty line, was estimated at 12.2 percent in 2021. The consumption-based Gini index stood at 35.1 points, while the income-based Gini index was higher at 43.1 points. It is anticipated that both poverty and inequality measures will have decreased in 2022. Household debt remained elevated at 90.6 percent of GDP in 2023 Q1, driven primarily by real estate and personal loans.

Outlook

Growth is projected to accelerate from 2.6 percent in 2022 to 3.4 percent in 2023, primarily driven by the recovery of tourism and strong private consumption. Goods exports, however, are expected to contract by 2.1 percent (in US dollar terms) owing to reduced demand from major advanced economies. The long transition towards a new government will delay public and private investment. Growth in 2024 and 2025 is projected at 3.5 percent and 3.3 percent, respectively. Tourism and private consumption are expected to offset the subdued external demand. Tourist arrivals are projected to reach their pre-pandemic level by the end of 2024.

Headline inflation is projected to moderate to 1.5 percent in 2023, which is lower than the levels seen in most emerging market economies. This trend is attributed to easing global energy prices and the ongoing implementation of price caps. However, there are still upside risks to core inflation related to increased consumption and elevated global food prices. With the slow progress of fiscal consolidation owing to extended energy subsidies, public debt is expected to remain above 60 percent of GDP till the end of 2023. The current account is expected to shift from its substantial deficit over the past two years and enter positive territory in 2023.

The labor market is expected to remain robust, supported by the ongoing economic recovery. A slowdown in inflation will ease some pressures on households, while the expansion of the state welfare card scheme is expected to additionally contribute to poverty reduction in 2023. Consequently, the projected poverty headcount, measured at the upper-middle-income poverty line of $6.85 in 2017 PPP, is anticipated to decline to 9.1 percent in 2023 and maintain a downward trajectory throughout 2024 and 2025.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	-6.1	1.5	2.6	3.4	3.5	3.3
Private consumption	-0.8	0.6	6.3	5.0	4.7	4.2
Government consumption	1.4	3.7	0.2	-2.6	1.1	2.5
Gross fixed capital investment	-4.8	3.1	2.3	1.8	2.6	3.9
Exports, goods and services	-19.7	11.1	6.8	4.8	5.8	4.2
Imports, goods and services	-13.9	17.8	4.1	0.6	3.8	2.8
Real GDP growth, at constant factor prices	-5.3	1.9	2.6	3.4	3.5	3.3
Agriculture	-2.9	2.6	0.5	2.6	2.2	2.2
Industry	-5.1	6.0	-1.0	-1.1	0.1	1.3
Services	-5.6	-0.5	4.9	6.0	5.4	4.4
Inflation (consumer price index)	-0.8	1.2	6.1	1.5	0.7	1.3
Current account balance (% of GDP)	4.2	-2.1	-3.5	0.5	2.6	3.6
Net foreign direct investment inflow (% of GDP)	-4.7	-0.9	0.4	-0.5	-0.8	-1.0
Fiscal balance (% of GDP)	-4.5	-7.0	-4.5	-2.4	-2.1	-2.2
Revenues (% of GDP)	20.7	20.0	19.8	20.2	20.1	20.0
Debt (% of GDP)	50.1	57.8	59.7	60.2	59.6	59.5
Primary balance (% of GDP)	-3.6	-5.7	-3.2	-0.5	-0.2	-0.3
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]	0.7	0.6	0.4	0.3	0.2	0.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	13.2	12.2	11.0	9.5	8.2	7.1
GHG emissions growth (mtCO2e)	-4.1	4.2	0.3	0.3	2.9	2.8
Energy related GHG emissions (% of total)	57.4	58.6	58.3	57.7	58.2	58.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2014-SES, 2020-SES, and 2021-SES. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2014-2020) with pass-through = 1 based on GDP per capita in constant LCU.

TIMOR-LESTE

Table 1	2022
Population, million	1.3
GDP, current US$ billion	1.6
GDP per capita, current US$	1188.2
International poverty rate ($2.15)[a]	24.4
Lower middle-income poverty rate ($3.65)[a]	69.2
Gini index[a]	28.7
School enrollment, primary (% gross)[b]	110.7
Life expectancy at birth, years[b]	67.7
Total GHG emissions (mtCO2e)	5.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

The economy continued its recovery in 2022, achieving a growth rate of 3.9 percent. Growth was driven by high government spending, leading to a record high fiscal deficit of 64 percent of non-oil GDP. Annual inflation has continued to decline. Growth is projected to average 3.4 percent in the medium term, contingent upon sustained political stability and a resurgence in private investment following the inauguration of the new government. Downside risks include natural disasters and potential delays in reform implementation.

Key conditions and challenges

Timor-Leste grapples with economic, developmental, and governance challenges stemming from its size, geographic isolation, and vulnerability to natural disasters. In addition, capacity constraints and a fragile post-conflict political landscape continuously threaten sustainable development.

The fiscal deficit reached 64 percent of non-oil GDP in 2022, nearly double the pre-pandemic annual average. The current account records a substantial deficit due to diminishing primary income from petroleum revenue and persistent trade deficits. The Petroleum Fund (PF), the country's sovereign wealth fund, has seen unsustainable withdrawals to offset these deficits. Estimates from the Ministry of Finance suggest that at the current pace of spending and revenue collection, the PF will be fully depleted by 2034.

Timor-Leste is highly susceptible to natural hazards. The nation also faces tropical cyclones approximately every five years. The most recent significant event, Tropical Cyclone Seroja in 2021, brought heavy rainfalls that triggered widespread landslides and flooding. Such heightened exposure to disasters carries notable macroeconomic risks, leading to decreased investment, increased poverty, and a weak revenue base.

Recent developments

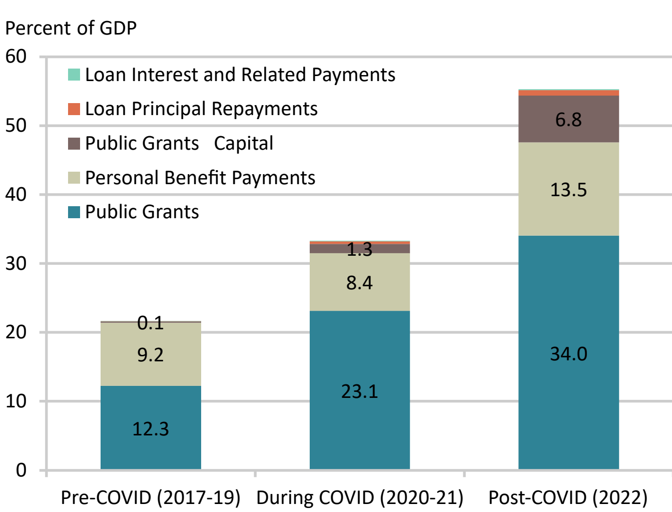
Timor-Leste's economy continued its recovery in 2022, expanding by 3.9 percent, fueled by public consumption and investment. Private investment rose, largely due to base effects, following two consecutive years of decline, while net exports continued to be a drag on growth. Despite the implementation of fiscal measures such as the food basket program, and thirteen-month salaries, which resulted in elevated government spending and a larger fiscal deficit, private consumption displayed only modest growth due to challenges in the labor market.

Headline inflation has continued to decline since early 2023, reaching 7 percent in June 2023. Food price inflation was the dominant contributor. This can be attributed in part to a combination of domestic costs, higher taxes on sugar and sugar-sweetened beverages, and elevated global prices.

The termination of oil and gas production from Timor-Leste's Bayu-Undan field in 2023Q1 led to a shift in the country's current account, transforming it from a surplus in 2021 to a deficit. The country continues to face a persistent trade deficit, primarily driven by consistently high import levels and an increasing demand for capital goods essential or domestic infrastructure development.

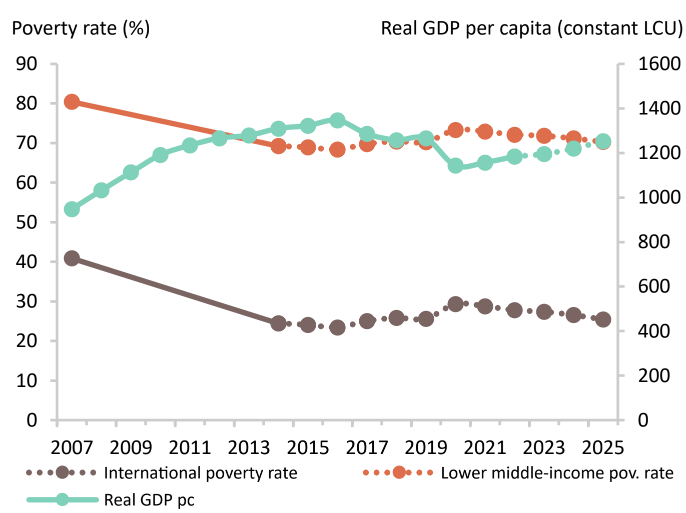
The end of oil and gas production also puts pressure on the budget. Ensuring fiscal sustainability in Timor-Leste has become more challenging. Despite the rollback of pandemic-related government spending in

FIGURE 1 Timor-Leste / Despite the end of the pandemic, public transfers are still rising



Source: Timor-Leste Ministry of Finance.

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



Source: World Bank. Notes: see Table 2.

2022, total spending continued to rise. Government expenditure in the amended 2022 budget was 123 percent of GDP, surpassing the pre-pandemic average of 82.6 percent. This increase was partly due to the government's efforts to protect the population from soaring commodity prices. Consequently, there was a significant uptick in the share of public transfers in overall government expenditure from the pre-pandemic period through 2022. The average share rose from 21.6 percent of GDP pre-pandemic to 54.3 percent in 2022 (Figure 1).

The changes in government resulting from the Parliamentary elections in May 2023 have led to a deceleration in the rate of government spending. By the end of July 2023, the budget execution rate had declined to 35.5 percent, with the execution of the capital budget specifically remaining below 10 percent. The new government also opted to withdraw revenue policy reforms related to excises on sugar, sugary beverages, and import duties.

The impact of recent developments on poverty reduction remains uncertain due to the absence of updated data. Between 2007 and 2014, poverty dropped from 50.4 percent to 41.8 percent. When assessed using an internationally comparable poverty line of US$2.15 per person per day (2017 PPP), the decline is even starker, with poverty rates dropping from 40.9 percent in 2007 to 24.4 percent in 2014. Yet, the 2021 Labor Force Survey shows that labor force participation decreased from 67 percent in 2016 to 35 percent in 2021, notably low compared to similar-sized nations, suggesting that many in the labor force are struggling to find stable employment, potentially affecting their quality of life. A new Living Standards Survey is planned for 2024.

Outlook

In the medium term (2023 to 2025), an average annual growth rate is projected at 3.4 percent. It hinges on the assumption of political stability and the implementation of structural reforms, which are likely to lead to increased contributions from private consumption and investment toward economic activity. The government's prioritization of tackling infrastructure bottlenecks is anticipated to foster growth by streamlining the implementation of diverse infrastructure projects. Export growth is expected to face constraints.

Although global food prices have somewhat moderated since the Russian invasion of Ukraine, projections suggest that they will remain higher than pre-war levels. This can be attributed, in part, to ongoing inflationary pressures impacting transportation and processing costs. The cessation of oil production will hasten the depletion of the Petroleum Fund's balance. In the coming five years, total withdrawals are expected to exceed the net return on investment by approximately 200 percent. Subsequent withdrawals are likely to require the liquidation of the Petroleum Fund's capital assets.

The risks are tilted to the downside. These include the possibility of disruptions to government programs following changes in government, particularly concerning fiscal consolidation and structural reforms. Other risks encompass natural disasters and persistently high global inflation. The cessation of oil production in the Timor Sea shifts fiscal sustainability to the forefront. Achieving the 5 percent economic growth target, as outlined in the new government program, critically depends on fostering private sector development, nurturing human capital, and enhancing competitiveness through structural reforms.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-8.3	2.9	3.9	2.4	3.5	4.3
Private consumption	-3.1	-2.7	1.8	4.0	4.5	5.8
Government consumption	4.9	3.5	6.9	2.9	-2.2	-1.2
Gross fixed capital investment	-42.5	-13.0	44.8	-1.2	26.0	20.5
Exports, goods and services	-51.1	151.9	0.0	10.0	9.0	9.0
Imports, goods and services	-7.1	-9.1	19.6	2.0	6.0	7.0
Real GDP growth, at constant factor prices	-8.3	3.8	-0.2	6.6	3.5	4.2
Agriculture	0.6	5.5	1.2	7.3	2.9	2.9
Industry	659.5	-90.3	9.6	-4.3	2.4	2.4
Services	-29.6	32.6	-0.7	6.7	3.7	4.6
Inflation (consumer price index)	0.5	3.8	7.0	5.5	3.3	2.8
Current account balance (% of GDP)	-19.5	2.8	-17.8	-44.0	-51.7	-56.9
Net foreign direct investment inflow (% of GDP)	-4.6	-4.3	-4.3	-4.1	-4.1	-4.0
Fiscal Balance (% of GDP)[a]	-25.9	-47.0	-63.7	-56.1	-53.5	-50.4
Revenues (% of GDP)	46.1	45.5	45.6	44.2	43.3	42.2
Debt (% of GDP)	13.8	15.2	15.9	14.0	9.3	2.3
Primary balance (% of GDP)	-25.8	-46.8	-63.5	-56.1	-53.4	-50.4
International poverty rate ($2.15 in 2017 PPP)[b,c]	29.3	28.8	27.8	27.4	26.5	25.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	73.3	72.9	72.1	71.8	71.2	70.3
GHG emissions growth (mtCO2e)	-4.4	-3.2	-2.7	-2.6	-2.3	-2.0
Energy related GHG emissions (% of total)	9.3	9.9	10.6	11.3	12.1	12.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ The ESI is part of total revenue, while excess withdrawals from the PF is a financing item.
b/ Calculations based on EAPPOV harmonization, using 2007-TLSLS and 2014-TLSLS. Actual data: 2014. Nowcast: 2015-2022. Forecasts are from 2023 to 2025.
c/ Projection using annualized elasticity (2007-2014) with pass-through = 1 based on GDP per capita in constant LCU.

VIETNAM

Table 1	2022
Population, million	98.2
GDP, current US$ billion	408.7
GDP per capita, current US$	4162.8
International poverty rate ($2.15)[a]	0.7
Lower middle-income poverty rate ($3.65)[a]	3.8
Upper middle-income poverty rate ($6.85)[a]	18.7
Gini index[a]	36.8
School enrollment, primary (% gross)[b]	118.4
Life expectancy at birth, years[b]	73.6
Total GHG emissions (mtCO2e)	494.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2021).

Vietnam's real GDP growth is expected to slow to 4.7 percent in 2023, due to weaker private consumption, a property market slump, and a sharp deceleration in external demand. Despite slower growth, poverty is expected to decline from 3.2 in 2022 to 3.0 percent in 2023. The economy faces risks associated with slower-than-expected growth in advanced economies and China, more persistent weakness of domestic demand, and heightened domestic financial sector weaknesses.

Key conditions and challenges

After last year's strong rebound, the economy is now facing domestic and external headwinds in 2023. Weaker global GDP and trade have dampened external demand for Vietnamese exports, in turn weighing on growth. Meanwhile, domestic demand has also slowed but is still expected to remain the main driver of growth. Accelerated public investment implementation and bolstering consumer and investor confidence will be key to short-term growth.

In the longer term, Vietnam has the ambition to reach high-income status by 2045. To achieve this objective, Vietnam needs to boost productivity by improving financial sector fundamentals, resolving institutional bottlenecks in public investment to address infrastructure deficit, and creating an enabling environment for a more productive domestic private sector, all while addressing environmental sustainability and climate change risks.

Recent developments

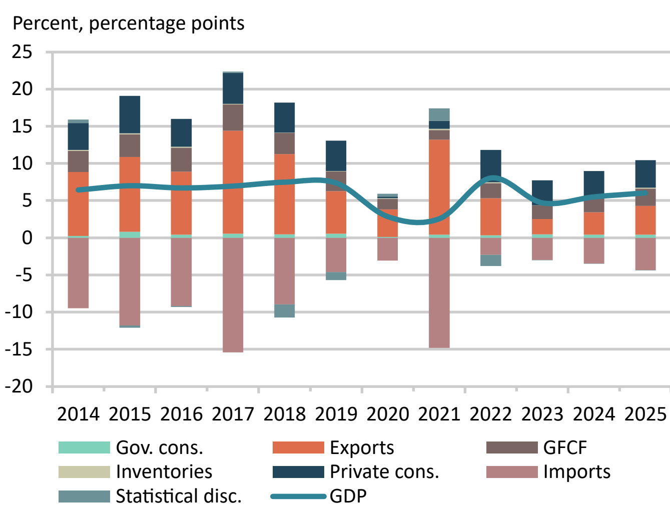
Real GDP growth slowed to 3.7 percent in H1-2023, reflecting a slump in external demand and weakening domestic demand. Exports contracted by 12 percent y/y in H1-2023. Final consumption growth slowed from 6.1 percent in H1-2022 to 2.7 percent in H1-2023, due to weaker consumer confidence and stagnating real disposable income growth. Investment growth declined from 3.9 percent in H1-2022 to 1.1 percent in H1-2023, due to weakening private domestic investment, which was only partially offset by increased public investment. Industrial sector growth fell to 1.1 percent in H1-2023 from 7.7 percent in H1-2022, led by the contraction in exports. The services sector grew by 6.3 percent in H1-2023, in part reflecting the ongoing recovery in the tourism sector. Agriculture grew by 3.3 percent (y/y) in H1-2023, continuing to perform on trend.

Headline inflation fell from 4.9 percent (y/y) in January 2023 to 2.1 percent (y/y) in July 2023, due to the slowdown of fuel prices and weakening domestic consumption. However, core inflation decelerated at a slower pace, from 5.2 percent (y/y) in January to 4.1 percent (y/y) in July 2023, partly due to higher costs of construction materials and housing.

The economic downturn affected labor market conditions. In an April 2023 survey, 60 percent of businesses cut their labor force by at least 5 percent. Real disposable income growth stagnated in H1-2023 (3.4 percent y/y).

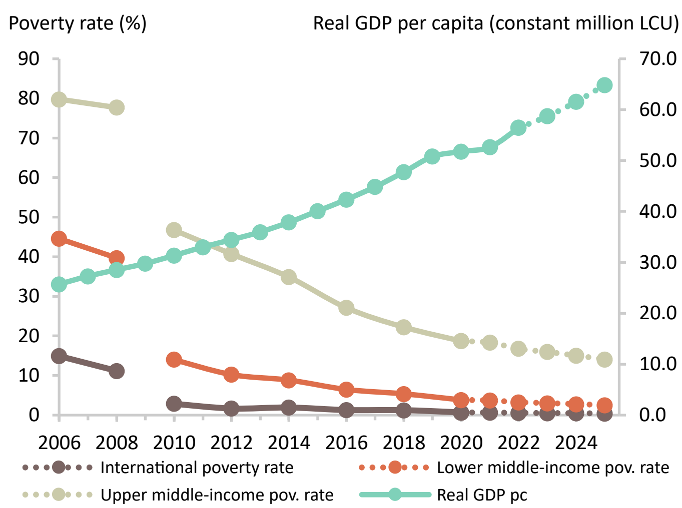
Despite external headwinds, Vietnam's external position improved in Q1-2023, recording a current account surplus of 1.5 percent of GDP. The merchandise trade balance improved as imports contracted more sharply than exports, partly due to falling imports of intermediate goods. Meanwhile, the deficit in services trade balance narrowed as international tourists

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.

returned. The financial account remained in surplus, driven by resilient FDI and portfolio inflows. An overall BOP surplus allowed the SBV to accumulate foreign reserves which reached US$88.7 billion at the end of H1-2023 (equivalent to 3.3 months of imports).

To address faltering growth, the SBV loosened monetary policy to support economic activity. The key policy rates were cut by a cumulative 150 basis points between March and June 2023. Despite these cuts credit growth moderated to 7.8 percent in June 2023, reflecting slowing private sector investment, including in real estate sectors, and persistent weakness in investor confidence. Meanwhile, amid the slowdown in the real estate sector, asset quality deteriorated with nonperforming loans rising from 1.9 percent in December 2022 to 2.9 percent in March 2023, compelling the SBV to re-introduce regulatory forbearance measures.

The 2023 mid-year fiscal balance registered a smaller estimated surplus (1.5 percent of GDP), compared to 5.2 percent of GDP in H1-2022, as revenues contracted by 7 percent while expenditure increased by 12.8 percent in H1-2023 (y/y). Higher public investment (43 percent increase y/y in H1-2023) provided some support to the economy, but the estimated execution rate remained low at 30.5 percent of the planned investment budget, due to chronic implementation challenges.

Outlook

Vietnam's economy is expected to grow by 4.7 percent in 2023 due to weaker external and domestic demand, recovering to a projected 5.5 percent in 2024 and to 6.0 percent in 2025. Domestic demand is expected to be the main driver of growth, albeit expanding at a slower rate than last year. CPI Inflation is estimated to average 3.5 percent in 2023, due to expected civil service salary increases, moderating to 3.0 percent in 2024 and 2025 assuming stable commodity and energy prices. The fiscal balance is estimated to register a deficit of 0.7 percent of GDP in 2023, with fiscal policy remaining moderately supportive of the economy but the government will revert to a conservative fiscal stance in 2024, in line with the Financial Strategy for 2021-2030. The current account is expected to improve further, thanks to a modest recovery of exports, continued recovery of international tourism, and resilient remittances. The poverty rate (LMIC) is projected to fall from 3.2 percent in 2022 to 3.0 percent in 2023.

The outlook is subject to heightened risks. Slower-than-expected growth in advanced economies and China could further dampen external demand for Vietnam's exports. Additional monetary policy tightening in major advanced economies could reignite exchange rate pressures on the local currency and lead to capital outflows. Domestically, heightened financial vulnerabilities and risks warrant close monitoring and reforms.

In the short term, fiscal policy should continue supporting aggregate demand. A full implementation of the investment budget, supported by steps to ease cumbersome public investment procedures, would bring public investments to 7.1 percent of GDP in 2023, up from 5.5 percent in 2022 supporting aggregate demand. Maintaining an accommodating monetary policy is appropriate, but further interest rate cuts would increase the rate differential with global markets, potentially putting pressure on the exchange rate. To mitigate heightened financial risks, increasing banks' capital buffers and enhancing the banking sector supervisory framework would promote financial sector resilience and stability.

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

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	2.9	2.6	8.0	4.7	5.5	6.0
Private consumption	0.4	2.0	7.8	6.0	6.0	6.5
Government consumption	1.2	4.7	3.6	4.8	4.8	4.4
Gross fixed capital investment	4.1	3.7	5.8	5.3	5.9	6.7
Exports, goods and services	4.1	13.9	4.9	2.1	3.1	4.1
Imports, goods and services	3.3	15.8	2.2	3.0	3.5	4.5
Real GDP growth, at constant factor prices	3.1	2.6	8.3	4.9	5.4	5.9
Agriculture	3.0	3.3	3.4	2.2	2.2	2.1
Industry	4.4	3.6	7.8	6.6	7.4	7.3
Services	2.0	1.6	10.0	4.2	4.4	5.7
Inflation (consumer price index)	3.2	1.8	3.1	4.5	3.5	3.0
Current account balance (% of GDP)	4.3	-1.0	-0.3	0.2	0.5	1.0
Net foreign direct investment inflow (% of GDP)	4.4	4.2	3.7	4.2	4.2	4.0
Fiscal balance (% of GDP)	-2.9	-3.4	-3.6	-0.7	-0.3	-0.2
Revenues (% of GDP)	18.4	18.4	19.1	18.6	19.7	19.3
Debt (% of GDP)	41.3	39.3	34.7	36.0	35.2	34.4
Primary balance (% of GDP)	-1.5	-2.2	-2.4	0.3	0.8	0.8
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.6	0.5	0.5	0.4	0.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.8	3.7	3.2	3.0	2.8	2.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	18.7	18.3	16.8	16.0	15.0	14.1
GHG emissions growth (mtCO2e)	3.0	2.6	6.9	4.5	4.9	5.6
Energy related GHG emissions (% of total)	65.1	64.7	65.3	64.9	64.6	64.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on EAPPOV harmonization, using 2016-VHLSS and 2020-VHLSS. Actual data: 2020. Nowcast: 2021-2022. Forecasts are from 2023 to 2025.
b/ Projection using annualized elasticity (2016-2020) with pass-through = 0.7 based on GDP per capita in constant LCU.

Macro Poverty Outlook

10 / 2023

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